

## Tradition UK Holdings Limited

### PILLAR 3 DISCLOSURES - 2021

#### 1 INTRODUCTION

##### 1.1 Background

The Investment Firms Prudential Regime (“IFPR”) came into force from 1 January 2022 and is applicable to Tradition UK Holdings Limited (“TUH”) and its subsidiaries that are UK regulated entities (see 2.1 below for the entities in scope). The IFPR requirements have been incorporated into UK regulation in the MIFIDPRU sourcebook section of the FCA handbook. According to MIFIDPRU 8 a firm’s accounting reference date sets the date for reporting and, per MIFIDPRU TP 12 transitional arrangements, the first date that the TUH UK regulated entities will report under IFPR will be 31 December 2022. For 31 December 2021 year end the TUH UK regulated entities will continue to report under the Capital Requirements Regulation (“CRR”) and Capital Requirements Directive (“CRD”), together referred to as “CRD IV”.

The regulatory framework established by CRD IV consists of three Pillars:

1. Pillar 1 sets out the minimum capital required to meet a firm’s credit, market and operational risk;
2. Pillar 2 requires a firm to establish an Internal Capital Adequacy Assessment Process (“ICAAP”) to establish whether its Pillar 1 capital requirement is sufficient to cover all the risks faced by the firm, and if not, to calculate the additional capital required. The ICAAP is then subject to review by the Financial Conduct Authority (“FCA”), through the Supervisory Review and Evaluation Process (“SREP”); and
3. Pillar 3 requires a firm to disclose specific information concerning its risk management policies and procedures, and its regulatory capital adequacy position.

Articles 431 to 455 of Capital Requirements Regulation (“CRR”) set out the specific Pillar 3 disclosure requirements and the purpose of this document is to enable TUH’s UK incorporated, FCA regulated subsidiaries to meet these requirements.

##### 1.2 Disclosure Policy

In accordance with CRR Article 431(3), TUH has adopted a formal disclosure policy to comply with the disclosure requirements and has policies for assessing the appropriateness of the disclosures, including their verification and frequency.

Under CRR Article 432(1), a group may omit one or more of the required disclosures if the information is not material, that is that the information would not be likely to change or influence the decision of a user relying on that information for the purposes of making an economic decision.

Under CRR Article 432(2), a group may omit one or more of the required disclosures if they would require the disclosure of any information regarded as proprietary or confidential that is information which would, respectively, undermine a competitive position or breach an obligation of confidence between a group and its customers.

In accordance with CRR Article 433 and 434, TUH will publish this disclosure at least annually on the Tradition.com website.

## 2 RISK MANAGEMENT

### 2.1 TUH - Management and Control

TUH is currently composed of the following UK incorporated, FCA authorised and regulated entities (referred to herein as “TUH UK regulated entities”):

:

- Tradition (UK) Limited (“TUK”)
- Tradition Financial Services Ltd (“TFS”)
- TFS Derivatives Limited (“TFD”)
- Tradition London Clearing Limited (“TLC”)

Additionally, Tradition UK Holdings Limited has a subsidiary in Spain that is regulated by the CNMV:

- TFS España Sociedad de Valores S.A.U.

TUH entities are provided with administrative support services by a UK incorporated sister company, Tradition Management Services Limited (“TMS”). Costs incurred by TMS are recharged to the appropriate TUH entity.

All TUH entities are subsidiaries or affiliates, via different intermediate holding companies of Compagnie Financiere Tradition (“CFT”), which is the holding company of all the ‘Tradition’ businesses and is listed on the Swiss stock exchange. CFT itself is a subsidiary of Viel et Compagnie SA, a company listed on Euronext Paris, which is a subsidiary of Viel et Compagnie Finance SE.

TUH has created a governance and control framework that sets out the way in which the formal Board and Committee structure and approval systems operate. The framework covers policy, risk appetite, business performance, limits setting, delegation of levels of authority, capital management and assurance mechanisms.

