

**SOCIETE GENERALE INTERNATIONAL LIMITED**

# **PILLAR 3 DISCLOSURE DOCUMENT**

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***As at December 2018***

**THE FUTURE  
IS YOU**  **SOCIETE  
GENERALE**

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## **1. INTRODUCTION**

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### **1.1. BACKGROUND**

The purpose of this document is to outline the Pillar 3 disclosures for Societe Generale International Limited.

SGIL is designated as a Limited Activity Firm ('LAF') and significant IFPRU Firm under the FCA's Prudential Sourcebook for Investment Firms ('IFPRU') and a BIPRU firm under the FCA's Prudential sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). As of 23 May 2019, SGIL is also designated a standard ILAS (Individual Liquidity Adequacy Standards) BIPRU Firm. SGIL is classified by the FCA as a Client Assets Sourcebook ('CASS') Large Firm due to the amount of client money held being greater than £1 billion. With effect from 1 January 2014, the existing capital requirements were replaced by the Capital Requirements Regulation ('CRR') and the Capital Requirements Directive ('CRD'), which together comprise ('CRD IV'). Under CRD IV, SGIL needs to comply with the EU CRR and the FCA's IFPRU handbook.

This Basel framework is structured around three Pillars:

- Pillar 1 sets out the minimum capital requirements firms will be required to meet for credit, market and operational risk;
- Pillar 2 requires a Firm to undertake an Internal Capital Adequacy Assessment Process ('ICAAP') to establish if whether the Pillar 1 capital is adequate to cover all the risks faced by the Firm and also ensures that it can meet its liabilities as they fall due. If the Pillar 1 capital is considered insufficient then the Firm must calculate the additional amount required; and,
- Pillar 3 sets out market discipline and requires a firm to disclose specific information on its risk management policies and procedures and the firm's capital resources.

The CRR sets out specific disclosure requirements. This document is intended for SGIL to meet those requirements therein.

### **1.2. DISCLOSURE POLICY**

SGIL has adopted a formal policy to comply with the disclosure requirements, and has policies for assessing the appropriateness of the disclosures, including their verification and frequency. The disclosures comprehensively convey our risk profile to other market participants.

SGIL publishes this disclosure annually on its website:

<https://sgildisclosure.societegenerale.com/en/useful-information/crd/>

### **1.3. BUSINESS OVERVIEW**

SGIL is a wholly owned subsidiary of Societe Generale S.A., a global systemically important bank ('G-SIB'), incorporated in France and as of December 31st 2018, is integrated into the Global Markets Division ('MARK').

SGIL is part of Societe Generale's global coverage platform for Execution Services, Clearing, Settlement, and Reporting and provides these services on a broad range of equity, fixed income, foreign exchange, and commodity (including CO2) traded products as a member of exchanges and central counterparty clearing venues covering both listed and OTC markets around the world.

The Firm also provides clients with value added services, including a Prime Brokerage offering, electronic platforms for trading and order routing, cross margining, the centralised reporting of client portfolios and Cross-Asset Secured Financing.

In line with the stated business model, SGIL will, therefore:

- Not take proprietary speculative positions;
- Not service retail clients;
- Not engage in jurisdictions or business relationships presenting an unacceptable level of risk, as defined by the Compliance, Financial Crime Unit and Risk guidelines;
- Ensure that all employees have the right level of knowledge and understanding of the SGIL's cultural values and principles and that proper operational processes and controls are in place to mitigate the risk of fraud and regulatory breaches;
- Protect the data of our clients;
- Ensure that conduct risk policies and training are in place to ensure that conflicts of interests are avoided and that clients are treated fairly;
- Maintain sufficient liquidity at all times to survive for a period of at least 35 days under an "extreme, but plausible" stress scenario; and,
- Maintain sufficient capital at all times to ensure compliance with regulatory capital requirements.

SGIL's business activities are divided into two main Business Units: Prime Services ('MARK/PRM'), and Commodity ('MARK/CTY')<sup>1</sup>.

- ⇒ The Prime Services Business Unit ('MARK/PRM') provides expertise that offers global access to a complete cross-asset service in cash and listed derivative instruments across Equities, Fixed Income and Foreign Exchange.

The Prime Services business combines expertise across global exchanges, instruments and asset classes with a detailed understanding of hedge fund and Commodity Trading Advisor ('CTA'), trading

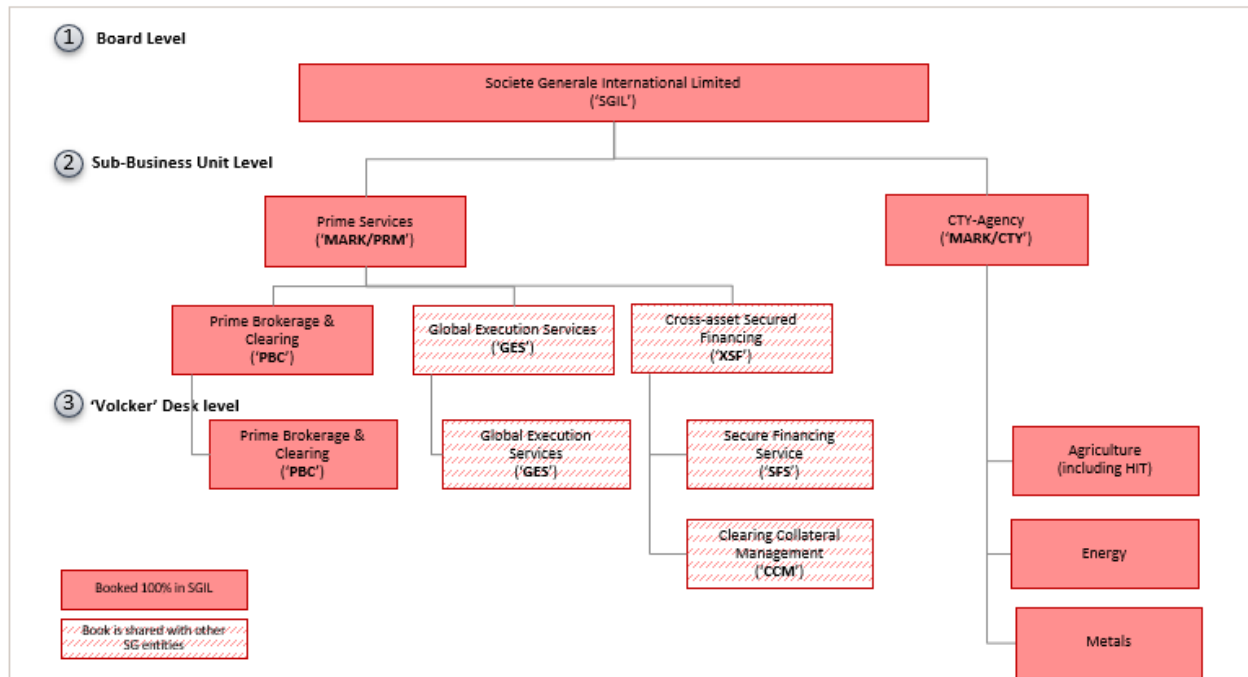
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<sup>1</sup> The document reflects the Groupe structure as at 31 December 2018 and does not include the recent organizational changes at SG level.

strategies, their structure and operational set-up and investor objectives. SGIL makes available solutions to clients that include portfolio cross-margining tools, risk calculation, start-up services, capital introduction, financing and reporting capabilities.

Prime Services and Agency Execution is the result of comprising the three businesses

- i. Prime Brokerage & Clearing ('PBC');
  - ii. Global Execution Services ('GES'); and,
  - iii. Cross-asset Secured Financing ('XSF').
- ⇒ The Commodity Business Unit ('MARK/CTY') offers full-service commodities listed derivatives brokerage service (execution and clearing services) to corporate commodity players who are producers, merchant traders (intermediaries) and consumers (end-users) who require access to clear and connectivity to listed commodities derivatives exchanges in order to hedge the price risk on their physical trading flows.



## **2. SGIL GOVERNANCE & ORGANIZATION**

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The SGIL Governance and organisational structures centre around the overall responsibility of the Board of Directors to ensure that an effective and robust risk management framework is established within the organisation to ensure that the business objectives, strategy and requirements imposed by the various stakeholders and regulators are met.

### **2.1. SGIL BOARD OF DIRECTORS**

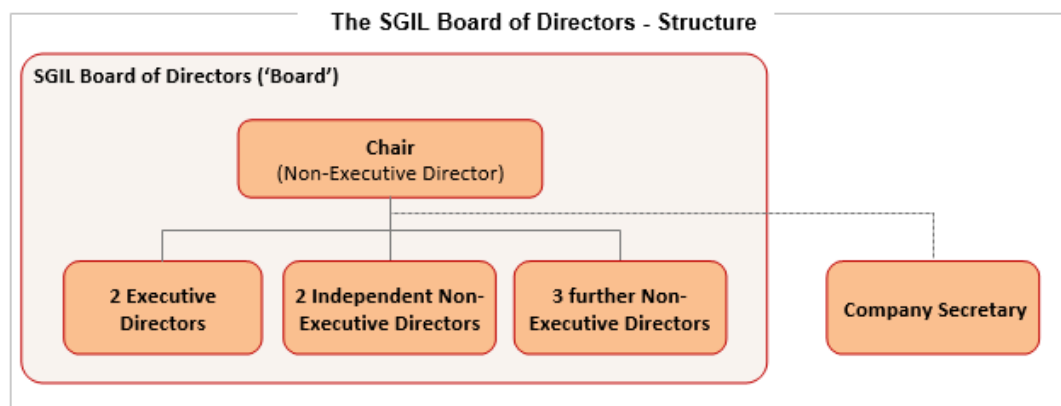
#### ***a. Board Roles and Responsibilities***

The Board of Directors has overall responsibility for the Firm's organisation, strategy and performance, including:

- (a) Establishing a sustainable business model for the Firm and a clear strategy consistent with that model;
- (b) Approving and overseeing the implementation by the executive management (defined herein as the members of the Executive Committee of the Firm) of the Firm's business model and strategic objectives;
- (c) Articulating and overseeing the adherence to a clear and measurable statement of a risk appetite against which major business options are actively assessed;
- (d) Exercising effective oversight of the Firms' corporate governance, risk management and control frameworks;
- (e) Providing leadership of the Firm within a framework of prudent and effective controls which enables risk to be assessed and managed; and,
- (f) Articulating and overseeing the embedding by the executive management of a culture of risk awareness and ethical behaviour that the Firm should follow in the pursuit of its business goals.

