Stifel Nicolaus Europe Limited

Pillar 3 Disclosures

As at 31 December 2020

Contents

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1. Overview

1.1. Introduction

The following disclosures are prepared for Stifel Nicolaus Europe Limited (SNEL Consolidated or the Firm) on a consolidated basis in accordance with the Capital Requirements Directive IV (CRD IV), which is the framework for implementing Basel III across the European Union (EU). It is made up of the Capital Requirements Regulation (CRR) which is directly binding on all member states, and the Capital Requirements Directive (CRD) which requires incorporation into national law by individual member states. CRD IV sets out certain capital adequacy requirements standards and disclosure requirements to be implemented by regulated firms. CRD IV consists of three pillars:

<u>Pillar 1</u> – Sets out the minimum regulatory capital requirements for credit, market, and operational risk;

<u>Pillar 2</u> – Requires firms and their regulatory supervisor to assess the amount of additional capital against firm specific risks not taken into account or not adequately covered under the Pillar 1 requirements. This internal assessment is implemented through the Internal Capital Adequacy Assessment Process (ICAAP) by the firm and subsequent Supervisory Review and Evaluation Process (SREP) undertaken by the FCA and

<u>Pillar 3</u> – Requires firms to publish details about their risks, capital, and risk management.

The aim of the Pillar 3 disclosure requirements is to facilitate market discipline by allowing market participants to assess key pieces of information on the capital, risk exposures, and the risk assessment processes of authorised firms. Pillar 3 also aims to complement the minimum capital requirements described under Pillar 1 and the assessment processes under Pillar 2.

1.2. Basis and Frequency of Disclosure

In the UK, the relevant disclosure requirements of Pillar 3 are embedded into a combination of the Prudential Sourcebook for Investment Firms (IFPRU), the CRR, and associated guidelines issued by the Financial Conduct Authority (FCA) together with additional standards and guidance released by the European Banking Authority (EBA).

Under UK law, EU capital rules that existed on 31 December 2020 (including applicable Pillar 3 requirements) continue to apply to the consolidated Group following the end of the transition period for the UK's withdrawal from the European Union. These disclosures have been prepared on a consolidated basis in accordance with Article 13 of the CRR, with certain disclosures on a standalone basis for SNEL, since it is the only significant entity in the regulatory group.

Pillar 3 disclosures are published on an annual basis. The firm will consider making more frequent disclosures under the following circumstances:

- Where there have been material changes to:
  - The scale of operations; and/or
  - The range of activities.
- Where the Board of SNEL considers that the impact of events requires disclosure in accordance with FCA requirements.

The firm has an accounting reference date of 31 December, and these disclosures are made as at 31 December 2020.

The disclosures in this document are not subject to audit and do not constitute any form of audited financial statement. The disclosures have been produced solely for the purposes of satisfying Pillar 3 regulatory requirements and have been approved by the Board.

1.3. Location

This report is available on the Stifel Group's website at stifel.com/institutional/StifelEurope in the Important Disclosures section.

1.4 Regulatory Developments

The FCA are consulting on the proposed rules to introduce the UK's Investment Firm Prudential Regime (IFPR). IFPR is a new prudential regime for UK firms authorised under the Markets in Financial Instruments Directive (MiFID). The aim of the new regime is to streamline and simplify the prudential requirements for MiFID investment firms regulated by the FCA in the UK and replaces the existing prudential framework which were largely designed for credit institutions. The proposed rules will result in new requirements in respect of capital, liquidity, governance, risk management, remuneration and regulatory reporting. The new rules will be applicable from 1 January 2022.

The Firm monitors and assesses the potential impacts of ongoing regulatory developments.

2. Corporate Background

The group contains one UK regulated group, SNEL based in London, which is regulated by the FCA as a 730K IFPRU investment firm. In addition the group contains a subsidiary, Stifel Europe Bank AG (SEBA) based in Frankfurt Germany which is regulated by the German Federal Financial Supervisory Authority (BaFin),

SNEL's immediate parent company is Stifel Europe Holdings Limited (SEHL), a company incorporated in England and Wales. The immediate parent company of SEHL and SNEL's ultimate parent undertaking is Stifel Financial Corp. (SF).

SF is a full-service wealth management and investment banking firm, established in 1890 and based in St. Louis, Missouri. The Company provides securities brokerage, investment banking, trading, investment advisory, and related financial services through its wholly owned subsidiaries to individual investors, professional money managers, businesses, and municipalities. SF is listed on the New York Stock Exchange and has a market capitalisation of around $7 billion (July 2021).