The governance and controls structure for TUH is based on the following three lines of defence:

- First line – process owners and the management functions which have primary responsibility for the assessment and monitoring of their own risks;
- Second line – support functions which provide the business with specialist support in analysing risks and monitoring controls; and
- Third line – independent assurance, in particular oversight, review and validation by Internal Audit.

The boards of directors of the TUH UK regulated entities operate as a harmonised board and so are referred to as “the TUH Board” herein.

The TUH Board provides the following governance and oversight:

- Setting appropriate risk strategy and risk appetite;
- Promoting internal risk culture and risk awareness;
- Monitoring the implementation of the risk strategy by the Audit and Risk Committee;
- Ensuring the independence of the control functions such as Compliance and Risk Management;
- Ensuring the independence of Internal Audit (assurance activity); and
- Verifying that independent control functions operate correctly.

Recruitment policy for the selection of members of the Board follows FCA requirements (outlined in the FCA’s Senior Management Arrangements, Systems and Controls section of its rule-book) and a suitability assessment is completed. A multiple-stage interview and selection process, in accordance with TUH’s equal opportunities policy, is conducted to ensure that the Board is able to assess a potential director’s aptitude, skills and experience and gauge the potential contribution to achieving TUH’s strategic objectives.

The directors of TUH and of the TUH UK entities' boards as at 31 December 2021 were as follows ("Y" indicates a directorship of the entity):

	<u>TUH</u>	<u>TUK</u>	<u>TFS</u>	<u>TFD</u>	<u>TLC</u>	<u>TMS</u>	<u>Number of other UK directorships</u>
<u>Non-Executive Directors:</u>							
Martin Abbott	Y	Y	Y	Y	Y	Y	2
Christian Baillet	Y	Y	Y	Y	Y	Y	-
Catherine Bienstock	Y	Y	Y	Y	Y	Y	-
Francois Brisebois	Y	Y	Y	Y	Y	Y	3
Michael Leibowitz	Y	Y	Y	Y	Y	Y	2
William Wostyn	Y	Y	Y	Y	Y	Y	4
<u>Executive Directors:</u>							
Michael Anderson	Y	Y	Y	Y	Y	Y	3
Tristan de Saint Ouen	Y	Y	Y	Y	Y	Y	-
Stevan Vjestica	Y	Y	Y	Y	Y	Y	-
Angus Wink	Y	Y	Y	Y	Y	Y	-
Executive Director appointed 15 March 2022:							
Javid Canteenwala	Y	Y	Y	Y	Y	Y	2

The TUH Board has provided delegated authority to Michael Anderson, as CEO, who chairs a weekly Executive Committee consisting of senior members of the Executive Management. The Executive Committee is supported by two functional committees: i) the Risk, Capital, Liquidity, Regulatory and Controls Committee and ii) the Conduct Committee.

The TUH Board is supported by the Audit Committee and the Risk Committee, each a sub-committee that shares information with the CFT Group Audit Committee. Both Committees met four times in 2021 (meeting jointly during 2021 and as separate committees from 1 January 2022, as required by IFPR).

Audit Committee responsibilities include the following:

- monitoring the integrity of and approving TUH entities' financial statements; and
- overseeing the internal audit function, ensuring that an appropriate internal audit plan is established and that recommendations are complied with, in a timely manner.

Risk Committee responsibilities include the following:

- reviewing and assessing the Enterprise-wide Risk Management Framework (including risk appetite, RCSA and key risk indicators);
- providing independent assurance to TUH Board on the effectiveness of systems, controls, policies and procedures; and
- reviewing and assessing the adequacy of the business continuity arrangements.

Risk information and escalation of issues flow from the functional committees to the Risk Committee and onto the Board.

Additionally, the Remuneration, Appointments and Allocation Committee is a sub-committee of the TUH Board met on five occasions in 2021. From 1 January 2022, as required by IFPR as separate, a TUH Remuneration Committee has been established to review the operation and effectiveness of TUH remuneration policy.

## 2.2 TUH - Governance and Control Framework

The governance framework is based upon the concept of three internal lines of defence against risk. This concept aims to ensure that accountability for the management of risk is embedded in day-to-day management.