#### ***b. Membership and structure***

As of December 31st 2018, the composition of the Board of Directors is intended to provide the requisite levels of experience and appropriate challenge to oversight of SGIL's business and corporate activities. The Board comprises Executive Directors, Non-Executive Directors ('NEDs') and Independent Non-Executive Directors ('INEDs'). The NEDs and INEDs provide an independent challenge and oversight over SGIL's strategy and operations. The Chair of the Board is a NED.



***c. Matters reserved for the Board***

The following matters shall be reserved for decision by the Board:

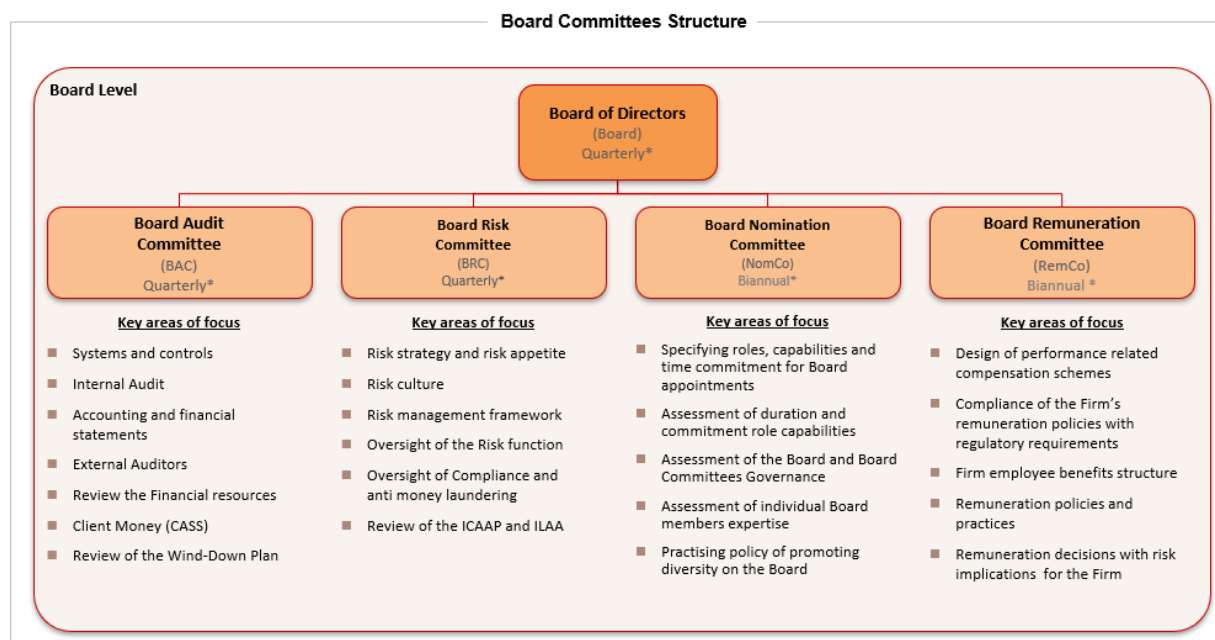
- |  |  |
|--|--|
| 1. Strategy and Objectives;                                      | 5. Corporate Governance;   |
| 2. Capital and Corporate Structure;                              | 6. Board Membership and other Appointments;                      |
| 3. Financial / Regulatory Reporting and Transactions;            | 7. Remuneration; and,  |
| 4. Systems of Risk Management, Internal Controls and Governance; | 8. Any other matter reserved for the Board by law or regulation. |

***d. Board Committees***

The Board has established four technical Board Committees to assist the Board in fulfilling its responsibilities:

- |   |   |
|---|---|
| The Board Audit Committee ('BAC');        | The Board Risk Committee ('BRC'); and,      |
| The Board Nomination Committee ('NomCo'); | The Board Remuneration Committee ('RemCo'). |





## 2.2. SGIL EXECUTIVE LEVEL (SENIOR MANAGEMENT)

SGIL Senior Management is responsible for the day to day management of the business and executing the strategy and objectives approved by the Board. Risk Management within SGIL must be managed according to the Risk Appetite approved by the Board utilising the Risk Management Framework. Policies and procedures established to manage processes and activities in a risk aware efficient manner must be followed by the SGIL Senior Management and all regulatory requirements must be adhered to. Any potential conflict between SGIL role and SG Group policies and requirements must be escalated to the SGIL CEO and COO.

SGIL is organised into Business Units and Service Units. The management within each business unit has various delegated authority to execute and manage their business objectives, according to approved policies and procedures.

### a. CEO

The Board has delegated the responsibility for the day to day management of the Firm to the Chief Executive Officer ('CEO'), who is responsible for leading the executive management, and for making and implementing business and operational decisions.

The Chief Executive Officer assists the Board in carrying out its role by providing information, advice, proposals and recommendations to the Board's members.

The Chief Executive Officer maintains a close working relationship with the Chair of the Board and informs the latter routinely of key developments, initiatives, performance and conduct risk matters. The Chief Executive Officer in conjunction with the Chair ensures that the Firm conducts business in a sustainable manner in line with the Board determined priorities.

### **b. Approved person**

An 'Approved Person' is an individual who the FCA approve to perform various functions and activities within a member Firm. These 'Controlled Functions' are regulated by the FCA in terms of expected responsibilities and behaviour, including the following requirements:

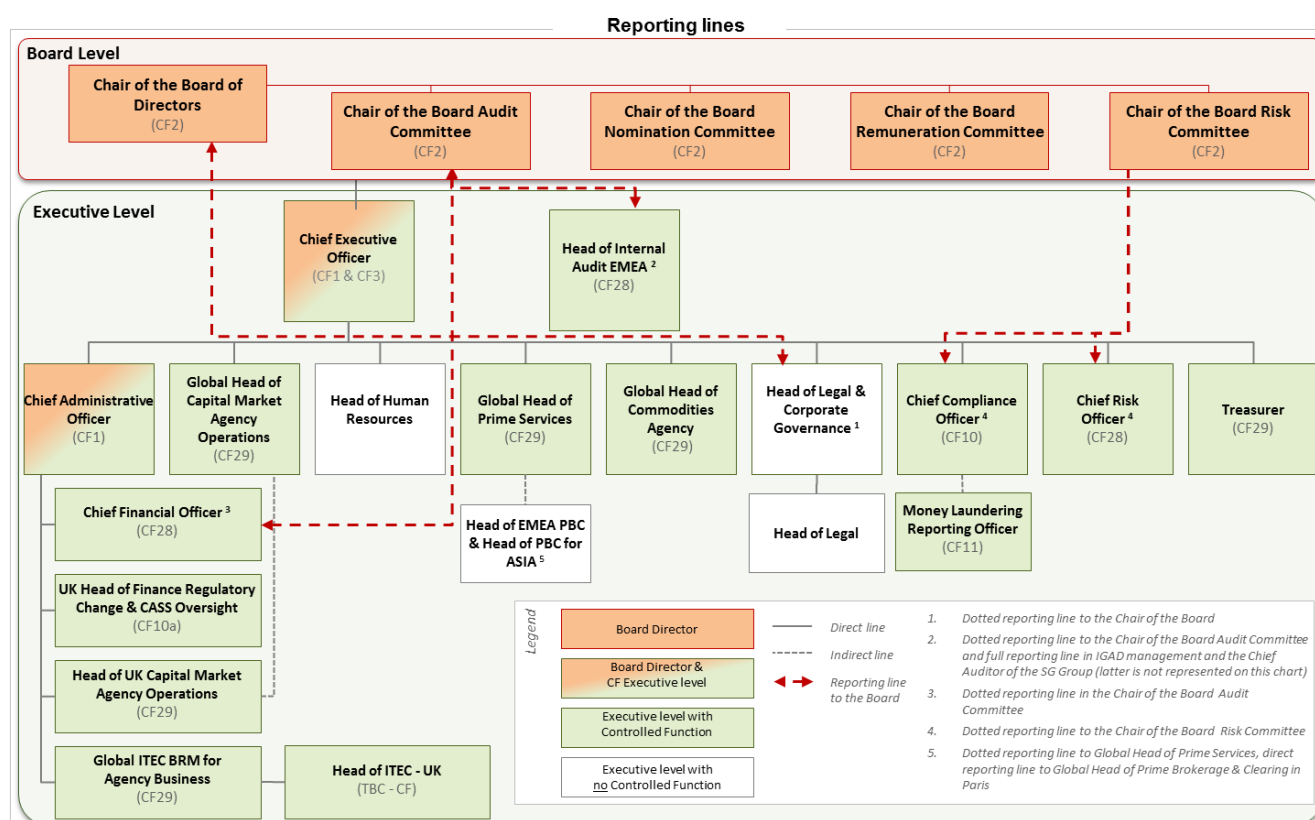
- Meet and abide by the rules of the FCA's fit and proper person test;
- Comply with the Statements of Principle and the Code of Practice; and,
- Report anything that could affect their ongoing suitability to the FCA and that of the authorised firm.

The SGIL organisation is currently organized with Controlled Functions ('CF') and non-CF Functions.

With effect from 9 December 2019, SGIL will be subject to the Senior Managers and Certification Regime ('SM&CR'). The SM&CR defines a set of Prescribed Responsibilities and allow for a set of Overall Responsibilities which must be allocated as appropriate to a Senior Manager performing a Senior Management Function ('SMF').

### **c. Membership and structure**

The executive level organisation is summarised as follows:



**d. Executive Committees**

The Executive Committee (Fortnightly) is responsible to the Board for executing their approved actions and the day to day decision-making in relation to SGIL activities.

