SOCIETE GENERALE INTERNATIONAL LIMITED

PILLAR 3 DISCLOSURE DOCUMENT

As at December 2020

THE FUTURE IS YOU

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1. INTRODUCTION

1.1. *Background*

The purpose of this document is to outline the Pillar 3 disclosures for Societe Generale International Limited ('**SGIL**').

- SGIL is designated as a Limited Activity Firm ('**LAF**') and significant IFPRU Firm under the FCA's Prudential Sourcebook for Investment Firms ('**IFPRU**') and is required to comply with the requirements of BIPRU 12. SGIL is also a designated 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.

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 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.

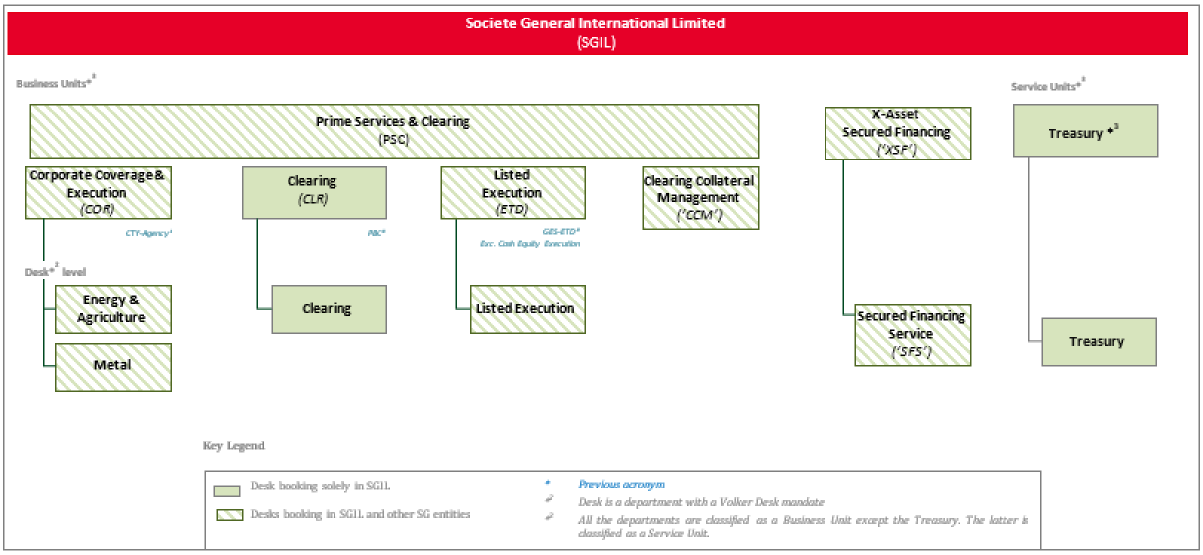
As part of SG Group, SGIL is part of the Equities & Equity Derivatives Business Unit Line ('**MARK/EQD**' or '**EQD**') under the Global Market Business Unit hereinafter **MARK**, whereas SGIL runs as a standalone entity with dedicated governance forums and specific regulatory requirements.

MARK groups together all global market activities within Global Banking and Investor Solutions, regardless of the underlying assets (equity, interest rates, credit, foreign exchange, commodities) and the type of product (cash or derivatives, vanilla or complex). The Equity and Equity Derivatives Business Line (‘**MARK/EQD**’ or ‘**EQD**’) is part of the ‘Global Market’ Business Unit (MARK) responsible at Group level for global markets in equities and equity derivatives: equity sales and brokerage; sale and brokerage of index products; sale of simple equity derivatives; sale of exotic derivatives. At Group level, MARK/EQD markets all equity products, equity derivative products and indices, funds (options, futures, structured products listed on equities and indices, funds, index-linked bonds, swaps on underlying equities or equity derivatives, OTC products, etc.) to a client base of professional and individual investors. It acts as a broker to execute its clients' orders. To this end, it relies on a team of traders and acts either as an intermediary, through its access to the various markets, or as a counterparty for its clients' interests.

The SGIL Front office is divided into two main Business Units:

- 1. **Prime Services & Clearing (‘PSC’)** organised into four sub-business lines:
  - Corporate Coverage & Execution sub-business line (‘COR’)
  - The Clearing sub-business line (‘CLR’)
  - Listed Execution sub-business line (‘ETD’)
  - Clearing Collateral Management sub-business line (‘CCM’)
- 2. **X-Asset Secured Service (‘XSF’).**

The **Treasury** function (which is part of the Finance department) is a Service Unit with a desk mandate.



In line with the stated business model, SGIL will, therefore: Not deal with, or for, Retail Customers (as defined by the 2004/39/EC Directive on markets in financial instruments;

- Not take proprietary speculative positions (as defined by IFPRU 1.1.5 R);
- Not undertake any securitization activities or invest in any securitisation assets;
- Not arrange or carry out contracts of insurance;

- Not undertake any insurance underwriting activities;
- Not engage in jurisdictions or business relationships presenting an unacceptable level of risk, as defined by the Compliance, Financial Crime Unit and Risk guidelines from Internal SGIL Normative Documentation;
- Ensure that all employees have the right level of knowledge and understanding of 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 its customers;
- Ensure that conduct risk policies and training are in place to ensure that conflicts of interests are avoided and that customers are treated fairly; and,
- Continually monitor the risk profile of the Company to ensure adherence to its risk appetite, as documented in the SGIL Risk Appetite Statement (**'RAS'**).

2. SGIL GOVERNANCE & ORGANIZATION

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 Firm's corporate governance, risk management and control framework;

(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.

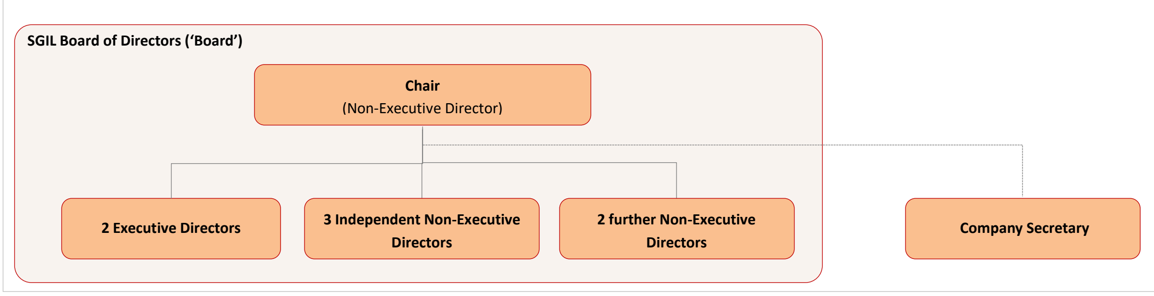
The Board of Directors have selected the Wates Corporate Governance Principles for Large Private Companies as SGIL's corporate governance code. For the year ended 31 December 2020, the Board considers that it has complied in full with the provisions of the Code.[1]

b. Membership and structure

The composition of the Board of Directors is intended to provide the requisite levels of experience and appropriate challenge and 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.