### The First Line of Defence

The first line of defence consists of operations and business process owners across London entities who have primary responsibility for their Risk and Control Self-Assessment ("RCSA"). They act as risk owners with a responsibility to be proactive in reducing the likelihood and severity of incidents, including establishing appropriate risk controls and ensuring that when incidents occur they are recorded, reported and remediated where appropriate.

The day-to-day management of certain controls are delegated to a number of support functions which support the first line of defence business and operational management. These support functions include, but are not limited to: Finance, IT, Legal, HR, Facilities and Front Office Risk and Control ("FORC").

### The Second Line of Defence

The second line of defence consists of the risk and control functions that establish overarching systems and processes to assess, monitor and minimise risks across the organisation, overseeing the effectiveness of the first line risk management and control environment, and where necessary defining additional controls, mitigation or other risk management measures. The second line is responsible for challenging and formally reviewing the effectiveness of the first line in managing the risks that it incurs and owns.

This role is primarily performed by the control functions and senior managers described below:

**Risk Function** – The Chief Risk Officer has a dual reporting line into the Chief Control Officer and to the Audit and Risk Committee. The Chief Risk Officer is responsible for the measurement, monitoring and reporting of risks within TUH and for driving the development of risk management capability and the enterprise-wide risk management framework.

**Compliance Function** – The London Head of Compliance has a dual reporting line to the Chief Control Officer and TUH Board. The objective of compliance is to monitor adherence to all regulatory rules and requirements and to ensure that all regulatory issues are effectively monitored and managed.

### The Third Line of Defence

The third line of defence consists of the internal audit function, which is responsible for providing independent review and assurance of the effectiveness of the systems and controls established by the first and second lines. As a third line of defence, the Internal Audit function provides assurance to the Executive Committee, the Audit Committee and TUH Board on the adequacy of the internal controls, risk management and governance processes, in particular when these are affected by material changes to the Group's risk environment.

The internal audit function for London is outsourced to PwC. On an annual basis, Internal Audit prepares an audit programme. The programme is developed working closely with the local and Group control functions, and the external auditors. The programme is approved by the Audit Committee. Internal Audit provides regular update reports to the Audit Committee focusing on key findings and their resolution.

## 2.3 Risk Management

The objectives of enterprise-wide risk management for TUH are:

- To identify and assess the risks posed to TUH entities and their branches;
- To identify, implement, assess and monitor mitigation strategies in order to reduce TUH entities' gross risk exposure;
- To alert TUH Board of any substantive threats to its risk appetite;
- To identify, record and analyse risk events;
- To monitor key risks and report on their threat levels;

- To ensure that issues identified internally or by third parties are recorded, remediated, escalated and reported;
- To ensure the various components of the Enterprise-wide Risk Management Framework are integrated and cohesive (including the frameworks for Operational Risk Management and Liquidity Risk Management);
- To provide senior management with risk-related information in order to encourage risk-informed decision making;
- To embed a robust risk management culture within TUH entities; and
- To contribute to the risk-based quantification of regulatory capital and to the continuous improvement of the management of the capital requirements.

## 2.4 Risk Categorisation and Profile

Risk categories of relevance for TUH include:

### i. Credit Risk (including default, settlement and concentration risk)

TUH utilises a centralised credit team managed by CFT Lausanne which has responsibility for assessing, challenging and setting credit ratings and trading limits for the matched principal/cleared broking trading businesses. Daily limit and breach reports are created for monitoring and enforcement purposes. The CFT Credit Function ensures that credit exposures are monitored and that appropriate management information is provided to management.

TUH is exposed to settlement risk in its matched principal/cleared broking businesses if a client defaults on one of the legs of the trade. All transactions are managed on a Delivery Versus Payment ("DVP") basis. A trade is deemed to be completed when both sides of a deal are settled, which is once payment is made and securities are delivered. TUH is therefore exposed to settlement risk between trade date and settlement date when at least one side of a transaction remains unsettled beyond the agreed settlement period. Unsettled trades are marked to market and closely monitored. The relevant TUH settlement department will liaise with counterparties to ensure that unsettled trades are resolved as quickly as possible; monitoring will take into account counterparty rating, underlying liquidity class, mark to market and capital requirement; ultimately, where justified, buy-ins will be triggered e.g. in case of technical default or counterparty insolvency.

