REDBURN

Redburn (Europe) Limited

Pillar 3 Disclosures

Overview

The following Pillar 3 disclosures for Redburn (Europe) Limited (the "Company") are prepared in accordance with the Capital Requirements Regulation (CRR) which is directly binding on the firm, and the Capital Requirements Directive (CRD) as transposed by the FCA into the FCA Handbook under the Investment Firms Prudential Sourcebook (IFPRU).

The capital requirements framework consists of three pillars:

- Pillar 1 sets out minimum capital requirements for credit, market and operational risk.
- Pillar 2 requires management to assess whether its Pillar 1 capital requirement is adequate and whether the Company should hold additional capital. This assessment may be subject to review by the FCA.
- Pillar 3 requires firms to publish details about their risks, capital position and risk management framework. This document addresses this requirement.

The disclosures the Company is required to make are set out in Part 8 of the CRR (articles 431-455) and such disclosures are made in this document where relevant to the Company. The disclosures have been reviewed and approved by senior management but are not subject to external audit.

On 1 January 2022, the Company became subject to the new Investment Firm Prudential Regime ("IFPR"). This Pillar 3 document relates to the year ended 31 December 2021 and addresses the old regulatory regime that was in place for that period.

Risk Management Framework

The Enterprise Risk Management ("ERM") framework adopted has been developed with reference to the principles and guidance outlined in ISO 31000 which is an internationally agreed standard for the implementation of risk management principles.

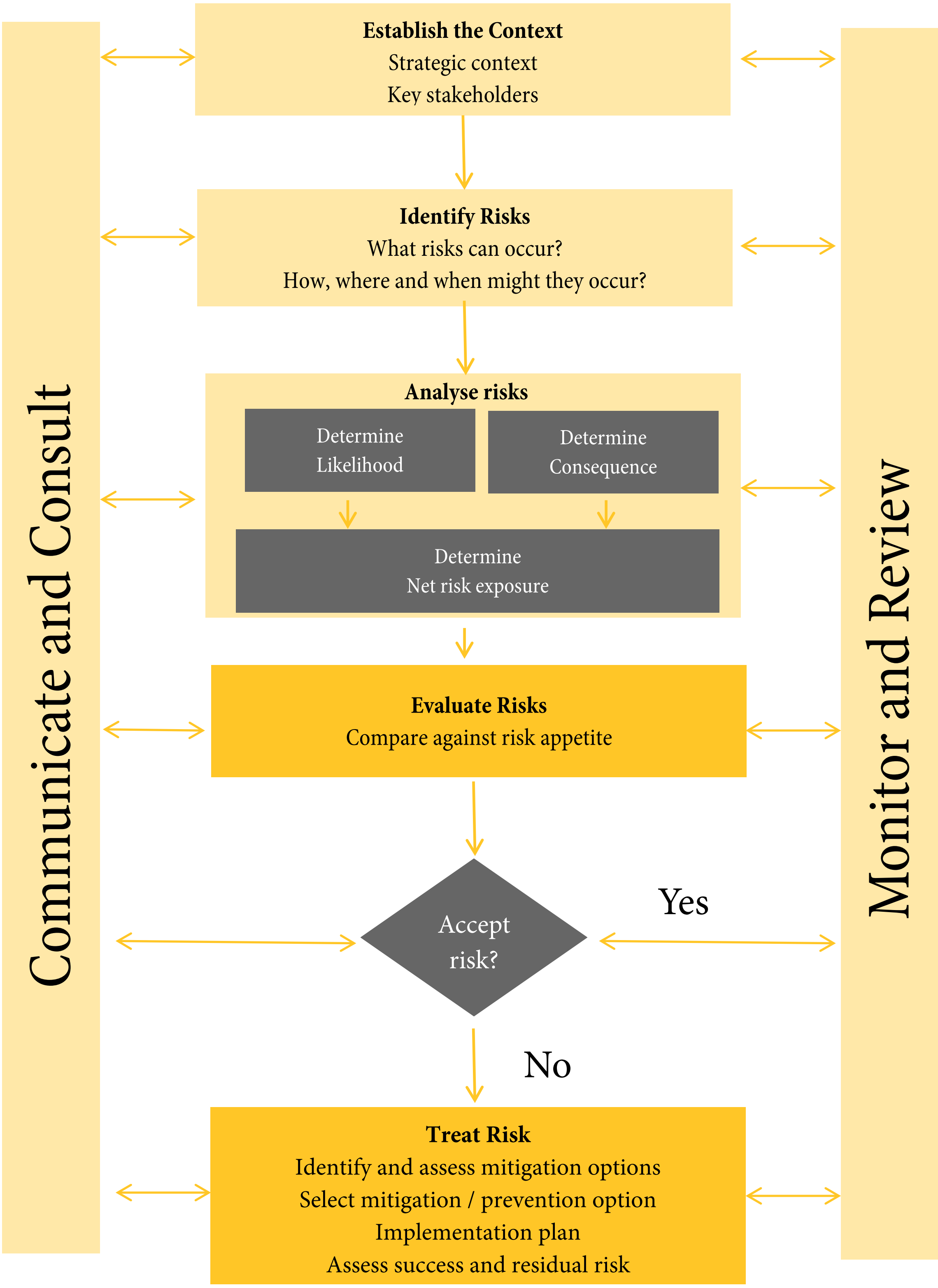
Risk is managed across the Company and its subsidiaries (collectively the "Group"), with Group policies being cascaded to the individual Companies. Consequently, reference is made to the Group Risk Management Framework and Group risks in this document, unless disclosure of Company specific information is more appropriate.