[1] *An overview of the Corporate Governance is presented in the 2020 Statutory Accounts*

The SGIL Board of Directors - Structure



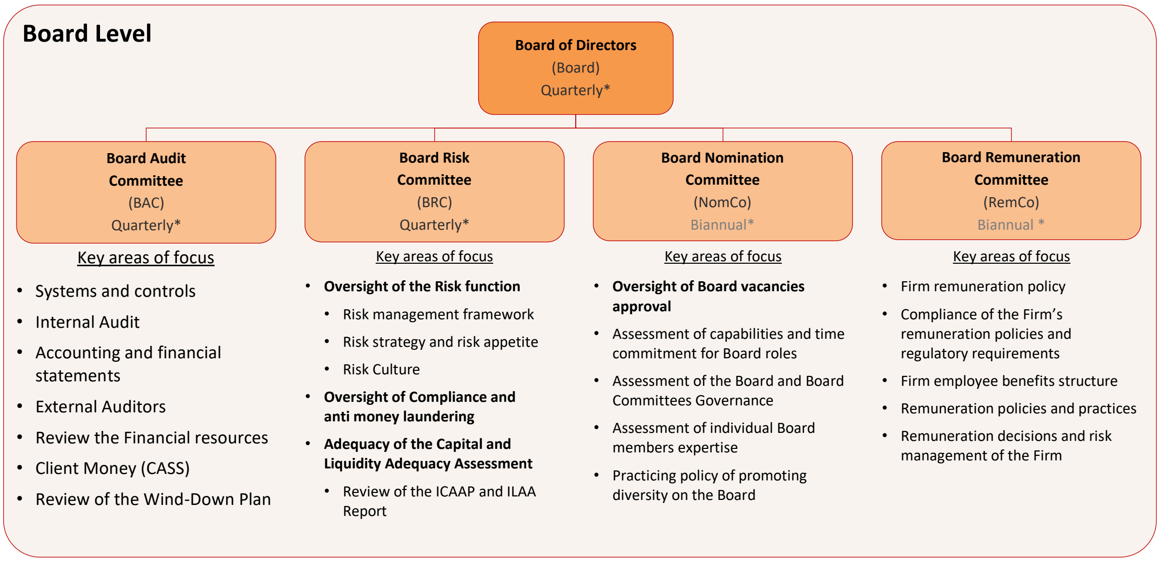
c. Matters reserved for the Board

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

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

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

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



* Frequency is at least quarterly or bi-annually, as the case maybe. Ad-hoc committees are also arranged.

2.2. SGIL Executive Level (Senior Management)

a. Overview

SGIL Senior Management is responsible for the day-to-day management of SGIL 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 CAO.

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.

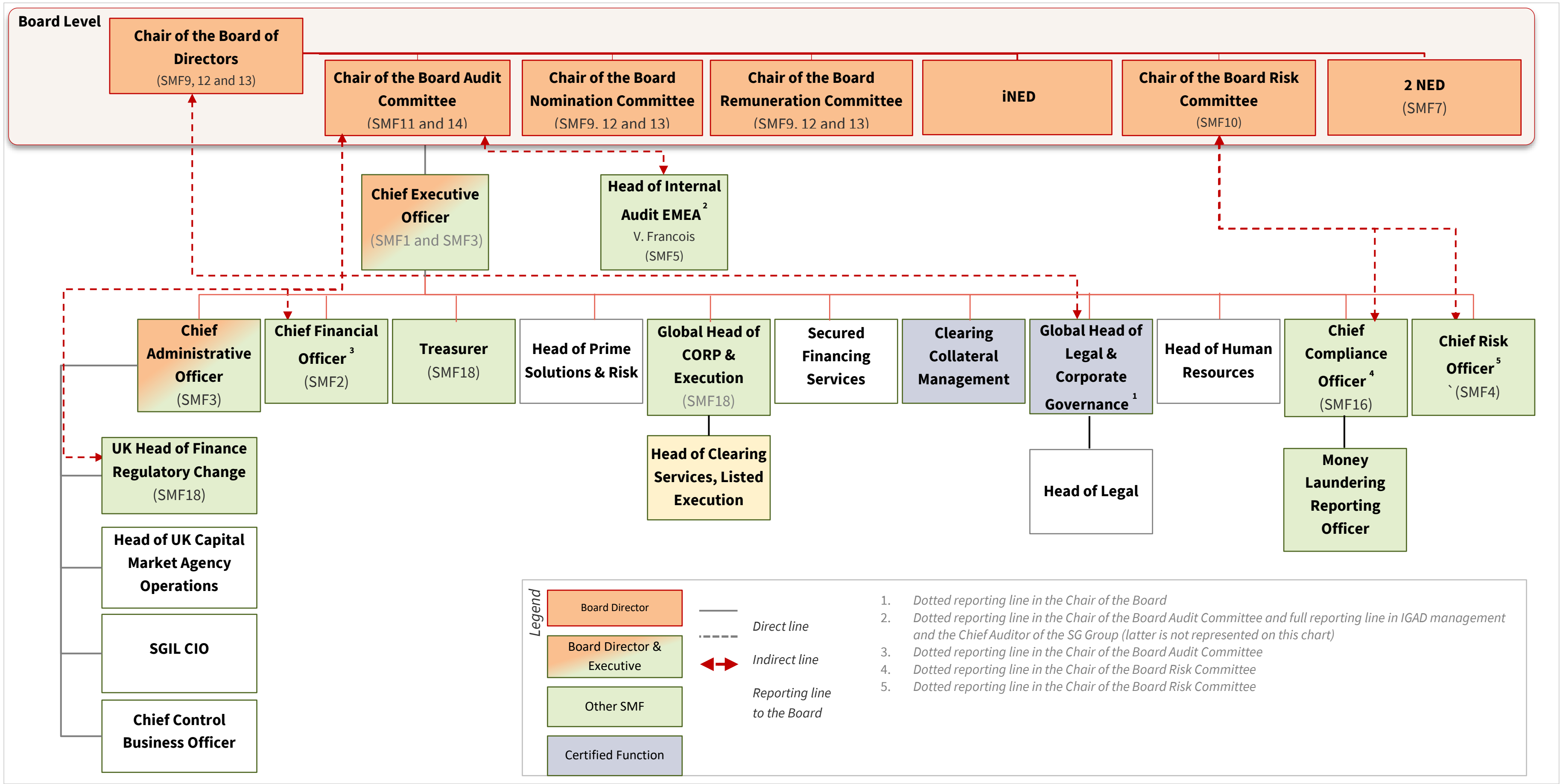
b. Senior Management Regime

The Senior Managers and Certification Regime ('**SMCR**') aims to reduce harm to consumers and strengthen market integrity by creating a system that enables Firms and regulators to hold individuals to account.