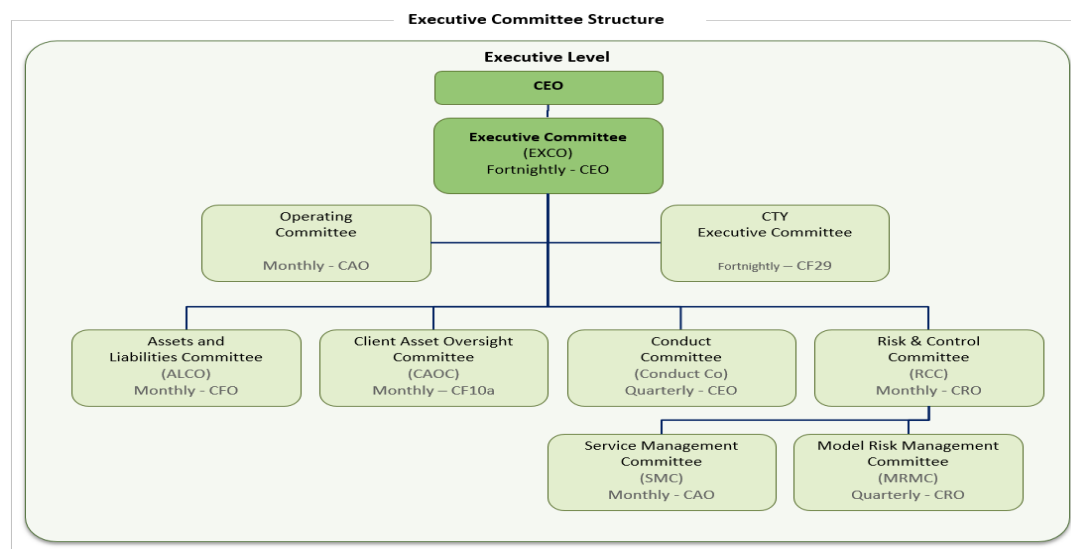
- ◆ SGIL CTY EXCO (Fortnightly) is a sub-committee of the ExCo ensuring detailed oversight of CTY Business Unit's specific matters within SGIL; and,
- ◆ The Operating Committee (Monthly) is responsible for monitoring and overseeing the SGIL operational platform.

The Executive Committee has decided to set up four technical Executive Committees to assist in fulfilling its responsibilities:

1. The Assets and Liabilities Committee ('ALCO') (Monthly) is responsible for balance sheet management, structural market risks, the capital and liquidity profile within SGIL;
2. The Client Asset Oversight Committee ('CAOC') (Monthly) ensures senior management oversight and control of Client Money and the safekeeping of client assets processes in relation to the FCA CASS regime;
3. The Conduct Committee (Quarterly) provides oversight to SGIL Conduct Risk Management Framework and promoting a culture of responsibility and accountability within SGIL; and,
4. The Risk & Control Committee ('RCC') (Monthly) reviews the embedding of the Risk Management Framework within the SGIL business and activities, including:
  - Reviewing the management of Key Residual Risks;
  - Monitoring Key Inherent Risks;
  - Status of the SGIL Control Framework;
  - Status of risk management processes,
  - Emerging risks and issues; and,
  - Review and approval of risk policies and initiatives.

The RCC has established two specialised sub-committees to support its role:

- ◆ The Service Management Committee (Monthly) ensures that external service providers (SG affiliates, 3rd parties) are managed and overseen according to established policies and procedures; and,
- ◆ The Model Risk Management Committee (Quarterly) provides oversight to the review, approval and monitoring of risks applicable to all models used by SGIL.



The respective terms of reference define the purpose and structure of each committee, including the mandate, quorum, frequency, authority, responsibilities, operating procedures and membership.

## **2.3. ESCALATION AND REPORTING FROM EXECUTIVE LEVEL TO THE BOARD LEVEL**

Communication between the Executive Committee and the Board is effectively aligned due to regular reporting and the escalation of risks and other issues in a structured and prescribed manner.

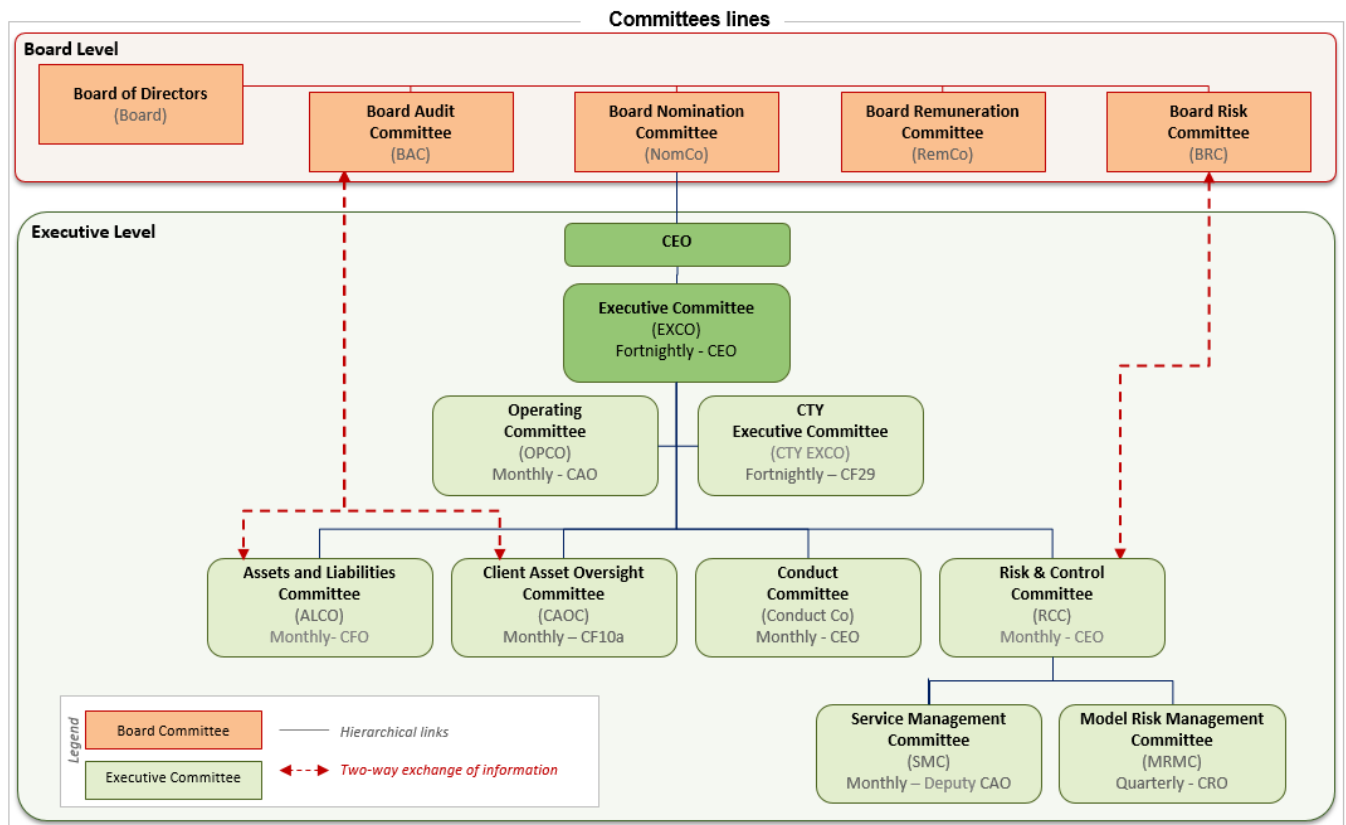
### ***a. Reporting lines***

As of June 2018, the following functional heads are accountable to the Chief Executive Officer and to the respective Committee Chair to ensure the independence and oversight of the Second and Third Line of Defence, as follows:

- The Head of Internal Audit has a dual reporting line to the Chair of the Board Audit Committee and to the internal audit division of the SG Group, and makes recommendations to the Board arising from its work;
- The Chief Financial Officer ('CFO') has a hierarchical reporting line to the SGIL Chief Administrative Officer ('CAO'). The CFO also has a dotted reporting line to the Chair of the Board Audit Committee ('BAC');
- The SGIL Chief Risk Officer ('CRO') - CF28 - is approved by the FCA, has regulatory responsibility for the development, implementation, maintenance and operational effectiveness of a comprehensive framework for identifying, assessing, monitoring and reporting SGIL risk. The CRO has a hierarchical reporting line to the SGIL Chief Executive Officer ('CEO'). The CRO also has a dual dotted reporting line to the Head of SG Group Corporate and Investment Banking Risk team ('RISQ/CIB') and the Chair of the Board Risk Committee ('BRC') in accordance with established governance principles; and,

- The Chief Compliance Officer ('CCO') has a hierarchical reporting line to the SGIL Chief Executive Officer ('CEO'). The CCO also has a dotted reporting line to the Chair of the Board Risk Committee.