Risk Management Methodology

The diagram on the following page summarises the risk management process outlined in ISO 31000 which has been encompassed into the Group's Risk Management Framework.

This diagram shows the key steps in the risk management process from establishing the context of risks and identifying risks present; analysing and evaluating the risks; through to the treatment and reporting of risks. The communication and monitoring of such risks is a continual process.

Key steps in the Group's Risk Management Process



Roles and Responsibilities

The Roles and Responsibilities of the Board and its Committees, with respect to risk management, are as follows:

Board	• Overall responsibility for risk management. • Approval of ICAAP, Risk Management Framework and Liquidity Risk Management Framework upon the recommendation of the Risk Committee. • Approval of Annual report and related disclosures contained therein. • Approval of risk appetite, as documented in the ICAAP and re-approved each year as part of the ICAAP process. • Approval of both new activities and continuation of existing activities where incremental risk is above a certain threshold. • Approval of the Recovery Plan upon the recommendation of the Risk Committee, alongside the decision to activate recovery mitigation responses. • Reviewing the Group Risk Report. This is circulated to and noted by the Board on a regular basis.
Audit Committee	• Undertakes activities delegated by the Board including: – Reviewing accounting judgements and associated disclosures in the Annual Report before a recommendation to the Board. – Reviewing and challenging the Pillar 3 disclosures document. The approval of this document is delegated to the Audit Committee by the Board on the basis it draws on documents approved by the Board i.e. Annual Report, ICAAP, Risk Management Framework document. • External audit process, including approval of the external audit plan. • Oversight over the outsourced Internal Audit process, including approving the Internal Audit Plan, reviewing Internal Audit Reports and providing an oversight role with respect to the timely closure of open audit findings.
Risk Committee	• Undertakes key risk management activities delegated by the Board including:

	– Reviewing and challenging the ICAAP, Risk Management Framework, Liquidity Risk Framework and Recovery Plan. The Risk Committee makes recommendations to the Board. – Reviewing and challenging the Group Risk Report and determining matters to be escalated for further discussion at the Board. • Overseeing deep dives into specific areas of risk.
Remuneration Committee	• Responsible for all decisions regarding the remuneration of employees/prospective employees. • Responsible for ensuring that the Company's remuneration practices are in accordance with the FCA's IFPRU Remuneration Code and in particular: • promote sound and effective risk management; • do not encourage excessive risk taking; and • do not result in the Company paying out more in remuneration than it can afford. • Ensuring that risk events are considered when approving aggregate bonus pools and remuneration for members of Code staff.
Group Management Committee	• Group Management Committee ("GMC") members are responsible for raising any new risks and highlighting key risk developments. • Overseeing successful implementation of risk mitigation plans suggested by GMC, Audit Committee, Risk Committee or Board. • Reviewing Internal Audit Reports and ensuring timely closure of open audit findings. • Review of Group Risk Report on a regular basis to ensure completeness of information and appropriateness of escalation decisions. • Development of the ICAAP and Recovery Plan. Discussion of appropriate stress scenarios and responses. Considering potential challenges to implementing the Recovery Plan and agreeing mitigating actions to aid preparedness for a stress event. The GMC makes recommendations to Board to implement recovery plan responses. • Ensuring compliance with agreed Credit Risk limits.