Senior Management Functions ('**SMFs**') must be allocated to individuals who have sufficient seniority and overall responsibility for overseeing and/or managing key areas of the business and control environment. Every Senior Manager have a statutory 'Duty of Responsibility' meaning that if a Firm breaches one of the FCA's requirements, the SMF responsible for that area could be held accountable if they didn't take reasonable steps to prevent or stop the breach occurring / continuing.

c. Membership and structure

The executive level organisation is summarised as follows

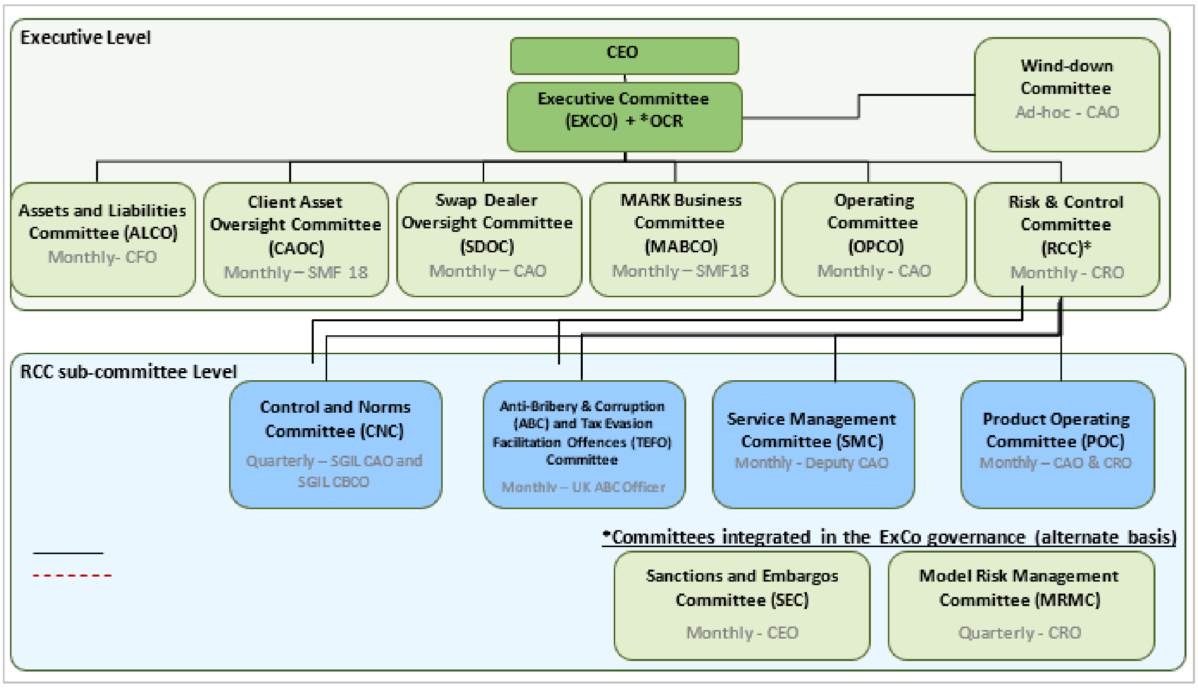


d. Executive and Internal level

The **Executive Committee** convenes on a fortnightly basis and is responsible for executing the Board's approved actions and the Board's day-to-day decision-making in relation to SGIL activities.

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

The following chart[2] presents an overview of the sub-committees.



The **Executive Committee integrates** the **Operational and Conduct Risks Committee** ('**OCR**') which convenes on a quarterly basis[3] and is dedicated to LoD1 Operational and Conduct Risks within SGIL.

The Executive Committee has established seven technical Executive Committees to assist in fulfilling its responsibilities:

1. The **Wind-down Committee** ('**WDC**') is an ad-hoc committee to pre-empt the discussion of the potential wind-down.
2. The **Assets and Liabilities Committee** ('**ALCO**') is a decision-making committee responsible for liquidity management and monitoring; interest rates and foreign exchange risk in the banking book; balance sheet and off-balance sheet liquidity risk exposures; capital usage; and study and approval of the hedging proposals.

[2] *The chart only includes SGIL Committees that report to the Executive Committee. Other Committees are not included in the chart.*
[3] *The Operational and Conduct Risks Committee ('OCR') replaced the Conduct Committee.*

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3. The **Client Asset Oversight Committee** (‘**CAOC**’) ensures senior management oversight and control of Client Money and the safekeeping of client assets processes in relation to the FCA CASS regime.
4. The **SWAP Dealer Oversight Committee** (‘**SDOC**’) provides oversight of SGIL’s swap dealer activities.
5. The **MARK Business Committee** (‘**MABCO**’) is a decision-making committee and a forum for discussion of all matters relevant to SGIL Mark. Examples include developing and implementing a strategy with the associated organisational and operational plans; prioritisation and allocation of resources; reviewing business activity; and assessment and control of risk on the platform from a LoD1 perspective.
6. The **Operating Committee** (‘**OPCO’**) is responsible for the day to day running and oversight of the SGIL platform, including support and control functions
7. The **Risk & Control Committee** (‘**RCC**’) 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 and residual 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.

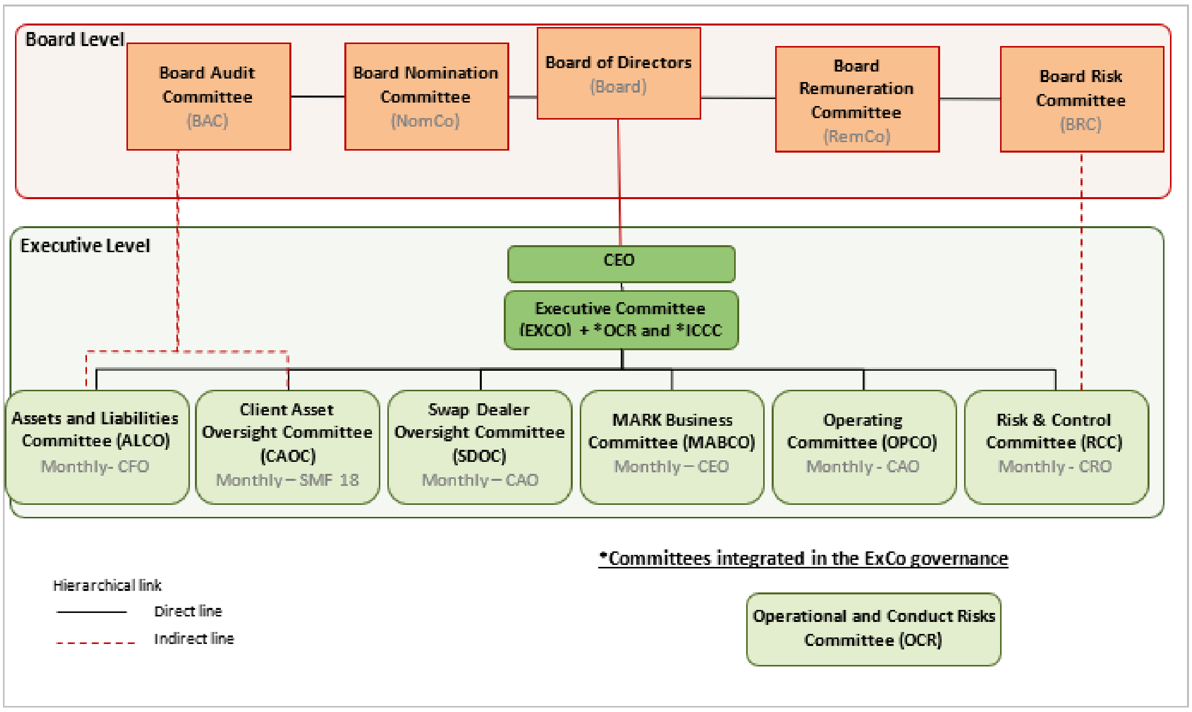
The RCC has established five specialised sub-committees to support its role:

- The **Sanctions and Embargos Committee** (‘**SEC**’) facilitates an effective local governance framework in relation to the embargoes and sanctions faced by SGIL, to enable appropriate managerial oversight of these risks and the maintenance of a proportionate control framework to assist in the mitigation of these risks.
- The **Model Risk Management Committee** (‘**MRMC’**) is an executive level committee that ensures an effective Model Risk Management framework is established in accordance with the Model Risk Management Policy, the Group MRM framework and the decisions of the Group MRMC.
- The **Controls and Norms Committee (‘CNC’)** is dedicated to the design and review of controls, norms, and policies within SGIL. Its purpose is to ensure that SGIL’s rules and policies are reviewed on a regular basis, documentation maintained in a central storage, and in line with Group and regulatory requirements.
- The **Service Management Committee (‘SMC’)** is accountable for the SGIL Service Management Framework (‘SMF’). It oversees the management of services delivered to SGIL and the appropriate and relevant policies and procedures that underpin the service management framework as it relates to the management of services within SGIL.
- The **Product Operating Committee** (‘**POC’**) performs the screening of any incremental products or services with a potential impact to SGIL. All new products, or business services not previously provided by SGIL, must be approved by the New Product Committee.

- The **Anti-Bribery & Corruption ('ABC') and Tax Evasion Facilitation Offences ('TEFO') Committee** provides a centralised SG London mechanism for the discussion, planning and oversight of all transversal ABC/TEFO matters affecting SG London (which includes SGIL).

2.3. *Escalation and reporting from Executive level to the Board level*

Communication between the Executive Committee and the Board is effectively aligned through reporting and escalation lines from Executive level Committees to the Board and Board level Committees.



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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.

Where essential services are provided by Group entities, these are managed under the Outsourced Essential Services and Activities policy of the Company. The provision of services between the Company and Group entities are governed by Client Service Level Agreements (CSLAs) and the oversight of these arrangements is managed by the Service Management Committee at the executive level and the Board Risk Committee at the Board level.

As SGIL is a wholly owned subsidiary of Societe Generale SA ('SG' or the 'Group'), SGIL is controlled by Societe Generale. Thus, SG exercises signifiant de facto or de jure influence.

The principles of supervision:

- **reflection upon the sustainability** of SGIL's activities and its membership to the Group;
- **oversight and challenge of SGIL's strategy plans;**
- **monitoring of SGIL**'s sales and marketing policy, activity and results;
- **review of the overall adequacy of the entity's** operational resources, especially human and IT resources, and particularly their conformity with the Group's policies on pooling of resources;
- **monitoring of the organisation of Control services** and, more generally, of risks and the effectiveness of the internal control framework;
- **review of the conformity of the financial statements**, the quality of administrative processing and proper management all risks to which the company is exposed, in particular of its legal, tax and non-compliance risks.

  In practice, supervisory duties are shared between SG Group General Management and the Business Unit or Service Unit Heads, as decided by the SG Chief Executive Officer.

  The supervision involves various different roles, which may be assigned to different managers.

  The Business Unit Heads specify the responsibilities of each party, whilst ensuring overall coherence in respect of the supervision. These measures are formalised and submitted to all relevant Business Units and Service Units prior to their application.

  This supervision from SG Group does not replace the entity's governance bodies, which must exercise their responsibilities in full.
- The SG Governance & Organisation presents in in SG Code (Book A), which is then submitted to the supervisory/administrative body of the entity, in accordance with local regulation. The SGIL Governance & Organisation presents in the SGIL Risk Management Framework.
- If the supervised entity should encounter any difficulties that could affect its ability to fulfil its corporate object, the supervising party must inform General Management.
- Certain SGIL Service Units (including those representing the second line of defence) provide control services, within their areas of expertise, as a complement to the control exercised by the operational supervisory bodies. They are also responsible for alerting General Management to any worrying developments in the entity under their supervision.

3. RISK MANAGEMENT FRAMEWORK

The SGIL Risk Management Framework has been designed to ensure that risks are appropriately considered within all business decisions, as illustrated in the diagram below.

SGIL Background

- Enterprise Risk Management is integrated into SGIL's strategic plan through the process of setting strategy and business objectives.
- The SGIL Strategy takes into consideration the measures, actions and direction necessary for SGIL to achieve its business objectives and ambitions

Risk Monitoring & Reporting

- **Monitoring Enterprise Risk Management performance** considers how well the enterprise risk management components are functioning over time and in light of substantial changes.
- **Communication is the continual, iterative process of providing, sharing, and obtaining information, which flows throughout the entity**.

SGIL Governance & Organisation

(including Risk Culture)

- SGIL has established a **robust corporate governance structure** as part of an overall framework to enable the effective management of risks within the organisation.
- The governance structure has **various committees** to review risks, **various policies and procedures** to facilitate the escalation of risks and reaffirm the ownership responsibilities for its management, while providing for the overall oversight of the framework by the Board.

Risk Assessment & Management

- The ICAAP and ILAA ensure that SGIL maintain at all times its capital adequacy and maintain sufficient liquidity to meet its obligations as they fall due.

Internal Control & Risk Appetite

- Risk Appetite is based on 4 pillars (Market Stability & Reputation, Capital, Liquidity and Profitability).
- 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.
- Group Guidelines related to the Permanent & Internal Control ensure a robust control framework

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SGIL Background

Section Summary

- **Enterprise Risk Management is integrated into SGIL's strategic plan through the process of setting strategy and business objectives**. Business context influences risks that impact the entity. Risk appetite is established and aligned with strategy (cf. the section 3). Business objectives allow strategy to be put into practice and shape the entity's day-to-day operations and priorities.
- **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.

Principles

- **Considers risk and business context**—SGIL considers potential effects of business context on risk profile;
- **Considers risk while establishing, running or refining the Business Model** —SGIL considers risk while establishing or reviewing the Strategic & Financial Planning at various levels (BU or Desk level);
- **Defines acceptable variation in performance**—SGIL defines acceptable variation in performance relating to strategy and business objectives as part of the Risk Appetite.

SGIL Governance & Organisation

Including Risk Culture

Section Summary

- SGIL has established a **robust corporate governance structure** as part of an overall framework to enable the effective management of risks within the organisation. The governance structure has various committees to review risks, various policies and procedures to facilitate the escalation of risks and reaffirm the ownership responsibilities for its management, while providing for the overall oversight of the framework by the Board.

Principles

- **Exercises Board Risk Oversight**—The Board of Directors provides oversight of the strategy and carries out risk governance responsibilities to support management in achieving strategy and business objectives.
- **Enforces Accountability**— All SGIL staff through the 3 Line of Defence Model are responsible and accountable of their actions and participate in the risk management and support the Senior Management Regime ('SMR').
- **Demonstrates Commitment to Integrity and Ethics** — All SGIL staff adhere to the Risk Culture defined in SGIL, including the SG Code of conduct as the standards for behaviors of individuals within SGIL.