The principal activity of the Firm is to provide institutional broking and investment banking services. The activity encompasses institutional sales and trading in fixed income and equities, equity and fixed income research, as well as investment banking services serving both debt and equity capital markets. Other activities of the Firm consist of acting as an introducing broker to European institutional investors primarily for North American equities. The Firm has its headquarters in the UK, subsidiaries in Germany and Switzerland and branches in Spain, France, Switzerland and Italy.

During the year the Firm undertook a reorganization following the completion of the acquisition of MainFirst in November 2019. From 1 February 2020 the activities of SNEL's representative office in Geneva were transferred to MainFirst Bank AG. From 1 November 2020 MainFirst Securities US was transferred to Stifel Financial Corporation, the ultimate parent undertaking of the Firm, the MainFirst branch in the United Kingdom was transferred to SNEL and the Madrid branch of SNEL was transferred to MainFirst Bank AG. At the same date the businesses of MainFirst were renamed Stifel Europe.

3. Overview of Governance and Risk Management Framework

3.1. Governance

The Firm is managed by its Board of Directors (the SNEL Board), which meets at least quarterly. The SNEL Board includes both UK and US members, with the US member also functioning in a key position at SF. This relationship provides for better coordination with Stifel's US business activities and strategy.

Responsibility for day-to-day operations is delegated by the SNEL Board to the European Operating Committee (the EOC), which meets monthly. The EOC comprises the heads of department and senior infrastructure management.

Where deemed appropriate, the SNEL Board delegates certain responsibilities to other committees, such as the Risk Committee and European Commitment Committee (which examines European Investment Banking transactions) and/or local senior management.

3.2. Risk Management Framework

The Firm's risk management procedures are ultimately the responsibility of the SNEL Board. The Firm's Risk Committee has day-to-day responsibility for monitoring, reporting, and managing the risks of the business. The Firm operates a "three lines of defence" model as the basis for corporate governance. The Firm's first line of responsibility for managing day-to-day risk within the business lies with each of the Firm's staff, overseen by key senior management, including trading desk managers and department heads. The second line is the independent oversight by the Risk and Compliance functions, and the third line of defence is covered through internal and external audit reviews of both the business front lines and the oversight functions to ensure that they are carrying out their tasks to the required level of competency.

The Risk Committee provides risk oversight to all SNEL entities and branches. It is responsible for providing advice to the Board on risk, current and future risk strategy of the firm including potential exposures and hotspots, determination of risk appetite and translation into limit frameworks, regulatory and economic Capital and reputational risks. The Risk Committee has sub-committees covering Legal and Reputational Risks, Execution Oversight, Markets and Limits and a New Products and Services Group. From 2021 a Data Risk Sub Committee has been added to the Governance structure.

The Firm's risk management is effected in a number of ways, including:

Reporting to management
The SNEL Board, EOC, and Risk Committee receive reports at each meeting, such as financial and capital reporting, risk management (including monitoring of value at risk, book and position limits, and any breaches), operational risk (including cyber risks), legal and compliance updates, including statistics on the Firm's client base and regulatory developments.

Employment practices
Recruitment is overseen by a Committee comprised of senior management and HR. Following rigorous recruitment procedures, the Firm's employees receive induction training upon joining the Firm as well as annual training, such as market abuse and anti-money laundering courses. Employees are expected to be familiar with the Firm's compliance handbook, and staff are made aware of any major updates to the handbook. This is to reinforce the importance of every staff member being a part of the Firm's risk management and compliance culture. Staff are supported in undertaking training where necessary to maintain competence for their role at the Firm. The Firm's approach is that the responsibility for staff's training and competence is shared between individual staff and the heads of department or senior line-managers, as applicable, assisted by the central functions of Human Resources and Compliance.

The current and future needs of the business including equality and diversity are considered as part of the Firm's recruitment process. Board and committee membership, along with succession planning, draws upon a range of criteria including relevant skills and expertise, suitability for the role, and relevant knowledge in order to achieve a balanced approach to challenge and decision-making. Frequent training of staff is undertaken on an on-going basis.

Monitoring
The Risk department conducts daily monitoring of operational, market and some aspects of credit risk, the majority being settlement risk relating to loan trades. Finance monitor other aspects of credit risk, including exposure to banks and settlement agents, along with liquidity risk and FX risk and overall capital adequacy. In addition, the Compliance department undertakes various monitoring and surveillance activities.