In rare circumstances, when transactions arranged by TUH between two clients are not completed as arranged, due to a difference or error, TUH may be left with a naked long or short position that needs to be closed out in the market. As these are error related they are deemed to fall under Operational Risk. To manage this risk, it is company policy to close any positions as quickly as possible at the next available price.

TUH's Finance function assesses and manages the cash held with banks and the commission receivables from customers in order to assess and monitor overdue receivables. Where recovery of all or part of amounts due is in doubt, Finance is responsible for establishing provisions so that balance sheet values fairly reflect potential credit losses. TUH's Finance function has an agreed methodology that is used and is aligned with applicable accounting and regulatory requirements. Oversight of the provision process is undertaken through the Credit Control Committee.

TUH has an inherent concentration risk within its debtor profile. The exposure to concentration risk is managed through monitoring overdue client debtor balances and taking action via the Credit Control Committee.

TUH has not experienced any significant credit losses. The universe of core clients of TUH is primarily comprised of banks and financial institutions.

### ii. Market Risk

TUH is exposed to foreign currency risk that arises through its normal operating activities, which generate receivables and payables in foreign currencies. In addition to GBP, revenue is principally earned in EUR and USD and to a lesser degree in other currencies. Foreign currency risk is analysed and managed by the Finance

Function; the risk is minimised by conversion of currency balances into GBP as appropriate, as well as the use of FX forward contracts to hedge residual exposures.

### iii.Operational Risk

TUH follows the Basel Committee definition for operational risk - the risk of loss caused by human error, ineffective or inadequately designed processes, system failure or improper conduct (including criminal activity).

Some of the pertinent operational risks facing TUH are summarised by Basel Category as follows:

Basel Event-Type Category (Level 1)		TLG Example Risks
1	Internal Fraud	Fraudulent transfer of funds from bank, clearing or settlement account; Bribery and/or Collusion
2	External Fraud	Fraudulent access to systems and data (external); Fraudulent transfer of funds (external)
3	Employment Practices and Workplace Safety	Departure of key staff or a whole team; Discrimination or Harassment
4	Clients, Products, and Business Practice	Market abuse; Billing not in accordance with agreed rates; New product failure
5	Damage to Physical Assets	Damage to critical building or other infrastructure and assets
6	Business Disruption and Systems Failures	Failure, alteration , disruption or interruption to utility services; System or Application is unavailable
7	Execution, Delivery, and Process Management	Error or difference on trade; Breach of contractual relationship or other obligation to a supplier

TUH quantifies its exposures to the operational risk events by taking into consideration historical loss experience across the legal entities and relevant external loss data. TUH most frequently experiences operational risk losses in its day to day business from errors, penalties and differences in broking activities which are considered normal in a wholesale brokerage business.

Operational risk incidents are collected in the enterprise-wide risk management system (OneSumX) thus creating a database for analysis. OneSumX is TUH's risk reporting system for RCSA, incidents and Key Risk Indicators as well as tracking risk issues and actions. TUH uses other software to run financial in calculating its capital requirements.

TUH seeks to minimise operational risks by putting in place robust internal risk management and business controls. TUH uses independent internal audit, compliance function and a compliance monitoring plan to reinforce and oversee the operation of these controls. TUH also aims to minimise operational risk at all times through a robust control and operational infrastructure governed by an operational risk management framework that includes:

- measuring risk and assessment of the risk mitigation in place: achieved through the application of a regular risk and control self-assessment, and scenario analysis which forms part of the annual capital quantification process; and
- on-going management and monitoring of risks: achieved through management information reporting on incidents, KRIs and risk appetite.

### iv.Regulatory Risk

Whilst TUH management remain ultimately responsible for overall compliance with legal and regulatory requirements, the Compliance function in London has the day-to-day responsibility for ensuring that an appropriate regulatory risk framework is in place and that regulatory risk is identified, assessed and managed

across all legal entities. The scope for regulatory risk covers the risk of material loss, reputational damage or liability arising from a failure to comply with the requirements of TUH's lead regulator, the Financial Conduct Authority, other regulatory bodies and related codes of best practice that oversee regulated financial services businesses.