Internal Control & Risk Appetite

Section Summary

- Based on 4 pillars (Market Stability & Reputation, Capital, Liquidity and Profitability), the Risk Appetite Framework including the Risk Appetite Statement, set out the governance, and the level of risk that SGIL is willing to take in the execution of the Firm's business objectives.
- 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.
- SGIL follows the guidelines related to the Permanent & Internal Control Division, in charge of permanent control framework and internal control coordination.

Principles

- **Defines Risk Appetite—**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:
    1. **Protect the market stability**
    2. **Preserve the capital of the Firm and maintain at all times its capital adequacy**
    3. Maintain at all times **sufficient liquidity** to meet its obligations as they fall due; and,
    4. Ensure a minimum **level of Profitability**.
- **Implement the Risk Appetite** —SGIL implements the Risk Appetite thanks to the Risk Appetite monitoring, allocation and the review of the level as part of the ICAAP.
- **Establishes Governance and Operating Model**—SGIL establishes governance and operating structures (including 3 Line of Defence Model) in the pursuit of its strategy & business objectives.

Risk Assessment & Management

Section Summary

- Risk appetite is established and aligned with strategy. Business objectives allow strategy to be put into practice and shape the entity's day-to-day operations and priorities.
- The ICAAP and ILAA ensure that SGIL maintain at all times its capital adequacy and maintain sufficient liquidity to meet its obligations as they fall due.

Principles

- **Risk Management Process** – SGIL designed and updates on regular basis the Risk Management Framework to consider the nature and severity of identified risks and enable the development of related risk management actions and strategies.
- **Emerging Risk** - The Risk Department assesses and advises the BRC on the SGIL's principal current and emerging risks and how these may impact the SGIL strategy and strategic objectives, and the continued viability of its business model.
- **Comprehensive Risk Categorisation** – SGIL defined a comprehensive risk categorization to ensure comprehensive risk management coverage.

Risk Monitoring & Reporting

Section Summary

- Monitoring Enterprise Risk Management performance considers how well the enterprise risk management components are functioning over time and in light of substantial changes.
- Communication is the continual, iterative process of providing, sharing, and obtaining information, which flows throughout the entity. SGIL Executive Management uses relevant information from both internal and external sources to support Enterprise Risk Management. The organization leverages information systems to capture, process, and manage data and information. Using information applicable to all components, the organization reports on risk, culture, and performance.

Principles

- **Management Information** – SGIL Risk should assess and advise the BRC on the quality and appropriateness of the SGIL risk Information and reporting performed by all LoD in charge of the SGIL control framework.
- **CRO Accountability** – The CRO provides the BRC the appropriate assurance that executive management's reporting of risks is both complete and fairly stated;
- **Monitoring Substantial Change** —SGIL identifies and assesses the Emerging Risk: external & internal changes (Business & Strategy Risk) that may substantially impact strategy and business objectives;

- **Internal Control Systems** – RISQ and all LoDs in charge of the SGIL control framework should monitor and periodically report to the BRC on the overall effectiveness of SGIL's risk arrangements.
- **Uses Relevant Information**—SGIL uses the Monthly Board Report ('**MBR**') to report an oversight of the risk to the Executive level and Board Level, as part of the Management Information ('**MI**');
- **Leverages Information Systems**—SGIL leverages on SGIL and SG Group's information systems to support Enterprise Risk Management (through an SLA).

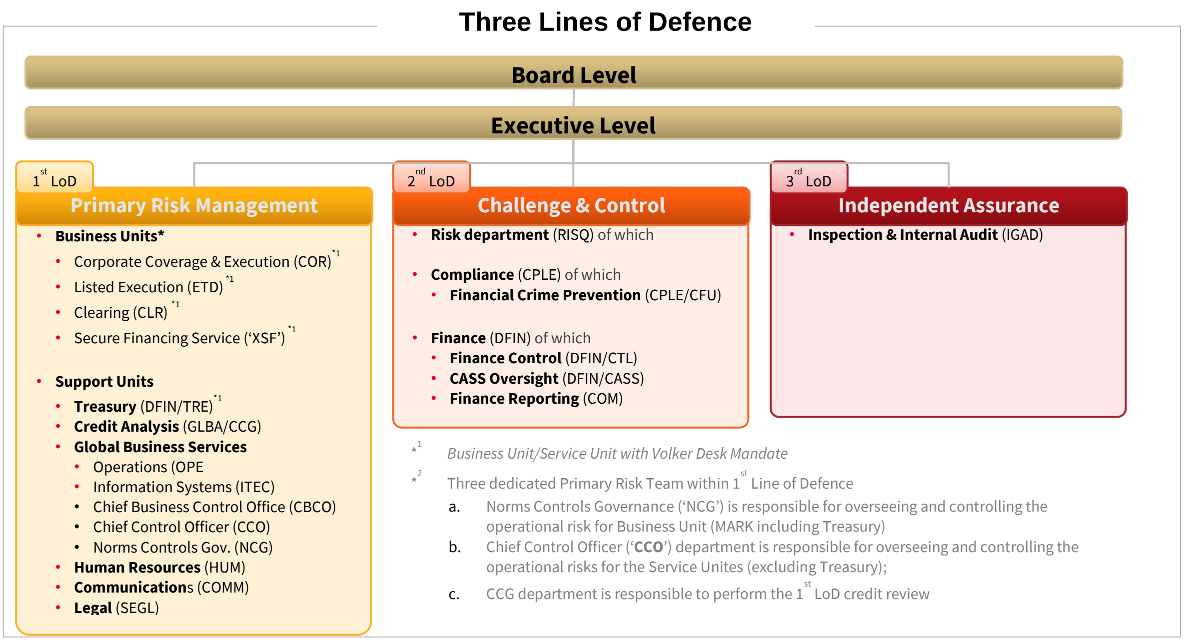
3.1. ORGANISATION OF INTERNAL CONTROLS (3 LINES OF DEFENCE)

SGIL follows the Group Internal Control Framework and implements the SG Code at SGIL level. This framework is fully documented in the SG Code.

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 (as depicted below):

- **The First Line of Defence (1st LoD)** has primary responsibility for risk assessment, control and supervision and exercises first-level permanent control within their respective scopes, in line with the norms, standards and procedures defined by the second line of defence.
- **The Second Line of Defence (2nd LoD)** ensures all the risks are identified, assessed, measured, managed and correctly reported by the relevant Business Units and Service Units, providing an overview of all risks.
- **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.

All three Lines of Defence are segregated to avoid conflicts of interest.



3.2. RISK APPETITE

The SGIL Risk Appetite Statement (‘**RAS**’) formalises the governance and implementation framework of the Risk Appetite (of which the roles & responsibilities, determination and allocation process, the dependences with the other processes, oversight and escalation processes).

Determination and allocation

The risk limits and thresholds defined at the overall SGIL level are allocated operationally to the Business Units and the Treasury function. The Business Units are responsible for managing their business processes and risks to collectively be within the limits and thresholds established within the RAS.

- The downstream allocation of the limits and thresholds relies on an understanding of the Business Unit needs and their business prospects. This allocation takes the profitability and financial solidity targets of the Business Units into account;
- The limits are allocated by Risk and Control Committee chaired by the CEO. Under the delegations given to them by RCC, the Risk and Finance Department may allocate limits to operational entities, in cooperation with the Business Units;
- The Risk Appetite allocation also results in the definition and implementation of specific SGIL policies (guidelines) supplemented, for operational risks;

Each department can implement and monitor an additional metric to their specific needs.