Client take-on
The firm's clients are subject to robust procedures, including know-your-client (KYC) and anti-money laundering (AML) checks prior to being on-boarded. The Firm conducts ongoing screening of clients after they have been on-boarded. Committees comprised of senior management review and approve the Firm's Involvement In public and private offerings of equity and debt securities by the Firm's clients as well as, where relevant the Firm's commitment of capital in such offerings.

Operational and compliance risk
Operational and compliance risk assessments are conducted annually, and Key Risk Indicators (KRIs) are in place across all areas to monitor risk on a monthly basis, whereby any breaches of tolerance levels are reported and discussed at the Risk Committee.

Internal audit
Internal Audit reports are delivered to the SNEL Board on a regular basis, as discussed further below.

The Firm is responsible for its local implementation of risk management policies and to ensure there is a clear organisational structure with defined layers of responsibility throughout the Firm. Risk management monitoring is additionally undertaken by the Risk Committee, as well as the SF Audit Committee. The Enterprise Risk Management (ERM) department of SF oversees the Stifel group's risk management framework and those of its operating subsidiaries, including SNEL.

The Internal Audit Department of SF oversees internal reviews of various operating subsidiaries, including SNEL, and reports directly to the Chairman of the SF Audit Committee. The SF Audit Committee and the SF Board of Directors have overall responsibility for the Stifel Group's system of internal controls. The Internal Audit Department reviews the effectiveness of controls and the Stifel Group's overall internal control structure, and delivers Internal Audit reports to the SNEL Board.

ICAAP
The Firm assesses its exposures to risks and its capital adequacy as part of its regular Internal Capital Adequacy Assessment Process (ICAAP) updates. The Firm's regulatory capital resources and capital requirements are discussed at SNEL Board, EOC, and Risk Committee meetings.

The Board is responsible for setting the group's risk appetite and has set a low appetite for exposure to risk with the aim of achieving the strategic goal of being the UK's leading middle-market investment bank, whilst maintaining prudent levels of regulatory capital cover.

3.3. Pillar 2 and ICAAP

3.3.1. Overview

As a full scope IFPRU investment firm, the Firm is required to undertake an ICAAP in order to establish the level of capital it deems sufficient to support its business activities. More specifically, the ICAAP is a tool for management to identify and manage major sources of risk the Firm is exposed to and to make an internal assessment of the capital required to mitigate against those risks. To the extent that such risks are not covered by the Firm's Pillar 1 requirements for market, credit, and operational risk, additional Pillar 2 capital requirements are recognised.

As part of SNEL's ICAAP, the Firm has:

- Carried out regular assessments of the amounts, types, and distribution of financial resources, capital resources, and internal capital that it considers adequate to cover the nature and level of the risks to which it is or might be exposed;
- Identified the major sources of risk and its ability to continue to meet its liabilities as they fall due;
- Applied severe but plausible stress tests to Its business plan over a 3 year horizon to illustrate the resulting own funds position of the Firm; and

- Ensured that the processes, strategies, and systems described in its ICAAP are both comprehensive and proportionate to the nature, scale, and complexity of its activities.

This process is reviewed at least annually and approved by the SNEL Board.

3.3.2. Other risks considered in ICAAP

The Firm's exposure to market risk, credit risk, operational risk, and liquidity risk are described separately in Sections 5-8 below. As part of the ICAAP, the Firm considers and assesses other risks relevant to its operating activities that may not be adequately covered by Pillar 1 requirements. These include risks that are considered to be elements of operational risks as well as other risks.

Operational Risk Types:

- **Reputational Risk** – Reputational risk is the current or prospective risk to earnings and capital arising from the adverse perception of the image of the Firm on the part of clients, counterparties, shareholders, or regulators. This is a risk that can lead to diminished ability to do business and a reduced franchise value. The Board believes that one of the greatest risks to the Firm is reputational risk and there is no appetite for conduct that may have an adverse effect on its reputation. The Investment Banking Risk Oversight Committee (a sub-committee of the European Commitment Committee) is responsible for focusing on regulatory and reputational risk Issues associated with Investment Banking clients and transactions.
- **Legal and Compliance Risk** – This is defined as the current or prospective risk to earnings, capital, or reputation as a result of not complying with relevant rules and regulations. The Firm is subject to rules from various regulatory authorities and non-compliance by the Firm could result in public censure and/or fines. Included in this risk assessment are considerations of anti-money laundering, conduct risk, and other regulatory risks such as the European Union's General Data Protection Regulation ("GDPR").
- **IT Risk** – IT risk is defined as the current or prospective risk to earnings and capital arising from inadequate information technology and processing in terms of manageability, exclusivity, integrity, controllability, and continuity, or arising from an inadequate IT strategy or policy or from inadequate use of the Firm's information technology. A key consideration in this risk assessment is cybersecurity.
- **People Risk** – People risk includes the current or prospective risk to earnings and capital arising from inadequate processes to manage staff turnover (including key persons leaving the Firm) and succession planning.
- **Outsourcing Risk** – Outsourcing risk is defined as the current or prospective risk to earnings and capital arising from third-party vendors not fulfilling their contractual requirements to the Firm.
- **Fraud Risk** – This risk is defined as the current or prospective risk to earnings and capital arising from fraud committed by external and/or internal parties.
- **Product Risk** – The Firm is subject to the risk that new product and business development reaches the client distribution channel without the appropriate signoff for compliance with regulatory, legal, tax, accounting, pricing strategy, and any other relevant risk management requirements.
- **Insurance Risk** – This risk is defined as the current or prospective risk to earnings and capital arising from inadequate insurance.
- **Business Continuity Risk** – Both the Firm and SF have Business Continuity Plans ("BCP") in place, which are tested regularly in case of a disaster or major event. If a disaster occurs, the risk of loss to the Firm should be mitigated by the effectiveness of its BCP plans.

Other Risk Types:

- **Business Risk and Strategic Risk** – This is defined as the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions, lack of responsiveness to changes in the business environment, or any other external or environmental factors not already caught by Operational Risk that would preclude the business from operating.
- **Concentration Risk** – Concentration risk is the risk from large exposures including but not limited to: (i) large (connected) individual exposures and (ii) significant exposures to groups of counterparts whose

likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location, instrument type. This would increase the Firm's exposure to credit risk.

- **Non-material Risks**
  - **Pension Obligation Risk** – Pension Obligation Risk is the current or prospective risk to earnings and capital arising from the Group's inability to meet its pension obligations when they fall due. Within SEBA there is one defined contribution scheme for one retired employee. Other than that the Firm has no defined benefit pension scheme hence this is not a material risk to the Firm.
  - **Interest Rate Risk** – SNEL does not currently engage in any activity that presents material exposure to interest rate risk. The Firm is entirely funded through equity capital and has no borrowings.
  - **Securitisation Risk** – The Firm does not undertake securitisation activity and therefore there is no exposure to securitisation risk.

4. Own Funds and Capital Requirements

4.1. Capital Adequacy

The following table presents a reconciliation of regulatory capital to audited shareholders' funds as at 31 December 2020;

	Consolidated £'000s	Solo £'000s
Share Capital	101,744	155,007
Other Reserves	61,623	34,230
Retained Earnings	353	(27,992)
Shareholders' funds	**163,720**	**161,315**
Deductions:		
Goodwill	(32,081)	(19,736)
Intangibles	(3,168)	(2,454)
Investment in subsidiaries*	-	(18,351)
Additional valuation adjustment	(40)	(71)
Deferred tax asset	(1,373)	(1,373)
Total Deductions	**(36,662)**	**(41,985)**
Common Equity Tier 1 Capital	**127,058**	**119,330**
Tier 1 Capital/Total Own Funds	**127,058**	**119,330**

Capital Requirements		
Market Risk	10,665	10,001
Credit Risk	8,506	9,160
Settlement Risk	82	34
Operational Risk	24,036	18,223
Total Requirements	**43,289**	**37,418**
Surplus Own Funds Under Pillar 1	**83,769**	**81,912**
Risk Weighted Assets (RWAs)	541,122	467,725

Capital Ratios (as % of RWAs)	Requirement	31-Dec-20	31-Dec-20
Common Equity Tier 1	4.5%	23.5%	25.5%
Tier 1	6.0%	23.5%	25.5%
Total Capital	8.0%	23.5%	25.5%

*Being the amount over the threshold calculated in accordance with Art 48, CRR. The remaining balance of £12,706,000 is risk weighted at 250%, also in accordance with Art 48.