TUH is subject to legal and regulatory obligations designed to restrict the ability of criminals to launder the proceeds of their crimes through the financial system. The Compliance function also has the supervisory and advisory responsibility for ensuring that appropriate organisational arrangements are in place to undertake and monitor Anti Money Laundering activities.

#### **v.Strategic/Business Risk**

TUH is exposed to risk arising from changes in its business environment, including the risk that it may not be able to carry out its business plans and its desired strategy. These risks are material, as failed entry to new markets and products, failed acquisitions or late adoption of technology can be costly.

The CFT Executive Board comprising the Group's most senior regional and functional managers is responsible for establishing the Group's strategy and monitoring its implementation at a local and regional level by the TUH Board.

#### **vi. Liquidity Risk**

Liquidity risk is the risk that one or more of TUH entities is not able to meet its liabilities as they fall due, is unable to maintain access to effective and stable sources of funding, or that in order to meet liabilities it is obliged to sell assets at prices that lead to mark-to-market losses.

There are two different broad areas of liquidity risk that TUH is exposed to:

##### *Balance sheet liquidity*

Balance sheet liquidity risk arises from changes in the profile of a firm's current assets and liabilities (its working capital). These may result from changes in foreign exchange rates, the rate at which receivables are collected or payables are settled, unexpected costs for example from a broker error or operational failure, or from changes in financing arrangements.

##### *Transactional liquidity*

Transactional liquidity risk derives from the brokerage activity undertaken. This could include changes in deposit requirements or charges from clearers and settlement agents, counterparty trading defaults (as opposed to debtor balances) or margin calls, settlement failures or other liquidity requirements in respect of failed trades for brokered transactions which are centrally cleared or conducted on a Matched Principal basis.

Balance sheet liquidity risk is monitored and managed by the Finance function, while Transactional Liquidity Risk is monitored and managed by the relevant settlements/mid-office groups of TFD and TLC.

## **2.5 Wrong-way risk**

General wrong-way risk arises when the likelihood of default by counterparties is positively correlated with general market risk factors. There is a theoretical risk that TUH could transact in an instrument for a client the value of which is linked to that client's financial performance or rating (bonds issued by a client or a CDS on the client's name). If the client were to default before the trade settles TUH would be left holding the instrument that also falls significantly in value on default. The Credit Risk team reduces this potential occurrence by prohibiting broking of products issued by a client where that client's internal rating is below BBB-.

TUH is not exposed to specific wrong-way risk because it does not enter into transactions with counterparties in a way that could impact their probability of default ("PD"). TUH's future exposure to a specific counterparty is confined to commissions due from the counterparty to the TUH entity; this will not be a material liability to the counterparty and therefore is not positively correlated with the counterparty's PD.

## **2.6 Board statement on risk management arrangements**

The Board confirms that the risk management arrangements of TUH provide assurance that the risk management systems put in place are adequate with regard to the TUH's profile and strategy.

## **2.7 Board statement on risk profile**

TUH does not perform any proprietary trading and its risk profile centres on broking for clients and providing data. It is exposed to operational risk of interruption to or inaccuracy or incompleteness in provision of these services. The business strategy is predicated on delivering excellent client service and maintaining client trust. The Board adopts a conservative approach and sets low tolerance for risks that could materially impact the business strategy.



### 3 OVERVIEW

#### 3.1 Business Activity

Three of TUH's regulated subsidiaries are Wholesale Brokers and the fourth is CFT's matched principal trade facilitator via a cleared broking model. The entities operate as intermediaries in the financial markets facilitating the trading activity of customers, in particular commercial and investment banks. The businesses cover the following major product groups: Treasury Products, Interest Rate Derivatives, Fixed Income, Equities and Energy. Supporting its voice broking activity, TUH also provides customers with access to electronic broking platforms on an increasing range of products.

In addition to its brokerage services, TUH offers a variety of market information services through its market data division which provides real-time price information to clients and data providers.