**b. Committees Reporting lines**



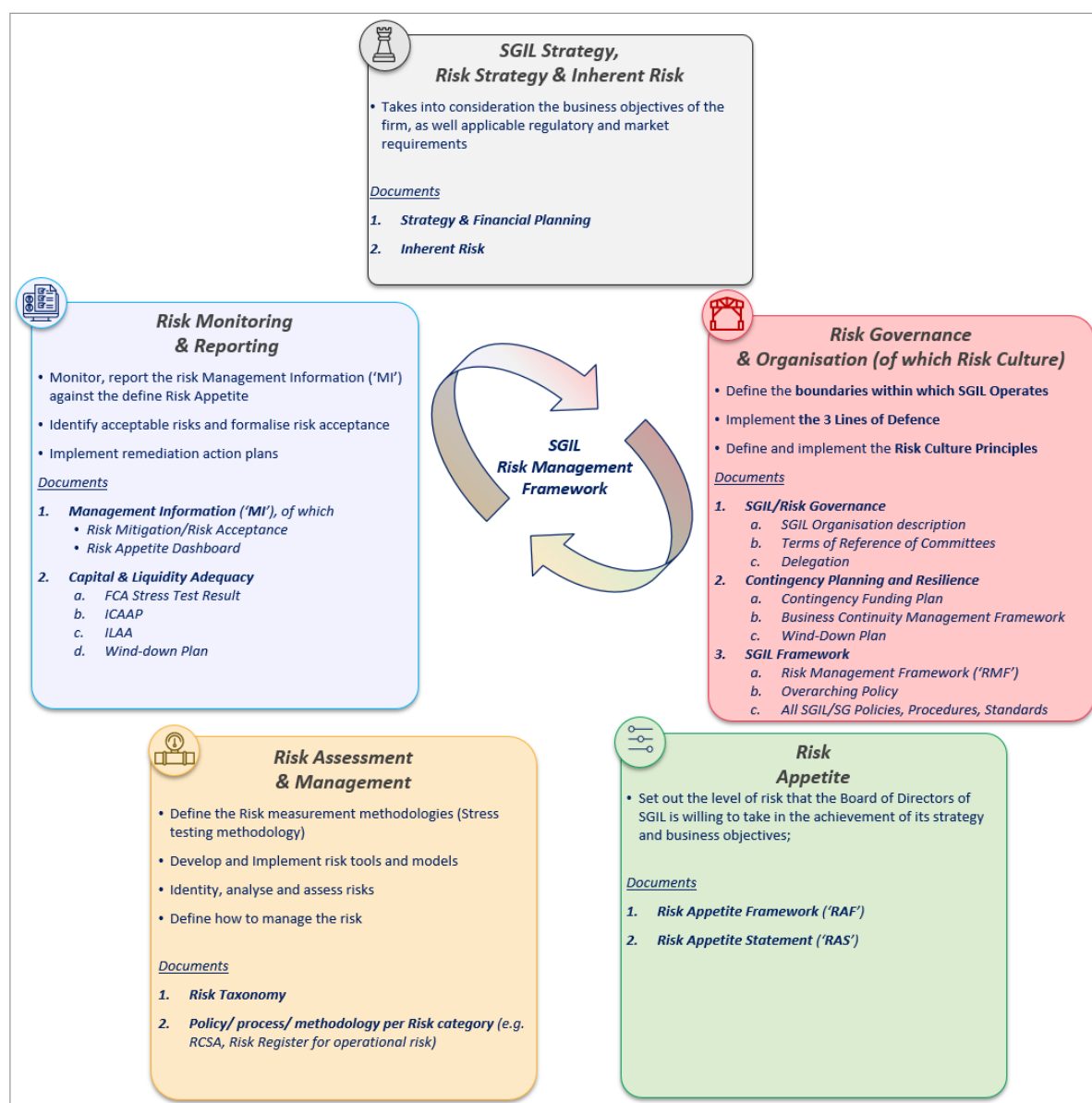
**2.4. ARTICULATION WITH OTHER SG GROUP ENTITIES & STAKEHOLDERS**






SGIL is part of the SG Group and works within the wider organisation to ensure that it operates within SG Group mandates and policies, except where superseded by local regulatory and legal requirements.

### 3. RISK MANAGEMENT FRAMEWORK

SGIL's Risk Management Framework ('RMF') presents an overview of the SGIL organisation and the management principles, governance and systems, which establish the approach to managing and controlling SGIL risks within a coherent framework. The RMF defines the structure within which SGIL identifies, assesses, monitors, manages, controls and reports potential and realised risk exposure.

The SGIL Risk Management Framework has been designed to ensure that risks are appropriately considered within all business decision making in the achievement of business objectives and strategy. The RMF defines the structure and standards for risk management within the Firm covering.



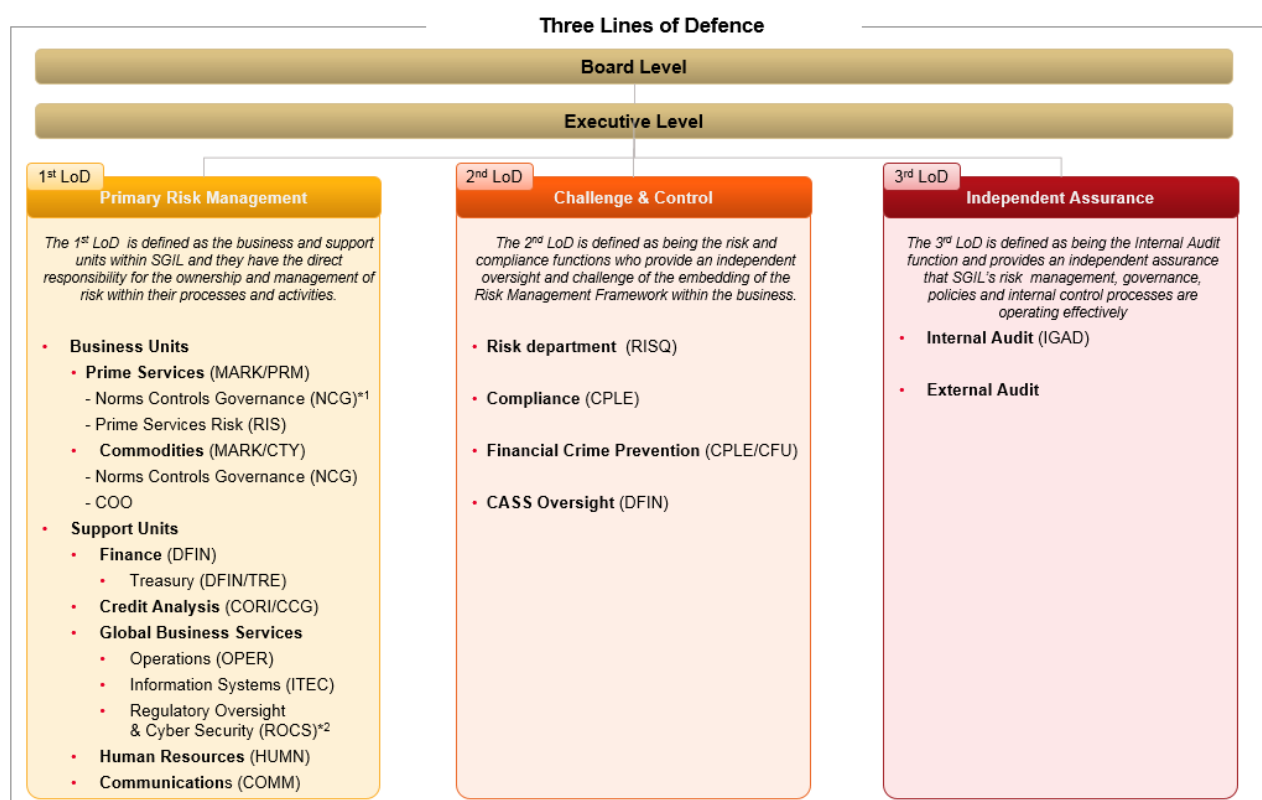
SGIL Risk Management Framework Description		
Steps		Description
	<b>SGIL Strategy, Risk Strategy &amp; Inherent Risk</b>	<ul style="list-style-type: none"> <li>• SGIL strategy takes into consideration the business objectives of the Firm, as well applicable regulatory and market requirements.</li> <li>• The SGIL Risk department is actively involved in elaborating the SGIL Risk strategy by ensuring that risks are appropriately considered within all business decisions leading to the achievement of business objectives and strategy.</li> <li>• The inherent risk is typically defined as the level of risk in place in order to achieve an entity's objectives and before actions are taken to alter the risk's impact or likelihood.</li> </ul>
	<b>Risk Governance &amp; Organisation</b>	<ul style="list-style-type: none"> <li>• Risk Governance &amp; Organization defines the policies, organisational model and governance mechanisms (challenge, training, escalation and resolution) necessary to manage any risks in the implementation of the business strategy and objectives.</li> <li>• It enforces the maintenance of clear risk ownership and management responsibilities and expectations and the establishment of a robust challenge and escalation process, embedded throughout the organisation.</li> </ul>
	<b>Risk Appetite</b>	<ul style="list-style-type: none"> <li>• Risk Appetite sets out the level of risks that the Board of Directors of SGIL is willing to take in the achievement of its strategy and business objectives.</li> </ul>
	<b>Risk Assessment &amp; Management</b>	<ul style="list-style-type: none"> <li>• Risk Assessment &amp; Management defines the standard risk taxonomy and methodologies used to identify, assess, quantify and manages all the risks within SGIL.</li> <li>• It ensures a comprehensive view, common understanding and ownership of risks across the organisation.</li> </ul>
	<b>Risk Monitoring &amp; Reporting</b>	<ul style="list-style-type: none"> <li>• Risk Monitoring &amp; Reporting sets out the processes for ensuring that appropriate risk Management Information ('MI') is reported to, the Executive / Board Committees; providing for a proactive escalation and management of risks.</li> </ul>

The RMF constitutes an umbrella document outlining the main risk management principles adopted by SGIL, in terms of policies, procedures and standards. These policies, procedures and standards contribute to more detailed documentation concerning SGIL's internal risk control systems and processes. SGIL's policies align to those of Societe Generale Group, unless superseded by local legal or regulatory requirements.

### 3.1. RISK GOVERNANCE AND ORGANISATION

SGIL has embedded a formalised corporate governance structure, which ensures that the Board of Directors has visibility on the risks faced by SGIL and the framework in place to manage and mitigate them. The organisation and risk governance structures ensure that there is sufficient oversight and escalation to manage SGIL's risks and a 'Three Lines of Defence' ('LoD') model ensures appropriate responsibility for management, challenge and assurance:

- The First Line of Defence (1st LoD) is defined as the business and support units within SGIL and they have the direct responsibility for the ownership, use and management of risk within their processes and activities;
- The Second Line of Defence (2nd LoD) is defined as being the risk and compliance functions who provide an independent oversight and challenge of the embedding of the Risk Management Framework within the business and ensuring that the framework is current for the SGIL Business Model;
- The Third Line of Defence (3rd LoD) is defined as being the Internal Audit function and provides an independent assurance that SGIL's risk management, governance, policies and internal control processes are operating effectively; and,
- The Internal Audit function for SGIL is outsourced to the SG Inspection and Audit Division ('IGAD') and reports directly to the Board via the Chair of the BAC.



\*<sup>1</sup> ROCS (Regulatory Oversight & Cyber Security) department is responsible for overseeing and controlling the operational risks under the Service Units (DFIN, OPER, ITEC)

\*<sup>2</sup> NCG (Norms Controls Governance) is responsible for overseeing and controlling the operational risk for Business Units



### 3.2. RISK APPETITE

#### Inherent & Residual Risks for SGIL business Model

The SGIL strategy takes into consideration the measures, actions and direction necessary for SGIL to achieve its business objectives and ambitions, as well as meeting the requirements of clients, employees, stakeholders and regulators.