4.2. Common Equity Tier 1 Capital

The Firm's regulatory capital consists entirely of CET1 capital. This consists of ordinary share capital, retained earnings and other reserves. All share capital is in the form of £1 ordinary shares, allotted, called up and fully paid.

4.3. Tier 2 Capital

The Firm does not hold any Tier 2 capital.

4.4. Capital Buffers

CRD IV introduced two regulatory capital buffers which are required to be met with CET1 capital. The capital conservation buffer is calculated as 2.5% of risk-weighted assets. The countercyclical buffer is a buffer that can be varied over time. Each institution's specific countercyclical capital buffer is calculated as the weighted average of the countercyclical capital buffers that apply in the jurisdictions where the relevant credit exposures are located. The Financial Policy Committee has currently set the UK countercyclical buffer rate (for credit exposures located in the UK) to 0%, following its decision in March 2020 as part of a series of regulatory measures introduced in response to the coronavirus pandemic.

At 31 December 2020 the Firm had exposures to the **following countries with a countercyclical buffer rate** greater than 0%; Norway (1.0%), Luxembourg (0.25%) and Hong Kong (1.0%). However, due to the negligible exposure amount to these countries, the Firm's institution specific rate is 0.001%, with a countercyclical buffer requirement of £5,000.

The Firm's consolidated countercyclical capital buffer as at 31 December 2020 is as follows;

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures	Trading book exposures	Own funds requirements					
	Exposure value for SA	Sum of long and short positions of trading book exposures for SA	of which: General credit exposures	of which: Trading book exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate	Countercyclical capital buffer weighted average
	£'000s	£'000s	£'000s	£'000s	£'000s	%	%	%
Breakdown by country								
Australia	0	13	0	1	1	0.007%	0.000%	0.000%
Austria	9	0	1	0	1	0.007%	0.000%	0.000%
Bermuda	63	0	5	0	5	0.037%	0.000%	0.000%
Belgium	23	0	2	0	2	0.015%	0.000%	0.000%
Canada	0	156	0	12	12	0.089%	0.000%	0.000%
Cayman Islands	140	0	11	0	11	0.082%	0.000%	0.000%
Denmark	36	0	3	0	3	0.022%	0.000%	0.000%
Finland	4	2,291	0	184	184	1.370%	0.000%	0.000%
France	684	0	55	0	55	0.409%	0.000%	0.000%
Germany	5,805	675	464	54	518	3.856%	0.000%	0.000%
Hong Kong	1	0	0	0	0	0.000%	1.000%	0.000%
India	0	73	0	6	6	0.045%	0.000%	0.000%
Ireland	57	234	5	55	60	0.447%	0.000%	0.000%
Italy	172	0	14	0	14	0.104%	0.000%	0.000%
Luxembourg	588	0	47	0	47	0.350%	0.250%	0.001%
Netherlands	0	3,018	0	241	241	1.794%	0.000%	0.000%
Norway	2	0	0	0	0	0.000%	1.000%	0.000%
Switzerland	28	488	2	39	41	0.305%	0.000%	0.000%
United Kingdom	61,066	24,376	6,518	5,454	11,972	89.111%	0.000%	0.000%
United States	3,273	0	262	0	262	1.950%	0.000%	0.000%
Total	**71,951**	**31,324**	**7,389**	**6,046**	**13,435**	**100.000%**		**0.001%**

Amount of institution specific countercyclical capital buffer

	£'000s
Total risk exposure amount	541,122
Institution specific countercyclical buffer rate (%)	0.001%
Institution specific countercyclical buffer requirement	5

5. Market Risk

The below table shows the components of market risk requirements as at 31 December 2020:

Market Risk Requirement

	Consolidated £'000s	Solo £’000s
Equity position risk	1,603	1,603
Traded debt instrument position risk	574	574
Collective Investment Undertaking position risk	4,587	4,587
Foreign exchange risk	3,901	3,237
Total Requirement	**10,665**	**10,001**

5.1. Market Risk – Position Risk

Market risk represents the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates, and credit spreads will affect the Firm’s income or the value of its holdings of financial instruments.

SNEL is subject to market risk through its principal trading activities. To enable management of these activities, the Firm uses a variety of risk management techniques, including active ongoing hedging of position risks.