TUH's operating subsidiaries provide brokerage services on either a Name Passing, Matched Principal/Cleared Broking or Exchange Traded ('give-up') basis.

#### 3.2 Supervision and Consolidation

The four entities that are authorised and regulated by the FCA are as follows:

- Tradition (UK) Limited ("TUK") - *Limited license firm*
- Tradition Financial Services Limited ("TFS")- *Exempt CAD firm*
- TFS Derivatives Limited ("TFD")- *Limited activity firm*
- Tradition London Clearing Limited ("TLC")- *Limited activity firm*

The TUH group of companies (those above plus Tradition Management Services Limited ("TMS") form a UK regulatory consolidation group. They are fully consolidated for accounting and prudential purposes.

There are no current or foreseen material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

#### 3.3 Internal Capital Adequacy Assessment Process

Capital is managed through budgeting, forecasting and monthly entity capital reporting. TUH's Internal Capital Adequacy and Risk Assessment Process document ("ICARA") is reviewed annually by the Board.

Scenario analysis is performed to assess the potential impact of identified risks to the Firm's business model. The Board maintains robust governance processes to maintain capital resources that are prudent and appropriate to the aggregate anticipated risks of its business activities.

## 4 OWN FUNDS AND OWN FUNDS REQUIREMENTS

Outlined in the following sections are the own funds (capital resources) and own funds requirements (regulatory capital requirements) for solo entities and the consolidation group identified in section 3.2 above.

### 4.1 Own funds

TUH "Share capital", "Share premium" and "Retained earnings b/f" qualify as a CET1 Article 26(a) and (c) instruments, meeting the conditions of loss absorbency laid out in CRR Article 28. TUH does not have AT1 capital, and as a result, capital ratios CET1, T1 and total are all identical.

TUK (and therefore TUH on consolidation) holds T2 Capital in the form of an intercompany loan from CFT Group which meets the CRR Article 63 conditions. The amount of the loan does not exceed the limits for relative qualities of capital, and it qualifies for use as T2 capital in full.

TUH takes capital deductions in accordance with CRR Articles 36 and 66, and a prudent valuation adjustment in accordance with Article 105. Deductions are taken for intangible assets (including goodwill) and, should they arise over the course of the financial year, for current year losses, and any tax charge relating to capital items.

At 31 December 2021 the total own funds of TUH UK regulated entities were as follows:

<i>Own funds as at 31 December 2021 (£'000)</i>	<i>Tradition (UK) Holdings Limited consolidation group</i>	<i>Tradition UK Limited</i>	<i>Tradition Financial Services Limited</i>	<i>TFS Derivatives Limited</i>	<i>Tradition London Clearing Limited</i>
<i>Common equity Tier 1 capital</i>	106,834	27,386	24,379	23,280	28,380
<i>Tier 1 capital</i>	106,834	27,386	24,379	23,280	28,380
<i>Tier 2 capital - Subordinated loan</i>	3,100	3,100	-	-	-
<b><i>Own funds / Total capital resources</i></b>	<b>109,934</b>	<b>30,486</b>	<b>24,379</b>	<b>23,280</b>	<b>28,380</b>

### 4.2 Own fund requirements

For limited licence firms, the Pillar 1 minimum capital requirement is calculated as the higher of i) the base requirement or ii) the sum of credit and market risk requirements or iii) the FOR.

For limited activity firms (and the consolidation group), the Pillar 1 minimum capital requirement is calculated as the higher of i) the base requirement or ii) the sum of the credit, market risk and the fixed overheads requirement (FOR).

#### Credit Risk

TUH follows the standardised approach to calculate minimum credit risk capital requirement under Pillar 1 of CRD. Under the standardised approach, each entity assigns their credit exposures to various exposure classes and applies risk sensitive weightings to them. These range from 0% to 150% depending on the credit quality of the exposure. Each entity's client debtors and deposits with financial institutions are allocated into one of the following applicable COREP exposure categories and the appropriate weighting per CRR rules (specifically articles 379 and 92) are applied to obtain the risk weighted exposure for each:

- Central governments or central banks
- Institutions
- Corporates
- Exposures in default- Past due by 90 days
- Other items.