- Inherent Risk is defined as the level of risk in place in order to achieve an entity's objectives, and before actions are taken to alter the risk's impact or likelihood. The natural level of risk inherent in performing a process/business activity gross of any mitigating or risk reducing actions;
- Emerging Risk: risks that SGIL has not yet fully considered, assessed or mitigated, so that they are currently not, or insufficiently, managed and monitored in accordance with SGIL's risk monitoring tools and processes. The speed and size of impact on the business may also be unknown;

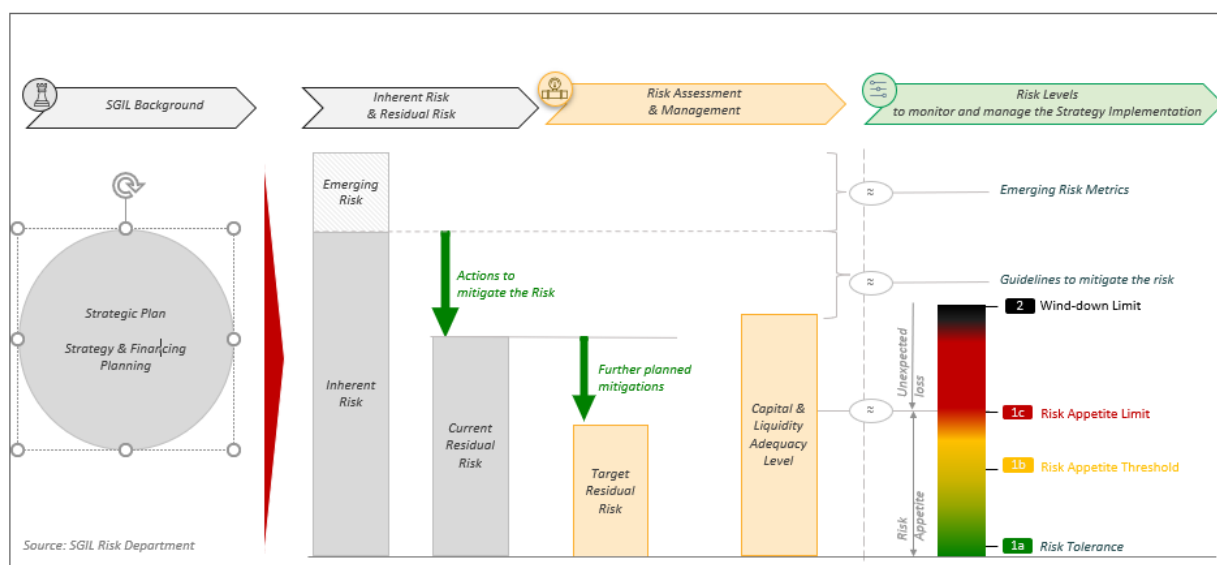
Emerging risks can become significant risks following detailed risk analysis or following internal changes; for example, a change in SGIL business strategy, or changes to the market and/or regulation;

Emerging Risks may also be considered from any angle that could expose a vulnerability or opportunity (the latter, left unaddressed, could become a risk) with regard to the business model;

- Current Residual Risk is defined as the level of risk after action has been taken to mitigate the risk; and,
- Target Residual Risk (also known as Risk Acceptance) is defined as the level of risk after further actions are planned and implemented to mitigate the Current Residual Risk.

#### Risk Levels (Risk Appetite and Wind-Down Metrics)

This section presents an overview of the SGIL Risk Levels (including dependency between the Inherent/Residual risk and the Risk Level (Risk Appetite and wind-down metric) and the governance to define the different risk levels (Risk Appetite and the Wind-down). These levels allow monitoring of the SGIL business and define any deviation between the SGIL business and the reality.



Based on the Inherent and Residual Risk, the Risk Appetite and Wind-Down Metrics are defined to monitor the SGIL business and define any deviation between the SGIL business and the reality.

All the Risk levels are fully documented:

#	Document	Description	Ownership
<i>Risk Appetite</i>			
1	SGIL Risk Appetite Framework (' <b>RAF</b> ')	The RAF formalises the governance and implementation framework of the Risk Appetite.	Risk
2	SGIL Risk Appetite Statement (' <b>RAS</b> ')	The RAS formalises the SGIL's risk appetite for the major risks it faces in the conduct and execution of its business.	Risk
3	Risk Appetite Allocation (' <b>RAA</b> ')	The Risk Appetite Allocation (' <b>RAA</b> ') formalises the SGIL's risk appetite for all the major risks it faces in the conduct and execution of its business at Business Unit level.	Risk
4	Desk Mandate	Each Desk Mandate applies to a specific activity. It is required pursuant to the French Banking Law and the U.S. Volcker Rule, promulgated under Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.	Business Unit
<i>Wind-down Plan</i>			
5	Wind-down Plan (' <b>WDP</b> ')	A wind-down plan aims to enable a firm to cease its regulated activities and achieve cancellation of its permission with minimal adverse impact on its clients, counterparties or the wider markets.	CFO
<i>Emerging Risk</i>			
6	Risk Management Framework (' <b>RMF</b> ')	The section 'Risk Assessment' presents the Emerging Risk	Risk

<b>1. Risk Appetite</b>	
<b>Approach</b>	<p>The Risk Appetite sets out the level of risk that the Board of Directors of SGIL is comfortable with taking in the execution of the Firm's business objectives. SGIL has articulated its Risk Appetite in line with its business model and SG Group requirements. The SGIL Risk Appetite Framework ('<b>RAF</b>') presents the governance and implementation framework and the SGIL Risk Appetite Statement ('<b>RAS</b>') formalises the SGIL appetite for the major risks it faces in the conduct of its business.</p> <p>The Risk Appetite is defined as the maximum risk that SGIL is willing to take expressed in both qualitative and quantitative terms. SGIL has identified four main risk appetite pillars:</p> <ul style="list-style-type: none"> <li>• <b>Protect the market stability</b>, as well as the integrity, the interests of the clients and the reputation of the firm in all its activities, relationships and decision making. SGIL has no appetite for risk in the conduct of any of its activities that puts its good reputation in jeopardy, could be in breach of laws and regulations, could lead to adverse publicity, or could lead to loss of confidence by key stakeholders, such as clients, counterparties or outsourced service suppliers on whom SGIL places reliance to conduct its business, or regulatory, including tax, authorities, and employees;</li> <li>• <b>Preserve the capital of the Firm</b> and maintain at all times its capital adequacy to satisfy its commercial and regulatory obligations;</li> <li>• Maintain at all times <b>sufficient liquidity</b> to meet its obligations as they fall due; and,</li> <li>• Ensure a <b>minimum level of profitability</b>.</li> </ul>
<b>3 levels of the Risk Appetite</b>	<p>The Risk Appetite are split into 3 levels:</p> <p><b>1a. Risk Tolerance</b> provides a measuring whether risks to the achievement of strategy and business objectives are acceptable or unacceptable. This metric can be qualitative and quantitative;</p> <p><b>1b. Risk Appetite Thresholds</b> are minimum levels that trigger reporting requirements that allow the Risk department, RCC, BRC and to the Board to understand the status and evolution of the SGIL risk profile. They are supported by relevant narrative, possible action plans, and any other information required to ensure the SGIL risk profile is well understood. They are set at a level that will allow management to undertake corrective actions;</p> <p><b>1c. Risk Appetite Limits</b> are mandatory requirements that are intended to limit risk taking in SGIL. The Risk Appetite reporting to the Risk Department and to the Board show how adherence to these limits is achieved.</p> <p>For specific topic, guidelines were drafted to complete the Risk Appetite level</p>
<b>2. Wind-down Level</b>	
<b>Approach</b>	<p>The Wind-Down Plan outlines the steps, procedures, financial and operational considerations to enable SGIL to cease its regulated activity and achieve cancellation of its permission with minimal adverse impact on its clients, counterparties, or the wider markets.</p>

	<p><b>Wind-Down Level</b> is the maximum level of risk acceptable to SGIL prior to prompting a discussion, at Board level, if SGIL should wind down the business.</p> <p>A wind down becomes relevant to Emerging Risk if the risks materialize and cause a non-elective or elective wind down.</p>
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### 3.3. RISK MANAGEMENT PROCESS & METHODOLOGY

The Risk Management Process & Methodology processes and activities within the Risk Management Framework are designed to consider the nature and severity of identified risks and enable the development of related risk management actions and strategies.

Risks to the business are identified through various processes and actions, including the reporting of operational risk events, the performance of Risk and Control Self-Assessment process, limit excesses, control testing and new product assessments.

The risk assessment of the identified risks ensure that the root cause of the risk is identified which enables appropriate risk mitigating actions or strategy to be developed and implemented to reduce the level of residual risk. The risk is subject to ongoing risk management and monitoring to ensure the residual risks are fully mitigated on a permanent basis.