Value at Risk (VaR), desk and position limits are established and set for each different business desk/business area, all of which are reviewed periodically by the SNEL Board, SNEL Risk Committee, SNEL Markets and Limits Sub-Committee and the SF Asset and Liability Committee (ALCO) and SF Enterprise Risk Management (ERM) function. Risk Management monitors and reports risk exposures, limit utilisations, and breaches to Senior Management on a daily basis. Any breaches to these limits require management approval as per policy and are reported and discussed at the quarterly Risk Committee and monthly Markets and Limits Sub-Committee.

Trading activities and limit utilisations are reviewed periodically by the SNEL Board, SNEL Risk Committee, SNEL Markets and Limits Sub-Committee, SF and the SF ALCO. Daily position reports are reviewed by the Risk department and senior management and any exceptions to trading limits are identified and approved or resolved. The Operations and Finance departments reconcile trades, prices, and positions on a daily basis. The Firm’s management believe these procedures, which stress timely communications between traders, trading management, and senior management, are important elements of the risk management process.

Beyond the aforementioned principal trading, the Firm has limited direct market risk in its equities and fixed income trading businesses, as it acts on behalf of clients on a matched principal or an agency basis. In the event of a default by a trading counterparty, the Firm may be exposed to market risk if it is required to purchase or sell financial instruments in the open market to satisfy obligations to other clients or counterparties.

SNEL may have exposure to market risk in connection with underwritings, where it may agree to purchase securities which have not been fully sold at the time of purchase by the underwriting group. Prior to agreeing to participate in any underwriting, the terms of the transaction and SNEL’s participation are presented to the European Commitment (ECC) Committee consisting of representatives of senior management of SNEL and the Stifel Group. The ECC Committee utilises various resources in analysing a potential underwriting commitment. Adequacy of capital resources to support the transaction is reviewed with a view to limiting the amount and duration of related capital exposure. Approval of a majority of participants attending an ECC Committee is required prior to proceeding with an underwriting.

The Firm calculates its requirements for market risk on equity positions (Equity PRR) in accordance with Articles 341-343 and Article 348 of the CRR and on debt positions in accordance with Article 336 and Article 339 of the CRR.

5.2. Market Risk – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will result in change in net income or cash flows in monetary assets and liabilities denominated in foreign currencies.

The Firm undertakes activity in various currencies other than its functional currency. Foreign currency balances on the Firm's balance sheet are regularly monitored. Material FX exposures on the balance sheet may be hedged if it is deemed appropriate. For fixed income and equities trading settled through Pershing Securities Ltd (PSL), revenues earned in foreign currencies are converted by PSL to GBP at month end in advance of payment to the Firm, which reduces the extent and the length of time that the Firm is exposed to FX risk.

The Firm calculates the foreign exchange risk in accordance with Articles 351-352 of the CRR.

6. Counterparty and Credit Risk

6.1. Overview

The main source of credit risk for SNEL is counterparty credit risk, and it is monitored on a daily basis. Counterparty risk arises primarily from the following activities of the Firm:

- Clients that trade securities with SNEL
- Clients that trade private loans with SNEL's private loans brokerage business
- SNEL executing trades through local brokers
- SNEL having the majority of its trading activities concentrated with one clearing firm
- Investment banking activities from which clients owe SNEL retainer and other transaction fees
- Cash balances at banks and clearers.

SNEL engages in various securities underwriting, trading, and brokerage activities servicing a diverse group of institutional investor clients. The Firm has exposure to credit risk through the potential non-performance of these clients in fulfilling their contractual obligations pursuant to securities transactions. This can be directly impacted by volatile trading markets which may impair the client's ability to satisfy its obligations to SNEL. The agreements with SNEL's third-party clearing firms require the Firm to reimburse the clearing broker without limit for any losses incurred due to a counterparty's failure to satisfy its contractual obligations. In these situations, SNEL may be required to purchase or sell financial instruments at unfavourable market prices to satisfy obligations to other clients or counterparties. For these trading activities nearly all the Firm's clients settle their trades on a DVP basis (delivery versus payment), which significantly reduces the risk involved in receiving payment for purchased securities or the delivery of stock sold by a client.

Credit risk also arises in relation to the Firm's corporate and investment banking activities, primarily on income receivable from clients, either through transaction/advisory fees or retainer fees. This risk is mitigated through active management of debtor balances and review by senior management.

The Firm seeks to mitigate credit risk through robust client screening and selection procedures, establishing credit limits for clients where deemed appropriate, monitoring unsettled trades daily, and having proactive debtor management. All clients are subject to know-your-client (KYC) and anti-money laundering (AML) procedures before trading with the Firm.