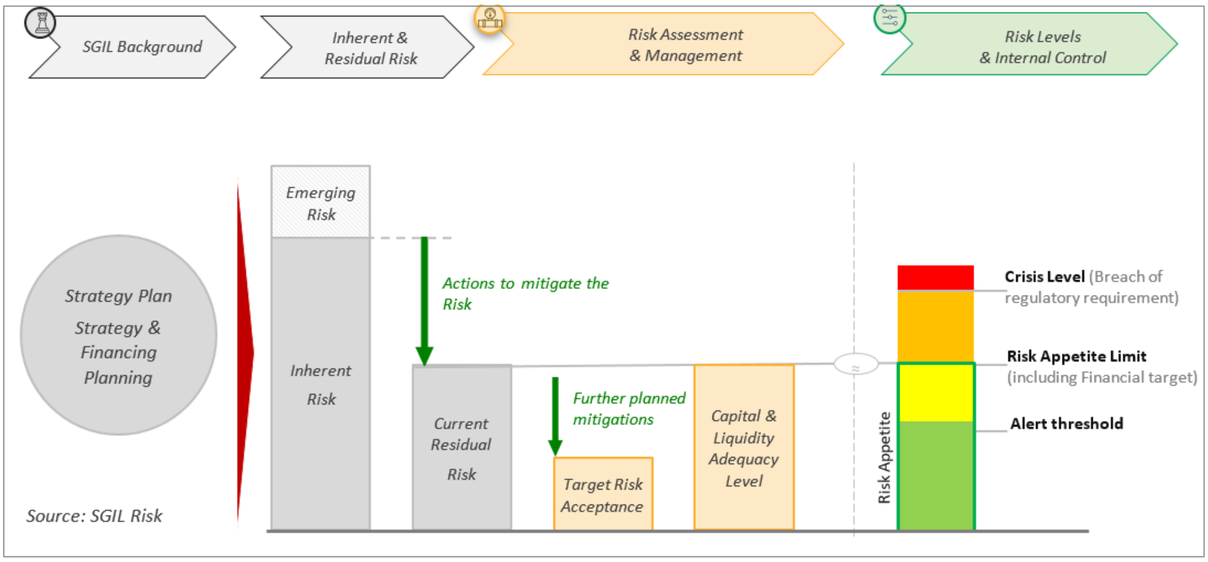
To ensure that SGIL has appropriate risk limits and thresholds, the Firm conducts on a periodic basis, various scenario analysis and stress testing on its key risks under the direction of the Risk department.

For each metric, the risk levels are maintained:

- Limits are mandatory requirements that are intended to limit risk taking in SGIL. The Risk Appetite reporting to the Risk Department and to the Board tracks adherence to these limits;
- Thresholds and limits trigger reporting to the Risk Department and escalation to the RCC, BRC and the Board when deemed relevant. They are supported by relevant narrative, action plans, and any other information required to ensure the SGIL risk profile is well understood and maintained within the Firm’s risk appetite.

Risk Levels

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 Crisis level** are defined to monitor the SGIL Business and define any deviation between the SGIL Business and the reality.

1. Risk Appetite	
Approach	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 ('**RAF**') presents the governance and implementation framework and the SGIL Risk Appetite Statement ('**RAS**') formalises the SGIL appetite for the major risks it faces in the conduct of its business. 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: • **Protect the market stability**, 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; • **Preserve the capital of the Firm** and maintain at all times its capital adequacy to satisfy its commercial and regulatory obligations; • Maintain at all times **sufficient liquidity** to meet its obligations as they fall due; and, • Ensure a **minimum level of Profitability.**
3 levels of the Risk Appetite	In the Risk Appetite Statement, quantitative supervision of a given indicator is based on a graduated approach that can include up to three levels: Green, Amber and Red for most critical metrics, such as the profitability, capital and liquidity.

	• A **Risk Appetite Limit** definition level:
	  • for profitability, solvency and liquidity indicators, risk appetite is quantified by a financial target applicable at all times, including via the financial forecasts in the baseline scenario;
	  • for risk indicators, risk appetite is quantified by a limit applicable at all times;
	• An **Alert threshold** aimed at preventing risk appetite breaches (financial target or limit);
	• A **"crisis" level:**
	  • as a general rule, this level is a regulatory requirement where the indicator in question is subject to such a requirement;
	  • for financial indicators, it shall be observed via the forecasts in the stressed scenario;
	  • where the indicator in question also appears in the Recovery Activation Dashboard
	For specific topic, **guidelines** were drafted to complete the Risk Appetite level

2. Crisis level (including Breach of regulatory requirement)	
Approach	The Crisis level 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. In case of a breach, some appropriate actions should be invoked: • **Capital Contingency Plan** (CCP) • **Contingency Finding Plan** (CFP) • **Wind-Down Plan (WDP) if both actions above are not sufficient** A wind down becomes relevant to Emerging Risk if the risks materialize and cause an in-elective or elective wind down.

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

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. Thirteen 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***
1. Liquidity & Funding Risk *(IFPRU 2.2.8)*	
2. Structural Risk	2.1. Structural Interest-rate Risk
	2.2. Structural Foreign Exchange Rate Risk
	2.3. Risk on employee benefits
3. Credit Risk *(IFPRU 2.2.17 to 2.2.22)*	3.1. Counterparty Risk *(IFPRU 2.2.17)*
	3.2. Country Risk *(IFPRU 2.2.17)*
	3.3. Concentration Risk *(IFPRU 2.2.2)*
	3.4 Settlement and delivery Risk
	3.5 Residual risk *(IFPRU 2.2.21)*
4. Market Risk *(IFPRU 2.2.26 to 2.2.29)*	
5. Operational Risk *(IFPRU 2.2.32 to 2.2.33)*	
6. Model Risk	
7. Capital Investment Risk *(IFPRU 2.2.8)*	
8. Business Risk *(IFPRU 2.2.8)*	
9. Strategic Risk *(IFPRU 2.2.8)*	
10. Group & Vendor Risks *(IFPRU 2.2.8)*	
11. Risks of excessive leverage *(IFPRU 2.2.34)*	
Other risks (not relevant for SGIL)	
12. Securitisation Risk *(IFPRU 2.2.24)*	
13. Insurance Risk	

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.

a. Management Information (MI)

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 three key elements:

1. **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;
2. **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. The Risk register includes but not limited to:
    - The Risk Identification & Risk Mapping as part of the ICAAP
    - The ICAAP Report and the ILAA Report
    - For specific risk category, a dedicated risk register assessment can be performed dependent to the criticality of the risk category. For instance, for operational risk, the annual Risk & Control Self-Assessment ('**RCSA**') process performed by the business is also undertaken.
3. **Monthly Board Report** ('**MBR**') is part of the Management Information Pack is a comprehensive dashboard sent to the Board of Directors on a monthly basis. The MBR includes an overview of the current situation regarding Finance, Treasury/ALM, Operational Risk, Credit Risk, Market Risk, Capital, and Compliance topics to capture the relevant information from the different SGIL committees. There will be one dashboard for each section including the following information:
    - Overall management comments and key issues;
    - Update on the yearly strategic plan;
    - Few key metrics with comments to explain the variations over the months;
    - An update on the key deliverables;