#### Standard Risk Categorisation / Risk Taxonomy

SGIL utilises a defined risk universe and a common taxonomy across the Firm which enables risks to be clearly and consistently categorised, managed and reported to line management, policy owners and committees. The risk universe has been articulated utilising the Basel II definitions. Fourteen main risk categories (Level 1) have been assessed as relevant to the SGIL business:

Level 1 - Risk Taxonomy (Refer to IFPRU)	Main levels 2 - Risk Taxonomy
<b>Main Risks</b>	
<b>1. Operational Risk</b> (IFPRU 2.2.32 to 2.2.33)	
<b>2. Liquidity &amp; Funding Risk</b> (IFPRU 2.2.8 and BIPRU 12)	
<b>3. Business Risk</b> (IFPRU 2.2.8)	
<b>4. Strategic Risk</b> (IFPRU 2.2.8)	
<b>5. Credit Risk</b> (IFPRU 2.2.17 to 2.2.22)	<b>5.1.</b> Counterparty Credit Risk (IFPRU 2.2.17) <b>5.2.</b> Country Risk (IFPRU 2.2.17) <b>5.3.</b> Concentration Risk (IFPRU 2.2.2) <b>5.4.</b> Settlement and Delivery Risk <b>5.5.</b> Residual risk (IFPRU 2.2.21) <b>5.6.</b> Issuer risk <b>5.7.</b> Wrong-Way Risk
<b>Other risks reviewed, but considered as secondary risks for SGIL</b>	

Level 1 - Risk Taxonomy (Refer to IFPRU)	Main levels 2 – Risk Taxonomy
<b>6. Market Risk</b> (IFPRU 2.2.26 to 2.2.29)	
<b>7. Structural Risk</b>	<b>2.1.</b> Structural Interest-rate Risk <b>2.2.</b> Structural Foreign Exchange Rate Risk <b>2.3.</b> Risk on employee benefits
<b>8. Model Risk</b>	
<b>9. Group &amp; Vendor Risk</b>	
<b>10. Capital Investment Risk</b> (IFPRU 2.2.8)	
<b>11. Risks related to Climate Change</b>	
<b>12. Risk of excessive leverage</b> (IFPRU 2.2.34)	
<b>Other risks (not relevant for SGIL)</b>	
<b>13. Securitisation Risk</b> (IFPRU 2.2.24)	
<b>14. Insurance Risk</b>	

### 3.4. RISK MONITORING AND REPORTING

The SGIL Monitoring and Reporting Framework has been designed with a view to provide on an ongoing basis a comprehensive view of the SGIL risk profile ('Management Information' or 'MI') to ensure that the Firm stays within the Risk Appetite Statement. Its purpose is to enable escalation of breaches (including overruns) and to ensure the resolution of risks and the maintenance of risk mitigation processes.

#### Risk Monitoring and Reporting Framework

The Risk Monitoring & Reporting Framework sets out the processes for ensuring that Management Information ('MI') is reported to the Executive / Board Committees. The Management Information is made up of four key elements:

1. Risk Universe – Risks are monitored and reported using the SGIL standard risk categorisation to ensure common understanding of the risk profile of the Firm across the organisation;
2. Risk Appetite – The SGIL Risk Appetite is translated into a series of qualitative business acceptance criteria and quantitative limits, thresholds and risk indicators, monitored on a regular basis to ensure that the firm stays within its risk appetite. Should the results of the controls in place imply that SGIL is exposed to a risk exceeding its stated risk appetite, escalation and resolution protocols are triggered in line with the applicable policies and procedures;
3. Risk Register - The Risk Register records the inherent risks and residual risk faced by the Firm, as well as the risk mitigating actions approved by the RCC, Senior Management and the Board to reduce the risk exposure of the Firm; and,
4. Risk Mitigation – Mitigating actions are determined when all emerging or realised risks reported through the various risk processes are analysed. These actions are assigned an appropriate ownership and target date and are monitored on an ongoing basis until resolved and the risk is mitigated to levels of risk.

As part of the Management Information pack ('MI'), the Risk levels are monitored and reported to the respective risk and management committees and ultimately form part of the Board Risk Committee ('BRC') information pack through the Risk Appetite Dashboard. Thus, in case of deviation, the Executive and the Board will be informed, and remediation actions should be taken.

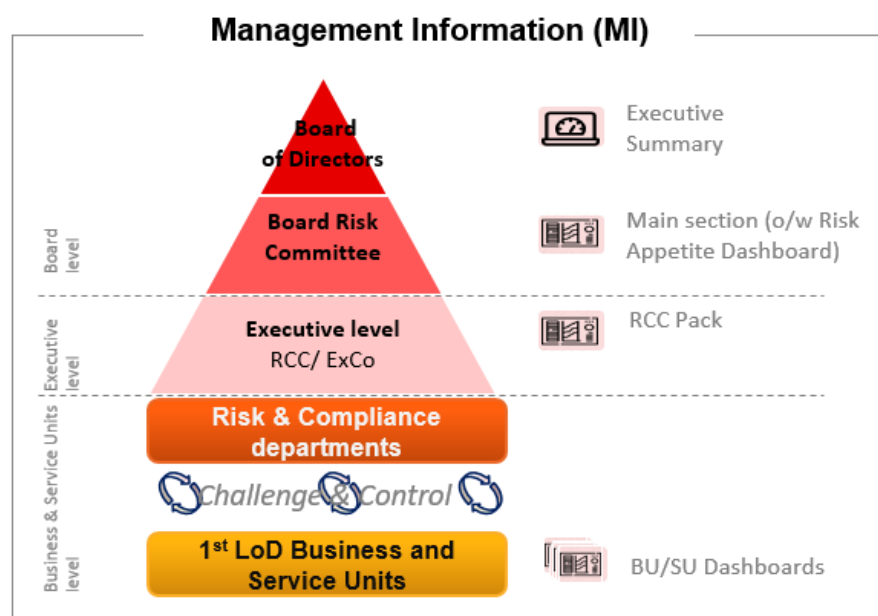
The frequency of the MI will change from to quarterly to monthly.

Lines of Defence	Responsibility
<b>First Line of Defence</b> Primary Risk Management 2 dedicated 1st LoD Risk/control function <ul style="list-style-type: none"> <li>• NCG is responsible for overseeing and controlling the operational risk for Business Units: 2 teams - NCG/CTY for MARK/CTY scope and NCG/PRM for PRM</li> <li>• ROCS department is responsible for overseeing and controlling the operational risks under the Service Unites (DFIN, OPER, ITEC)</li> </ul> 2 dedicated 1st LoD Credit functions <ul style="list-style-type: none"> <li>• MARK/PRM/RIS in charge of Credit Risk for Prime Services</li> <li>• MARK/CTY/COO in charge of Credit Risk for CTY-Agency</li> </ul>	1st LoD have direct responsibility for the ownership, use and management of Risk within their processes and activities:  <b>Management Information</b> <ul style="list-style-type: none"> <li>• Review and update major risks on a monthly basis and accepted risks on a yearly basis; and,</li> <li>• Raise new risks and emerging risk to the SGIL Risk department or directly to the RCC.</li> </ul> <b>Risk Mitigation</b> <ul style="list-style-type: none"> <li>• Develop action plans, where applicable, to address risk item for review by risk management and respective risk committees.</li> </ul>
<b>Second Line of Defence</b> Challenge & Control 4 Departments <ul style="list-style-type: none"> <li>• Risk Department</li> <li>• Compliance</li> <li>• Financial Crime Prevention</li> <li>• CASS Oversight</li> </ul>	2nd LoD provides oversight, challenge and control to the business (1st LoD) in their management of these risks, as well as supporting the risk governance processes and reporting.  <b>Management Information</b> <ul style="list-style-type: none"> <li>• Review Risk Register on a monthly basis and residual risk rating;</li> <li>• Coordinate the on-going Risk Register update process;</li> <li>• Review the status and risk profile of inherent risks to the SGIL business; and,</li> <li>• Present the significant results of the various risk processes and risk profile to the Board on an ongoing basis.</li> </ul> <b>Oversight, Challenge and Control</b> <ul style="list-style-type: none"> <li>• Review, challenge and approve risk responses and action plans (where applicable) that address exceptions/violation before submission to the Risk &amp; Control Committee ('RCC').</li> </ul>

## **Monitoring at the Board and Executive levels**

### **Overview**

SGIL Risk Department, as the 2nd LoD, is responsible for the analysis, monitoring, challenge and control of risks. It is also responsible for the escalation of any risk concerns to SGIL Senior Management and the Board.



Source: SGIL Risk Department

#### **Board level:**

SGIL has a formalised corporate governance structure, ensuring that the Board of Directors has visibility on the risks faced by SGIL and the framework in place to manage and mitigate the risks. The communication to Board is based on the reporting of risk information and monitoring controls.

The key documents are Executive Summary, Board, BRC and quarterly RCC level reporting;

#### **Exco level:**

SGIL Senior Management receives, on a regular basis (typically daily to weekly) the results of the key controls for which a more frequent circulation is appropriate. (Executive Committee updates to the Risk and Control Committee and regular meetings between CRO and CEO); and,

#### **BU/ SU:**

All the Business Units and Service Units monitor the risks to manage and mitigate them. Thus, the key documents are BU/ SU dashboard, presentation if required.

The Management Information Pack covers all the Risk Categories:

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Risk Categories	Board Level		Executive Level			
	Board	BRC	EXCO	RCC	ALCO	CAOC
	(Quarterly)	(Quarterly)	(Fortnightly)	(Monthly)	(Monthly)	(Monthly)
Risks relevant for SGIL						
1. Operational Risk	✓	✓	✓	✓		
2. Liquidity & Funding Risk	✓	✓	✓	✓	✓	✓
3. Business Risk	✓	✓	✓	✓		
4. Strategic Risk	✓	✓	✓	✓		
5. Credit Risk	✓	✓	✓	✓	✓	✓
Other Risks reviewed, but considered as secondary risks for SGIL						
6. Market Risk	✓	✓	✓	✓		
7. Structural Risk	✓	✓	✓	✓		
8. Model Risk	✓ (in progress)	✓ (in progress)	✓ (in progress)	✓ (in progress)		
9. Group & Vendor Risk	✓	✓	✓	✓		
10. Capital Investment Risk	✓	✓	✓	✓		
11. Risks related to climate change	✓ (in progress)	✓ (in progress)	✓ (in progress)	✓ (in progress)		
12. Risk of Excessive leverage	✓	✓	✓	✓		
Other risks (not relevant for SGIL)						
13. Securitisation Risk	These two risk categories are assessed on yearly basis as part of ICAAP. As in 2018, they are assessed as not relevant for SGIL, there is not specific monitoring (except the ICAAP).					
14. Insurance Risk						
Emerging Risk						
Emerging Risk	✓	✓		✓		

Emerging Risks are defined as potential risks that SGIL has not yet fully considered or assessed, so that they are currently not, or insufficiently, managed and monitored using SGIL's risk monitoring tools and processes.

Existing risks can emerge as significant risks, following further risk analysis or information or following internal or external changes, in Group or entity business strategy, or changes in the market organisation and/or regulation. These emerging or unrealised operational risks are primarily identified and escalated by the business and escalated to the Risk Control Committee and Executive Management for review and appropriate action. However, emerging risks and trends are also identified through the ongoing analysis of various risk indicators and metrics by the 2nd LoD. These significant risks are then overseen and monitored by the RCC through the Risk Register process on an ongoing basis until the



residual risk is reduced to levels where it is more appropriately monitored through the existing risk processes.