6.2. Counterparty and Credit Risk: Capital Requirement

The counterparty and credit risk capital components are calculated in accordance with the requirements of the CRR.

Counterparty credit risk

The requirements on exposures in relation to the private loans business are calculated using the Original Exposure method as per Article 275 as the Firm classes these transactions as trading book exposures.

Credit risk

Credit risk requirements on all other exposures, classed as non-trading book, are calculated using the standardised approach as set out in Articles 111-141. Exposure balances are weighted using a range of appropriate risk weights from 0 % to 100%, and then multiplied by 8% to compute the Pillar 1 credit risk capital component.

The below table shows the consolidated counterparty and credit risk capital component as at 31 December 2020:

Consolidated Counterparty and Credit Risk Capital Component

Exposure class	Risk-weighted exposure	Capital requirement	Exposure value	Average exposure value
	£'000s	£'000s	£'000s	£'000s
Central government and central banks	7,319	586	17,191	15,494
Institutions	30,269	2,422	142,829	152,428
Corporates	10,422	835	10,442	15,639
Exposures in default	–	–	–	–
Equity exposures	1,570	126	1,570	903
Other items	56,729	4,537	56,728	42,176
Total	**106,329**	**8,506**	228,760	**226,640**

The below table shows the Firm's consolidated exposures by geographic region as at 31 December 2020:

Consolidated Credit Risk Exposure Value by Geographic Region

Exposure class	EMEA	Americas	Total
	£'000s	£'000s	£'000s
Central government and central banks	17,191	–	17,191
Institutions	92,506	50,323	142,829
Corporates	8,537	1,905	10,442
Exposures in default	–	–	–
Equity exposures	1,570	–	1,570
Other items	55,296	1,432	56,728
Total	**175,100**	**53,660**	**228,760**

The below table shows the Firm’s consolidated exposures by residual maturity as at 31 December 2020:

Consolidated Credit Risk Exposure Value by Residual Maturity

Exposure class	On demand	< 1 year	1-5 years	Undated	Total
	£’000s	£’000s	£’000s	£’000s	£’000s
Central government and central banks	2,037	9,630	2,595	2,928	17,190
Institutions	92,081	2,080	–	48,668	142,829
Corporates	5,538	4,840	–	64	10,442
Exposures in default	–	–	–	–	–
Equity exposures	–	–	–	1,570	1,570
Other items	–	6,399	3,299	47,031	56,729
Total	**99,656**	**22,949**	**5,894**	**100,261**	**228,760**

6.3. Impaired and Past Due Exposures

Provisions for impaired exposures are made on a case-by-case basis if management has assessed that it is more likely than not that the Firm will be unable to collect the amounts due. The impairment charge to corporate trade debtors for the year increased by £260,000 to £299,000 as at 31 December 2020. Other trade debtors of £1.8m are past due but are not considered to be impaired as at 31 December 2020.

6.4. Settlement Risk

For settlement risk on DVP trades that are unsettled after their due delivery dates, the Pillar 1 own funds requirement is calculated in accordance with Article 378 of the CRR.

6.5. Use of ECAIs

The Firm uses External Credit Assessment Institutions (“ECAI”) for its calculation of exposures to rated institutions, most significantly banks and clearing houses. Ratings from Moody’s, Standard & Poor’s, and Fitch may be used. The majority of its other credit risk exposures are to unrated counterparties.

7. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. The Firm is focused on maintaining an overall operational risk management framework and mitigating these risks through continual assessment and the Implementation of appropriate controls.

Operational Risk is monitored on an ongoing basis by the whole of the Firm.

The Risk Management team has a dedicated Operational Risk manager in place who works closely with the operational risk representatives across all areas. A detailed review is performed on all operational risk events and reported and discussed at Risk Committee meetings, as is the case with all Key Risk Indicator (KRI) tolerance breaches. In addition a Risk Control Self Assessment (RCSA) programme is run annually. If appropriate, any matters are also escalated to the Board, Senior Management, and the Operational Risk Committee of SF.

The firm calculates its operational risk capital requirement under Pillar 1 using the basic indicator approach as described in Article 315 of the CRR.