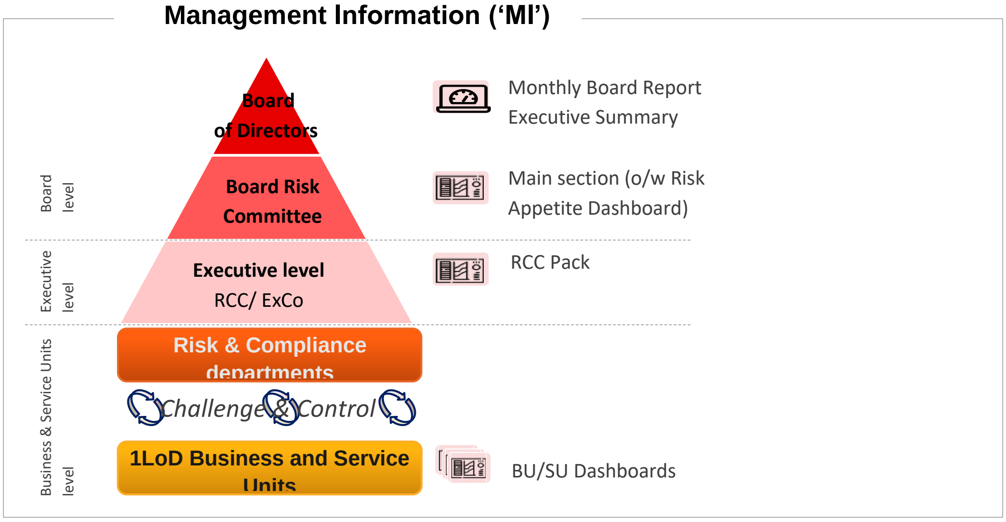
Lines of Defence	Responsibility
First Line of Defence Primary Risk Management *3 dedicated 1st LoD Risk/control function* • *NCG is responsible for overseeing and controlling the operational risk for Business Units* • *GBUS/CCO department is responsible for overseeing and controlling the operational risks under the Service Unites (DFIN, OPER, ITEC)* *2 dedicated 1st LoD Credit function* • *PSR in charge of Credit Risk for Prime Services*	1st LoD have direct responsibility for the ownership, use and management of Risk within their processes and activities: **Management Information** • Review and update major risks on a monthly basis and accepted risks on a yearly basis; and, • Raise new risks and emerging risk to the SGIL Risk department or directly to the RCC. **Risk Mitigation** • Develop action plans, where applicable, to address risk item for review by risk management and respective risk committees.
Second Line of Defence Challenge & Control *4 Departments* • *Risk* • *Compliance* • *Financial Crime Prevention* • *Finance Control* • *CASS Oversight*	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. **Management Information** • Review Risk Register on a monthly basis and residual risk rating; • Coordinate the on-going Risk Register update process; • Review the status and risk profile of inherent risks to the business; and, • Present the significant results of the various risk processes and risk profile to the Board on an ongoing basis. **Oversight, Challenge and Control** • Review, challenge and approve risk responses and action plans (where applicable) that address exceptions/violation before submission to the Risk & Control Committee ('**RCC**').

b. Monitoring by 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.

The **Monthly Board Report** ('**MBR**') is a comprehensive Dashboard to capture the relevant information from the different SGIL Committees.



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.

Role & Responsibilities and Frequency

The results of the 1st and 2nd level controls are reported to the Board and Executive Committees in the form of aggregated Management Information packs ('**MI**') at the frequency set in the terms of reference of the Committees.

The following table presents an overview of the duties and responsibilities of Committees in terms of Monitoring. They are outlined in their Terms of Refence ('**ToR**'). [4]

Committee	Responsibility
Risk & Control Committee *('RCC')* • *Monthly**	• Execute oversight of the Risk Register; • Review, challenge and approve the Risk Register content on monthly basis - including: ○ Risk Register Scorecards; ○ Quarterly Risk Appetite Dashboard (quarterly basis); ○ Operational risk metrics (quarterly basis); ○ Operational risk scenario stress testing output (yearly basis).
Board Risk Committee *('BRC')*	• Be responsible for oversight and regular review with ○ the Risk Register;

[4] *In case of conflict between the RMF and the ToR, the latter shall prevail*

Committee	Responsibility
*Quarterly**	○ COMpliance ASSesement Report (COMPASS Report). The COMPASS follows the SG Group Guidelines; • Review and approve action plan that address significant exceptions/violations to these procedures; and, • Review, challenge and approve the SGIL Stress Test and ICAAP including the operational Risk Stress Test.
SGIL Board of Directors *('Board')* *Quarterly**	• Inform the significant risks escalated via the BRC; • Delegate the review and approve the action plans to the BRC, as necessary.

** Frequency is at least monthly or quarterly as the case maybe. Ad-hoc committees are also arranged. Each meeting frequency is defined under Terms of Reference.*

The Management Information Pack cover all the Risk Categories:

	Board Level		Executive Level			
	Board	BRC	EXCO	RCC	ALCO	CAOC
Risk Categories	(Quarterly)	(Quarterly)	(Fortnighlty)	(Monthly)	(Monthy)	(Monthly)
Risks relevant for SGIL						
1. Liquidity & Funding Risk	✓	✓	✓	✓	✓	✓
2. Structural Risk	✓	✓	✓	✓		
3. Credit Risk	✓	✓	✓	✓	✓	✓
4. Market Risk	✓	✓	✓	✓		
5. Operational Risk	✓	✓	✓	✓		
6. Model Risk	✓ (in progress)	✓ (in progress)	✓ (in progress)	✓ (in progress)		
7. Capital Investment Risk	✓	✓	✓	✓		
8. Business Risk[5]	✓	✓		✓		
9. Strategic Risk[5]	✓	✓		✓		
10. Group & Vendor Risks	✓	✓	✓	✓		
11. Risks of Excessive leverage	✓ (in progress)	✓ (in progress)	✓ (in progress)	✓ (in progress)		
Other risks (not relevant for SGIL)						
12. 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).					
13. Insurance Risk						

c. *Escalation and Mitigation to the Board and Executive*

Overview

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

[5] The Emerging Risk is defined as the sum of the Business and Strategic Risk

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 type 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[6] 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 bases 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 condition, the CEO, Chief Compliance Officer and the Chief Risk Officer should raise an alert to the Executive Committee, define the impact of the(se) event(s) to SGIL.

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

[6] *The Metric Owner is responsible to draft the description and define the characteristics of the Metric and ensure the Metric deployment on the right scope (cf. RAF for further detail). For each Metric, a metric owner is designed*

4. CAPITAL ADEQUACY

4.1. OWN FUNDS

SGIL's capital resources comprised of the following as at 31 December 2020.

	£ Millions
Tier 1 Capital	
Core Tier 1 - Share Capital	1,150
Profit and Loss Reserves*	217
Other deductions from Tier 1	6
Total Tier 1 after deductions	**1,373**
Tier 2 Capital	
Subordinated Debt	258
Total Tier 2 after deductions	**258**
Total Tier 1 and Tier 2 after deductions	**1,631**

*Excluding profit of 2020 financial year of £79.6m.