For exposures to corporates, sovereigns and institutions credit ratings of an external credit rating agency is used to determine the risk weight for each exposure. Where there is no such credit rating available, the exposure carries a risk weight of unrated. Exposures from all exposure classes which have not been repaid 90 days after the due payment date are treated as past due under the standardised approach to credit risk and are risk weighted 150%.

#### Market Risk

Per CRR Article 351, TUH is required to calculate the overall net foreign exchange position as sum of open net spot and net forward positions (and then take 8% to arrive at the capital figure).

#### Settlement Risk

Per CRR Article 378, where securities transactions are unsettled after their due delivery dates, TUH is required to calculate the price difference to which it is exposed (difference between the agreed settlement price and its current market value) and apply a factor based on number of working days after due settlement date.

#### Fixed Overheads Requirement

The FOR is calculated as per FCA rules and article 95, 96 and 97 of Regulation (EU) No 575/2013 by reference to Regulatory Technical Standard on determining Fixed Overheads, EU/2015/488 . The FOR is calculated by taking 25% of the entities' mandated Fixed Overheads.

At 31 December 2021 the total own funds requirement of TUH UK regulated entities were as follows:

<i>Own funds requirement as at 31 December 2021 (£'000)</i>	<i>Tradition (UK) Holdings Limited consolidation group</i>	<i>Tradition UK Limited</i>	<i>Tradition Financial Services Limited</i>	<i>TFS Derivatives Limited</i>	<i>Tradition London Clearing Limited</i>
<i>Credit risk exposure amount</i>	91,070	31,692	13,244	16,259	9,552
<i>Market risk exposure amount</i>	16,013	7,004	7,598	21,150	7,069
<i>Settlement risk exposure amount</i>	12,525	0	0	9,243	3,281
<i>Fixed overhead risk exposure amount</i>	383,665	198,725	66,961	70,990	5,996
<i>Credit value adjustment</i>	178	4	2	7	0
<b><i>Total Risk Weighted Assets (RWA)</i></b>	<b>503,451</b>	<b>237,424</b>	<b>66,961</b>	<b>117,649</b>	<b>25,898</b>
<b><i>Pillar 1 Capital Requirement (£'000)</i></b>	<b>40,276</b>	<b>15,898</b>	<b>5,357</b>	<b>9,412</b>	<b>2,072</b>

### 4.3 Capital ratios

Under CRR, TUH UK regulated entities must, at all times, satisfy the following own funds requirements:

- a) Common Equity Tier 1 capital ratio of 4.5%
- b) Tier 1 capital ratio of 6%
- c) Total capital ratio of 8%

CRR requires these ratios to be calculated using total exposure amounts, which are equivalent to the Pillar 1 requirements multiplied by a factor of 12.5.

<i>Capital ratios based on Pillar 1</i>	<i>Tradition (UK) Holdings Limited consolidation group</i>	<i>Tradition UK Limited</i>	<i>Tradition Financial Services Limited</i>	<i>TFS Derivatives Limited</i>	<i>Tradition London Clearing Limited</i>
<i>Common equity Tier 1 capital ratio (4.5% minimum)</i>	<i>21.22%</i>	<i>11.53%</i>	<i>36.41%</i>	<i>19.79%</i>	<i>109.59%</i>
<i>Tier 1 capital ratio ( 6% minimum)</i>	<i>21.22%</i>	<i>11.53%</i>	<i>36.41%</i>	<i>19.79%</i>	<i>109.59%</i>
<i>Total capital ratio ( 8% minimum)</i>	<i>21.84%</i>	<i>12.84%</i>	<i>36.41%</i>	<i>19.79%</i>	<i>109.59%</i>

### 4.4 Capital Buffers

The consolidation group and the limited activity firms are required to maintain capital buffers.