### **Escalation and Mitigation to the Board and Executives**

In the event that the results of the analysis and monitoring of controls in place suggest that the Firm is carrying risk greater than the tolerance levels set, escalation and mitigation protocols are in place to ensure that results are reviewed and if necessary mitigating actions are recommended to Management and the relevant Executive / Board Committees.

These protocols are defined by risk category and documented in the applicable policies and procedures.

Escalation requirements to the Board, via the Board Risk Committee:

- A material deviation from the Firm's current mandate (including material new activities, products, methodologies, Outsourced Essential Services ('OES')) will be presented to the BRC. At the discretion of the BRC a summary page of the files will be presented to the Board for information;
- A breach in the Risk Appetite Statement; (cf. following section for detail of the escalation process process);
- A material regulatory breach (including material changes);
- Invocation of the Default Management Process in the event of a Credit Crisis;
- Invocation of the Contingency Funding Plan in the event of liquidity and funding crisis;
- Invocation of the Incident Management Plan in the event of a disaster recovery situation; and,
- Capital requirements to be reported quarterly through the BRC.

Escalation principles are designed to define the course of action when risk appetite limits or thresholds are breached. They must ensure that the necessary people are duly informed, and actions taken.

### **Escalation of any breach in the Risk Appetite Statement**

Metrics are monitored on a regular basis (daily, weekly or monthly), although communicated to the Board on a quarterly basis. However, in the case of a breach of a limit and/or threshold during the quarter, the following escalation process must be activated:

For any breach, the Metric Owner must raise an alert to the Executive Committee, define the root cause of the issue and propose a remediation plan. The CEO, or in his absence the CRO, must decide whether to inform the Board immediately or not, except for the following key metrics (Total Capital ratio, Survival horizon and Over-arching Operational Risk Appetite). For any breach of limit for these key metrics, the Board should be informed immediately.

It is also the primary responsibility of the CEO, on the base of the information provided by the metric owner, to decide on the immediate actions to be conducted and in particular if the particular activity causing the breach should be continued, reduced or halted.

In addition, any breach will be reported to the Board of Directors through the Quarterly Risk Appetite Dashboard.

**Escalation process for any major events**

For any case of substantial changes in the business model, industry, or macroeconomic conditions, the CEO, Chief Compliance Officer and the Chief Risk Officer should raise an alert to the Executive Committee defining the impact of the(se) event(s) on SGIL.

The CEO, or in his absence the CRO, decides whether to inform the Board immediately or not.

## 4. CAPITAL ADEQUACY

### 4.1. OWN FUNDS

SGIL's capital resources comprised of the following as at 31 December 2018.

	£ Millions
<b>Tier 1 Capital</b>	
Core Tier 1 - Share Capital	1,000
Profit and Loss Reserves*	130
Dividend Distribution 2017 profits	(19)
Other deductions from Tier 1	(10)
<b>Total Tier 1 after deductions</b>	<b>1,101</b>
<b>Tier 2 Capital</b>	
Subordinated Debt	145
<b>Total Tier 2 after deductions</b>	<b>145</b>
<b>Total Tier 1 and Tier 2 after deductions</b>	<b>1,246</b>

\*Excluding profit of 2018 financial year of £107m.

### 4.2. CAPITAL REQUIREMENTS

SGIL's capital resources requirement is calculated as the sum of credit risk, market risk and fixed overheads capital requirement.

	£ Millions
Credit & Counterparty Risk Capital Requirement	386
Market Risk Capital Requirement	6
Fixed Overhead Requirement	30
<b>Total Pillar 1 Requirement</b>	<b>422</b>
<b>Capital Resources</b>	<b>1,246</b>
<b>Excess Capital Resources</b>	<b>824</b>

Under CRD IV SGIL has to satisfy at all times the following own funds requirements

- Common Equity Tier 1 capital ratio of 4.5%  
**SGIL CET 1 ratio was 20.89% at 31 December 2018.**
- Tier 1 capital ratio of 6%  
**SGIL Tier 1 ratio was 20.89% at 31 December 2018.**

- Total capital ratio of 8%  
**SGIL total capital ratio was 23.64% at 31 December 2018.**

#### **4.3. CRD IV COMBINED BUFFERS**

On the 4 April 2016, the FCA announced its proposed approach to the interaction between the Capital Planning Buffer ('CPB') and the capital buffers required under the CRD IV during the transition period from 1 January 2016 to 1 January 2019.

In the same FCA announcement it was confirmed that the CRD IV combined buffer is made up of several components but only two are relevant to investment firms regulated by the FCA:

- the Capital Conservation Buffer ('CCoB'); and,
- the Countercyclical Capital Buffer ('CCyB').
- 

It was also stated that no investment firms regulated by the FCA are subject to the Global Systemically Important Institutions (G-SII) buffer or the Systemic Risk Buffer ('SRB').

As in the case of SGIL, where a firm has been previously told that it should hold a CPB, the FCA considers that the amount of the CPB can be offset by the amount of the combined buffer calculated by the firm (as considered duplicative) – ie the firm should hold the higher of CPB or the combined buffer.

This approach is to avoid double counting of risks where the CPB has been set based on the impact of a severe but plausible stress scenario.

##### **Capital Conservation Buffer (CCoB)**

The CCoB is designed to ensure that firms build up capital buffers outside periods of stress which can be drawn down as losses are incurred. This buffer can be used to absorb losses while avoiding breaching minimum requirements.

Article 129(1) of the CRD IV and as stated in IFPRU 10.2.1 requires firms to calculate a capital conservation buffer of common equity tier 1 capital equal to 2.5% of its total risk exposure amount. IFPRU TP7.4R modifies IFPRU 10.2.1 for a transitional period between 1 January 2016 and 31 December 2018. The CCoB applied was equal to 1.875% as of December 31st, 2018.

##### **Countercyclical Capital Buffer (CCyB)**

The purpose of the CCyB is to ensure that firms have a sufficient capital base, accumulated during periods of credit growth, to absorb losses in stressed periods. This is to address the fact that excessive credit growth will increase the size of a succeeding downturn. The capital accumulated to meet the Countercyclical Capital Buffer can then be utilised to absorb losses during less favourable credit conditions.

CCyB rates depend on the jurisdictions where SGIL has its client exposures.

SGIL-specific countercyclical capital buffer rate was equal to 0.09% as of December 31st, 2018.

#### **4.4. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ('ICAAP')**

The ICAAP Report presents the main features and results of the Internal Capital Adequacy Assessment Process ('ICAAP') for Societe Generale International Limited ('SGIL').

This document assesses the amount of capital appropriate for the risks SGIL faces currently and to its business plans over the next five years starting from 1 January 2019.

The ICAAP documents SGIL's assessment of the level of capital appropriate with respect to the risks it faces over the next five years starting from 1 January 2019. It is the result of a formalised assessment made by SGIL senior managers across all Business Units and Service Units, supported by a series of challenge sessions by subject area. The ICAAP shows the current and forecast capital adequacy position for the period 1 January 2019 to 31 December 2023.

The Chief Financial Officer ('CFO'), in partnership with the Chief Risk Officer ('CRO'), has primary responsibility for the ICAAP, including the use and challenge all the assumptions and its overall design, maintenance and the assessment of its on-going effectiveness and by taking into consideration the EU and UK Regulation requirements.

This ICAAP report is:

- Reviewed on at least an annual basis as part of the business planning cycle, or following any significant change to the business strategy and/or its risk profile;
- The result of a formalised assessment made by SGIL senior managers across all Business Units and Service Units, supported by a series of challenge sessions by subject area;
- Submitted by the Board Risk Committee ('BRC') for review and approval to the SGIL Board of Directors in June 2019.

## **5. MAIN RISKS**

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The main risks are the risks which could significantly impact SGIL as a going concern.

### **5.1. CREDIT RISK**

#### **Overview**

Credit Risk (including concentration risk) is defined as the risk of losses arising from the inability of SGIL's customers, issuers or other counterparties to meet their financial commitments. Credit risk includes the counterparty risk linked to market transactions and securitisation activities. In addition, credit risk may be further amplified by counterparty, country and sector concentration risk. They include 7 sub categories:

- Counterparty Risk
- Country Risk
- Concentration Risk (i. Single-name, ii. country, iii. Sector)
- Settlement/ Delivery Risk
- Residual Risk
- Issuer Risk
- Wrong-way Risk

The Firm has adopted the standardised approach to calculating risk weighted assets in accordance with Chapter 2 of Title II of the CRR.

SGIL has exposures to Sovereign, Banks, Central Clearing Counterparties ('CCP') and clients, including corporates, hedge funds and other financial institutions.

As the main element of the Pillar 1, Credit represents margin receivable and trade exposures related to clients' trading activities. The margin receivable represents margin called from clients, which should typically be paid the following day. The turnover of this balance is high, and the ability of clients to pay is effectively 'tested' daily.

SGIL's business model gives rise to exposure to CCPs. However, client related trade exposures with CCPs are assigned a zero exposure value under the standardised credit rules as SGIL does not guarantee the performance of the CCP to clients. Client margin related deposits with CCPs are also assigned a zero exposure where these margin deposits are assessed as being bankruptcy remote.

In relation to contributions to CCP default funds, SGIL is exposed to the risk of credit loss, this has been assessed based on the c-factors issued by CCPs to which SGIL is a clearing member.

SGIL provides financing to certain customers for initial and variation margin and for selected clients SGIL may also provide cross margining. SGIL will call initial margin and will subsequently, on a daily basis, call variation margin on the client's position less any margin financing or cross margining that SGIL may provide. If the client defaults, SGIL has the right to close out the client's position. SGIL may suffer a loss if the liquidation of the client's position realised a loss greater than the cash/collateral held on account.

However, it should be noted that by virtue of the Firm's stringent credit policies, conservative margining approach and the fact that credit exposures are generally overnight, this type of risk is largely mitigated.

#### **External Credit Assessment Institution**

The External Credit Assessment Institution ('ECAI') used by SGIL is Standard & Poors and Moody's. Both of these are recognized by the FCA as eligible ECAI's and are used to assess the credit quality of all exposure classes using the credit quality assessment in Article 135 of the CRR.