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	312
Market Risk Capital Requirement	1
Fixed Overhead Requirement	27
Total Pillar 1 Requirement	**340**
Capital Resources	**1,631**
Excess Capital Resources	**1,291**

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 32.37% at 31 December 2020.

- Tier 1 capital ratio of 6%

  SGIL Tier 1 ratio was 32.37% at 31 December 2020.

- Total capital ratio of 8%
  SGIL total capital ratio was 38.47% at 31 December 2020.

4.3. CRD IV COMBINED BUFFERS

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.

The CCoB applied was equal to 2.5% as of December 31st, 2020.

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 0.04% as of December 31st, 2020.

4.4. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (‘ICAAP’)

This ICAAP assesses the amount of capital appropriate for (a) the risks SGIL faces currently, and (b) its business plans over the next four years commencing January 1st, 2021. It is the result of a formalised assessment conducted by SGIL senior managers across all Business Units and Service Units, underpinned by a series of ‘challenge sessions’ around different subject areas. The ICAAP shows the current and forecast capital adequacy position for the period from January 1st, 2021 to December 31st, 2025.

The SGIL Chief Risk Officer (‘**CRO**’) is fully responsible for designing and operating the ICAAP and ensuring the effective implementation of the framework and the ongoing monitoring of adherence to the framework. The Enterprise Risk Management Officer is the ICAAP owner to support the CRO (ICAAP Sponsor). The modelling output of many assessments (including Pillar 1 and Pillar 2B) is operated and run through Finance.

The '**ICAAP Report', including the Stress Test Report** is the output of the ICAAP. The ICAAP Report undergoes review and challenge by the Executive Committee ('**ExCo**'), Risk Control Committee ('**RCC**') and Board Risk Committee ('**BRC**') and is ultimately approved by the Board of Directors. The material risks are the risks which could impact the SGIL concern capability.

5. MATERIAL RISKS

The material risks are the risks which could impact the SGIL concern capability.The material risks are the risks which could impact the SGIL concern capability.

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 & Poor's 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 UK CRR. Instead the Firm calculates a Fixed Overhead Requirement (FOR) in accordance with Article 97 of the CRR.

The FOR at 31 December 2020 is £27m.

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.

There are 3 material / liquidity risk drivers as defined in BIPRU 12 which create liquidity and funding risk in SGIL:

• **Intra-day liquidity risk**: This is the risk of temporary intra-day spikes in SGIL's liquidity needs to ensure the timely settlement of SGIL's trades that are executed on behalf of clients.

• **Wholesale funding risk**: A significant portion of SGIL's funding is derived from margin posted by clients. There is therefore a risk that clients withdraw excess non-segregated margin posted with SGIL or that margin migrates to segregated accounts subject to cash and therefore SGIL does not have this available for funding.

• **Off-balance sheet risk:** This derives from SGIL's cash securities/derivatives clearing businesses. There are risks of potential liquidity strains arising due to increase in its level of default fund contributions or a deterioration in SG's credit rating leading to reduced ability to fund SGIL.

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.

SGIL have been producing an ILAA since 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 raised from political, legal, regulatory, climate, social or global health risk, and technology issues (in addition to the already identified impact of other risks).

- Disruptive Technology (including Blockchain) and the impact of the COVID-19 on the macroeconomy present the most likely risks.
- Business Risk analysis could lead to three 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); and,
- A loss of licence to operate from the FCA or loss of critical CCP Memberships.

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.

In 2020, one of the main root-causes of business instability is the COVID-19 with Brexit hovering in the background. The COVID-19 global pandemic amplified last year's business risk, including the potential impact of the macro-economy on the credit portfolio.

5.5. *GROUP AND 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:

1. Outsourcing (Non-financial/Operational Arrangements with Group Entities or any external third-party provider 'Vendor'): Outsourcing to SG Entities or external third-party providers.
2. Financial Arrangements with Group Entities : risk of losses due to the failure of SG S.A. or other Group entities to fulfil their financial obligations

6. SECONDARY RISKS

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

6.1. *STRATEGY RISK*

Strategy 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. There are not any strategy risks which have been identified as potentially impacting SGIL as a going concern.

6.2. *MARKET RISK*

Market risk is understood as the risk of loss in the value of financial instruments as a result of an unfavourable change in market parameters. Market parameters include the price of shares and bonds, interest and exchange rates, credit spreads, commodity forward contracts price, etc. and the associated volatility and correlation (implicitly deducted from the price of derivative instruments).

As a Limited Activity Firm, in compliance with article 96 (1) of the 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 mainly 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 CRR.

6.3. 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.
Interest rate risk in the banking book is the main structural risk that SGIL is exposed to. SGIL's structural interest rate risk profile shows limited risk in the short-term due to its business nature with remaining interest rate risk mainly driven by its capital and available for sale portfolio held to meet liquidity related requirements. While the risk is certainly relevant for SGIL, it is not considered a major risk is would not impact the Firm as a going concern.

6.4. MODEL RISK

Model risk is defined as the risk of adverse consequences (including financial consequences) for the Group, including SGIL from decisions based principally on internal models.

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 (SG Model Risk Management department).

6.5. 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).

The Firm co-owns "Altura Markets" on equal terms with BBVA and has minority shares in "LME Holdings Limited GBIS UK" (0.03%) and "SWIFT GTPS" (0.1%) and Newedge Broker India Private Limited (1 share).

Except for these legacy financial participations, SGIL has a limited appetite for financial participations, such as proprietary trading on capital investment operations, and manages a run-off participation portfolio.

6.6. 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. To show a holistic view of all risks SGIL is exposed to, SGIL addresses the risk of excessive leverage in a precautionary manner by taking due account of the impact of the excessive leverage on liquidity and capital as part of the risk assessment performed in the ICAAP and ILAA processes. This is also reflected in SGIL's risk management policies and governance arrangements.

7. RISKS NOT RELEVANT FOR SGIL

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.

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. RISK CATALYSTS

Risk catalysts are factors that have been identified as potentially aggravating existing risk categories that are within the SGIL risk taxonomy however are not risk categories themselves. SGIL has identified three risk catalysts:

1. Risks relating to the COVID-19 crisis.
2. Risks relating to climate change, both physical (increased frequency of extreme weather events) and transition-related (new carbon regulations):

   SGIL is indirectly exposed to the risk of climate change through its corporate clients and commodity traders as they would be impacted by government policy decisions or structural economic changes to mitigate climate impacts. The risk to SGIL is short-term in nature as its exposure arises from acting as a clearing agent and it does not provide loans or long-term financing. Additionally, SGIL's exposure to these counterparties are highly collateralised.

   SGIL has also business continuity plans at department level to enable it to respond to disruptions to its business operations, such as a natural disaster caused by climate change (scenario covered in operational risk).

3. Risks relating to SGIL's business activities with crypto-assets.

SGIL has determined that no capital add-on should be applied based on the assessment on these three risk catalysts.

9. NON-APPLICABLE DISCLOSURES

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

- SGIL is exempted from compliance with the obligations laid down in **Part Four** (Large Exposures) and **Part Six** (Liquidity)
- **Article 441** – SGIL has not been designated a global systemic important institution.
- **Article 449** – SGIL does not securitise its assets.
- **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.