They are required to calculate a the Countercyclical Capital Buffer (“CCyB”) of common equity tier 1 capital equal to the firm’s total risk exposure amount multiplied by the weighted average of the countercyclical buffer rates that apply to exposures in the jurisdictions where the firm’s relevant credit exposures are located. As per Article 2 (5) (b), foreign general credit risk exposures, whose aggregate does not exceed 2% of the aggregate of the total credit exposures may be allocated to the firm’s home member state; hence all TUH’s exposure is at the prevailing UK rate of 0% (as at 31 December 2021).

## 5 NON-APPLICABLE DISCLOSURES

The following disclosures specified in CRR are not applicable to TUH UK regulated entities:

- Article 441 - None of the TUH entities are designated an institution of global systemic importance;
- Article 443 - None of the TUH entities hold encumbered assets which are those that have been pledged or are subject to any form of arrangement to secure, collateralise or credit enhance, any transaction from which it cannot be freely withdrawn;
- Article 447 - TUH does not have a non-trading book exposure to equities;
- Article 449 - TUH entities do not have exposure to securitisation positions;
- Article 451 - TUH entities are not currently required to comply with the leverage ratio requirements;
- Article 452 - TUH entities are subject to the standardised approach to credit risk, not the IRB approach for Pillar 1 credit risk charge;
- Article 453 - None of the TUH entities use credit risk mitigation techniques
- Article 454 - None of the TUH entities have adopted the AMA approach for calculating their operational risk exposure (as they are not subject to a Pillar 1 operational risk charge); and
- Article 455 - TUH entities do not use an internal model to calculate their Pillar 1 market risk exposure.

## 6 REMUNERATION

In accordance with the CRR Article 450 a firm must disclose, at least annually, information regarding its remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile. The following disclosure on TUH provides the information applicable for the Remuneration Code Proportionality level three firms.

### **1. Information concerning the decision-making process used for determining the remuneration policy, including if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders**

TUH's remuneration policy sets out the policies, practices and procedures applicable to all TUH employees designed to discourage excessive risk taking behaviour and ensure remuneration is consistent and commensurate to performance.

TUH's Remuneration, Appointments and Allocation Committee is entrusted with reviewing the operation and effectiveness of the remuneration policy for TUH.

During 2021, TUH did not use the services of an external consultant in determining its remuneration policy.

### **2. Information on the link between pay and performance**

#### **Composition of remuneration**

The remuneration paid to TUH employees comprises fixed salary, variable pay in the form of bonuses, non-contributory pension and benefits in kind.

#### **General performance review**

All members of staff are subject to a performance review in connection with the setting and adjustment of remuneration. Performance is assessed by reference to appraisals; compliance with internal HR and Compliance policies and regulation and contractual performance clauses.

In addition, from time to time, an independent benchmarking exercise is carried out to ensure that TUH compensation and benefits packages are appropriate and in line with industry peers.

#### **Bonuses**

Discretionary – Monthly/quarterly/biannual/annual (depending on the contractual provision) bonuses are allocated by senior management. Factors considered include the employee's ability, performance and conduct, his/her personal contribution (often within a team environment), the profitability of the employee's particular desk or business area (if applicable), and the overall profitability of the firm.

Formulaic – Many broking staff receive variable remuneration pursuant to a contractually-specified formula. Such formulae are devised pursuant to experience and market practice, and are the subject of regular review.

Management percentage – So as to incentivise good management, certain front office managers receive whole or part of their variable remuneration based on the profitability of the business area(s) for which they have responsibility. The calculations are based on net profits (following deduction of all attributed costs) and are paid out at the frequency of the broking staff in their business area(s). Senior management performance is also rewarded in the context of the strength or weakness of TUH's performance in the relevant period and anticipated market conditions.

**3. Aggregate quantitative information on remuneration, broken down by business area**

Broking staff (UK regulated entities) : £121.2m (2020: £107.8m)

Non-Broking staff (TMS): £23.2m (2020: £22.5m)<sup>1</sup>

<sup>1</sup>The non-broking staff are employed and remunerated in TMS, the sister services company. These costs are then recharged to TUH entities as part of the back office support costs allocation process.

**4. Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm**

Remuneration Code staff (UK regulated entities): £12.7m (2020: £17.1m)