### **5.2. OPERATIONAL RISK**

SGIL has adopted the Basel II definition of Operational Risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The SGIL definition of operational risk is further extended to include: financial crime, people management, finance and operational processes, risk management controls/modelling, third party management, IT and information security (including cyber), business continuity, regulatory risk, fraud, conduct risk and reputational risk (including social and environmental responsibilities). This is because problems within these areas often result from an operational risk event or control failure.

As SGIL is classified as a Limited Activity Firm, it is exempted from the requirement to calculate an Operational Risk Capital Requirement under Title III of the CRR. Instead the firm calculates a Fixed Overhead Requirement (FOR) in accordance with Article 97 of the CRR.

The FOR at 31 December 2018 is £29m.

### **5.3. LIQUIDITY & FUNDING RISK**

**Liquidity Risk** is defined as the inability of SGIL to meet its financial obligations at a reasonable cost.

**Funding Risk** is defined as risk that SGIL will not be able to finance the development of its businesses at a scale consistent with its commercial goals and at a competitive cost compared to its competitors.

SGIL has designed an effective Liquidity Risk Management Framework to monitor and minimise these risks to the extent possible. Furthermore, SGIL holds a stock of high quality liquid assets – its liquid asset buffer ('LAB') – which can be monetised to meet potential outflows.

The ILAA process was implemented in 2019. The objective of the ILAA process is to ensure SGIL holds sufficient liquidity, both as to the amount and quality, to withstand a range of severe but plausible stress scenarios such that obligations can be met as they fall due.

#### **5.4. BUSINESS RISK**

Business Risk is defined as revenue risk related to worsening economic conditions (in addition to the already identified impact of other risks).

- Brexit and Disruptive Technology (including Blockchain) presents the most likely risks.
- Business Risk analysis could lead to three outcomes in order of extremity:
  1. A temporary decline in client revenues and reduced profitability due to a temporary market stress;
  2. A structural and prolonged decline in client revenues (e.g. due to regulatory changes); and,
  3. A loss of licence to operate from the FCA or loss of critical CCP Memberships.

Scenarios (2) and (3) are covered by the scenario related to the Brexit in the Wind-Down Plan which ensures that SGIL has enough capital to complete an orderly wind-down in the event the business is no longer viable. Moreover, the complexity of this scenario is classified as low as SGIL will be able to anticipate this scenario.

Business Risk is assessed and monitored at Executive and Board levels via the assessment of the Emerging Risk. In case of substantial changes in the industry or macroeconomic conditions, the Executive and the Board levels will be informed, as part of the regular channel of communication or in ad-hoc communication.

#### **5.5. STRATEGIC RISK**

Strategic Risk is defined as the risks inherent in the choice of a given business strategy or resulting from SGIL's inability to execute its strategy: i.e. the current or prospective risk to earnings and capital due to adverse operating conditions arising from adverse business decisions, improper selection of strategic decisions.

As with Business Risk, Strategy Risk analysis could lead to two outcomes in order of extremity:  
A temporary decline in client revenues and reduced profitability due to a temporary market stress;  
A structural and prolonged decline in client revenues (e.g. due to regulatory changes).

Scenarios (2) and (3) are covered by the scenario related to the Brexit in the Wind-Down Plan which ensures that SGIL has enough capital to complete an orderly wind-down in the event the business is no longer viable. Moreover, the complexity of this scenario is classified as low as SGIL will be able to anticipate this scenario (vs. IT incident or Cyber-attack).



## **6. SECONDARY RISKS**

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The following risks are reviewed, but considered as secondary risks for SGIL.

### **6.1. MARKET RISK**

Market Risk is the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets.

As a Limited Activity Firm, in compliance with article 96 (1) of the EU CRR, SGIL is an 'investment Firm that deals on own account only for the purpose of fulfilling or executing a client order or for the purpose of gaining entrance to a clearing and settlement system or a recognised exchange when acting in an agency capacity or executing a client order'.

As reflected in SGIL's Risk Appetite, SGIL has no appetite for proprietary speculative positions and can only hold residual market risk positions as part of its client facilitation activities.

Therefore, Market Risk exposure will be derived from:

- The Foreign Exchange position of SGIL's balance sheet. SGIL applies Article 352 – Calculation of the overall net foreign exchange position of the EU CRR;
- Any residual mismatch between inventory or positions and the related hedges. As at 31 December 2018 this was the case for Hedge Inventory Trading. SGIL applies Article 361 – Extended maturity ladder approach of the EU CRR.

### **6.2. STRUCTURAL RISK**

Structural Risk is defined as the risk of loss or write-downs in the Firm's net asset value arising from variations in interest rate, foreign exchange rate or the value of the Defined Benefit Plan.

Structural Risk includes 3 sub categories:

-Structural Interest-Rate Risk is defined as the potential alteration of the Firm's net interest income and/or net asset value caused by variations in interest rates.

-Structural Foreign Exchange Rate Risk is defined as the potential alteration of the Firm's P&L and/or net asset value caused by variations in foreign exchange-rates.

-Risk on employee benefits is defined as risk that SGIL's capital or earnings profile is affected by SG's obligation to its Defined Benefit Plan.

The main Structural Risk exposure arises from the following:

**Structural Interest-Rate Risk:** The Firm has a limited exposure to interest rates in the short term, due to SGIL's business nature. Any long-term exposure is chiefly derived from capital:

- Risks related to the mismatch of the repricing of assets and liabilities and off-balance sheet short and long-term positions;
- Risks arising from hedging exposure to one interest rate with exposure to another rate which reprices under slightly different conditions;
- Risk related to the uncertainties of occurrence of transactions i.e. when expected future transactions do not equal the actual transactions; and;
- Risks arising from customers redeeming fixed rate products when market rates change are not applicable to SGIL as SGIL has no open position on the Structural Interest Rate Risk.

**Structural Foreign Exchange Rate Risk** is mainly generated from the foreign P&L coming from the SGIL non-trading book. Otherwise, it arises from residual positions (excesses or shortfalls) linked to commercial non-GPB transactions or non-GPB refinancing transactions. These FX positions are reported and hedged on a regular basis by Finance.

**Risk on employee benefits** is the risk to SGIL caused by its contractual or other liabilities to or with respect to a pension scheme. It also means the risk that SGIL will make payments or other contribution to or with respect to a pension scheme because of a moral obligation or because SGIL considers that it needs to do so for some other reason. No employee of SGIL has a defined benefit pension scheme. As a result, SGIL does not run a Pension Obligation Risk.

### **6.3. OTHER SECONDARY RISKS**

#### **Model Risk**

Model Risk is when SGIL makes use of models in the course of its activities. Selecting a particular model and configuring its parameters necessarily involves a simplification of reality and can result in an inaccurate assessment of risk.

The most material models identified at SGIL level are currently considered robust and secure as all these models have been approved by the Model Independent Review led by the second line of defence (Model Risk Management department at the SG Group level).

#### **Group & Vendor Risk**

Group Risk is defined as the risk that the financial position of SGIL may be adversely affected by its relationships (financial or non-financial) with other Group entities or by risks which may affect the financial position of the whole Group, for example reputational contagion.

Vendor Risk is defined as the risk that the financial position of SGIL may be adversely affected by its relationships (financial or non-financial) with third parties.

The sub-risk categories for both are:

- Outsourcing: outsourcing to SG entities or external third-party providers
- Group Risk condition and Reputation: risk that the deterioration of the SG Group reputation can impact the overall viability of SGIL
- Financial Arrangement with Group entities: risk of losses due to the failure of SG S.A. or other Group entities to fulfil their financial obligations
- Affiliate Risk: risk that SG Group entities which are a counterparty to a transaction could default before the final settlement of the transaction's cash flows

All the identified material risks relating to intragroup dependencies are managed through a defined governance and oversight structure.

### **Capital Investment Risk**

Capital Investment Risk is defined as the risk of losses linked to financial holdings of a private equity nature (Otherwise, it's the reduction in the value of SGIL's equity ownership interests).

SGIL has a 50% ownership interest in Altura Markets A.V. S.A (broker firm in Madrid). Except for this legacy financial participation, SGIL has a limited appetite for financial participations, such as proprietary trading on capital investment operations, and manages a run-off participation portfolio.

### **Risk related to climate change**

Risks related to climate change are defined as whether physical (increase in the frequency of occurrence of extreme climatic events) or transition-related (new carbon regulations). These have been identified as factors which could aggravate existing risks.

SGIL is active on the CO2 futures market as a clearer and a broker, without open positions on this asset class. The CO2 futures is covered by the Market Risk Stress Test, as is any desk. SGIL does not undertake any direct activities or investment related to physical, or transition related events.

### **Risk of excessive leverage**

Risk of Excessive Leverage is defined as the risk resulting from an institution's vulnerability due to financial leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

SGIL is designated as a Limited Activity Firm ('LAF') under the FCA's Prudential Sourcebook for Investment Firms ('IFPRU') and hence is not subject to CRD IV leverage requirements. However, under the IFPRU requirements of the FCA SGIL is required to have policies and procedures in place for the identification, management and monitoring of the risk of excessive leverage. SGIL does not determine

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that it is subject to risks of excessive leverage and therefore does not propose to set a Pillar 2A requirement. This will be kept under review as the nature and composition of the balance sheet evolves.

## **7. RISKS NOT RELEVANT FOR SGIL**

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### **Securitisation Risk**

Securitisation Risk includes the risk that the capital resources held by SGIL in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved. SGIL does not undertake any securitisation activities or invest in any securitisation assets.

### **Insurance Risk**

Insurance Risk is defined as the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities.

SGIL does not undertake any insurance underwriting activities or invest in any securitization assets.

## **8. NON-APPLICABLE DISCLOSURES**

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The following disclosures specified in the CRR are not applicable to SGIL:

- Article 441 – SGIL has not been designated a global systemic important institution.
- Article 449 – SGIL does not securitise its assets.
- Article 450 – SGIL’s Pillar 3 Remuneration Disclosure for 2018 is published on its website.
- Article 451 – SGIL is not required to comply with the leverage ratio requirements.
- Article 452 – SGIL is subject to the standardised approach to credit risk, not the IRB approach.
- Article 454 – SGIL does not use advanced measurement approach for calculating its operational risk exposure.
- Article 455 – SGIL does not use an internal model to calculate its market risk exposure.