8. Liquidity Risk

Liquidity risk is the risk that the Firm will be unable to meet its financial commitments as they fall due. BIPRU 12 liquidity standards require a firm to maintain adequate liquid resources to ensure there is no significant risk that liabilities cannot be met as they fall due. The Firm prepares an Individual Liquidity Adequacy Assessment (ILAA) the results of which demonstrated that the Firm has a low exposure to liquidity risk, which Is a result of a combination of its risk appetite, the nature of its activities, its stable capital and funding profile and its high level of liquid resources. In line with the findings of the ILAA, an appropriate Liquid Asset Buffer is maintained with holdings in UK gilts.

9. Leverage Ratio

The Firm is not a credit institution, and the use of leverage is not a material part of its business model. Although the Firm considers that excess leverage is not a material risk, Article 451 of the CRR requires the disclosure of the leverage ratio. Accordingly, the ratio as at 31 December 2020 at the consolidated level is 41.9%, which is comfortably in excess of the 3% minimum requirement that was recommended for implementation by the European Banking Authority (EBA) in 2016.

10. Asset Encumbrance

The vast majority of the firm's assets are unencumbered with 12.0% encumbrance at the consolidated level as at 31 December 2020. The encumbered balance comprised deposits held at its settlement agent and custodian along with cash collateral for borrowed stock.

11. Remuneration Disclosure

11.1. Classification of the Firm

The following disclosures are made in accordance with the Capital Requirements Regulation (CRR), SYSC 19A: IFPRU Remuneration Code, and the FCA's General Guidance on Proportionality: The FCA's IFPRU Remuneration Code (SYSC 19A). SNEL has been classified as a "Tier 3" firm for the purposes of the Remuneration Code ("the Code"), as an IFPRU Investment Firm with total assets below £15bn, and the disclosures below are made accordingly.

11.2. Decision-Making Process for Remuneration Policy

The SNEL Board of Directors is responsible for the Firm's remuneration policy. The Board receives recommendations from senior executive management. Prior to approval, the Board reviews and, if appropriate, is able to moderate the Firm's remuneration policy.

SNEL has a Remuneration Committee whose remit covers the supervision and oversight of the Firm's remuneration and reward frameworks. This includes overall responsibility for the implementation of and compliance with the FCA's IFPRU Remuneration Code. The members comprise certain senior management of SNEL, as well as one senior manager from Stifel Financial Corp. (SF, SNEL's ultimate parent) who is considered to be independent.

SNEL also operates with an independent Board and Risk Committee, both with defined terms of reference which include clear objectives, authorities, and requirements for management information.

In addition, the Board maintains a watching brief, on a day-to-day basis and would make any necessary amendment to remuneration policy for changes in the Firm's risk profile.

11.3. Role of Relevant Stakeholders

As stated above, senior management makes recommendations to the Remuneration Committee when determining remuneration policy, and the Risk Committee would recommend to the Board and the Remuneration Committee any necessary amendment to remuneration policy for changes in the Firm's risk profile.

11.4. Link Between Pay and Performance

The Firm's remuneration structure comprises a market-competitive level of fixed remuneration, and a performance-related variable element. Risk adjustment is inherent within SNEL's variable remuneration policy, as payments are moderated according to the performance of the Firm as a whole, and considered against the Firm's capital resources. A proportion of the higher value awards are deferred.

On an annual and semi-annual basis, an individual's performance is assessed, including self-appraisal and manager appraisal. Assessment is based on all aspects of an individual's contribution to the Firm, including financial performance, business development, and non-financial metrics (such as attitude to compliance and risk, teamwork, and broader contributions to the Firm).

Staff are therefore exposed to the Firm's overall performance and paid dependent on their individual performance.

11.5. Code Staff

SNEL's Code Staff comprise senior management (including those senior management engaged in control functions) and all individuals whose professional activities have a material impact on the Firm's risk profile.

The following information is in respect of the Firm's code staff for the year to 31 December 2020.

	Year ended 31 Dec 2020 £'000s
Fixed remuneration	8,358
Variable remuneration	19,542
Total remuneration	**27,900**
Number of beneficiaries	44
Non-cash variable remuneration awarded	1,964

9.6. Deferred Remuneration

The following table sets out the movements during the year and the outstanding deferred remuneration in respect of code staff.

	£'000s
Opening deferred compensation at 1 January 2020	7,088
Awarded during the year	4,604
Paid during the year	(2,514)
Outstanding deferred compensation at 31 December 2020	**9,178**

9.7. Higher-Paid Employees

The following table sets out the number of employees with remuneration greater than €1m.

	2020
EUR 1M to 1.5M	6
EUR 1.5M to 2M	4
EUR 2M to 2.5M	3
Total	**13**