The Audit Committee, Risk Committee and Remuneration Committee are Sub-Committees of the Board and are composed exclusively of Independent Non-Executive Directors.

Diversity and Board effectiveness

The Board believe that achieving the right balance and diversity across the Company is important and is committed to improving diversity for all roles and seniority levels across the Company. Diversity is one consideration when making Board selection decisions and when developing the Board succession plan. However, the Board does not have rigid diversity targets.

An internal effectiveness assessment of the Board and its Committees is undertaken regularly. This assessment considers a range of matters, including the structure, composition and skill set of the Board and its Committees. The results of the assessment are reported to the Board.

Identification of Risk

Redburn's risk management framework defines a risk as an event that may have an impact on the achievement of the Group's objectives. This is consistent with the definition in ISO 31000. Risks may arise from internal or external factors and the effects may be positive, negative or deviation from the expected.

The size of the Group's operations allows risk issues to be escalated quickly. The Co-Heads of Research Services, Head of Execution Services and Head of Central Functions sit on the GMC which meets at least monthly. Potential risks are discussed as a matter of course.

Recording of Risks

Risks are recorded in two places:

- In the Group Risk Report, which is reviewed by GMC, the Risk Committee and Board on a regular basis and whenever there is a significant change in risk profile / significant new risk event.

- The ICAAP document, which is refreshed at least annually and is reviewed by GMC, Risk Committee and Board.

These documents collectively describe the risk, likelihood / consequence, mitigating controls, risk evaluation and actions being implemented to reduce the risk.

Principal Risks

The following principal risks are currently identified in the ICAAP and Group Risk Report:

Strategic risk

Strategic risk is the risk of financial loss or failure to achieve expected revenue due to the pursuit of an unsuccessful business plan in the context of regulatory developments, political developments, macroeconomic environment and broking market conditions.

A sustained period of depressed revenues due to an internal or external market event is considered to be a key strategic risk.

MiFID II took effect on 3 January 2018, introducing new regulatory rules surrounding the payment for research services which significantly changed the way in which the Group is paid for research services. The aggregate equity research market wallet, which has fallen significantly since the implementation of MiFID II, remains under pressure. Given the structural, economic and regulatory challenges facing our clients, further deflation remains an inherent risk.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system issues, or external events. The key specific operational risks to which the Group is exposed are:

- **A material broking error**. The Group has implemented controls to reduce the risk of a material broking error. Additionally, the Group has financial loss insurance cover in place which may mitigate the financial impact of events such as broking errors.

- **Poor performance or failure of a key third party supplier** where key business activities are outsourced. The Group monitors the performance and financial condition of key third party suppliers.

- **People risk**, given the importance of retaining skilled staff to deliver a high quality product. People risk is managed through a regular appraisal cycle which allows management to identify and act upon employee dissatisfaction on a timely basis.

- **Cyber-crime**, including ransomware and denial of service attacks. The Group has implemented appropriate controls to reduce the probability and impact of a cyber-attack, however, there will always be a residual risk that an attack is successful.

- **Brexit**, where the UK's withdrawal from the EU has resulted in the Group losing automatic cross-border market access to clients domiciled in the EU. This is both an operational and strategic risk. The Group has successfully activated its contingency plan and this development is not expected to have a material adverse impact on the Group. However, the future regulatory landscape for UK financial services groups operating in Europe remains uncertain since EU and UK regulators continue to discuss the post-Brexit framework, including equivalence decisions.

Market risk

Currency risk arises as the Group generates income in European currencies and has operations in the US, whereas the reporting currency is sterling. Management mitigates this by monitoring currency exposures and converting foreign currency balances into sterling on a monthly basis, thus keeping foreign currency denominated assets at a minimum. Intra-month translation risk is not hedged.

The Group has no borrowings, so interest rate risk is limited to that arising from cash deposits. Management monitors interest rates in the context of an assessment of the credit risk of the Group's banks with whom placements are made. Our risk appetite for such credit risk is low.

The Group does not operate a trading book and so has no other direct exposure to financial markets. Indirectly, the Group is highly dependent on the level and volume of trading in the financial markets in which it acts as a broker and is therefore subject to the price, credit and liquidity risks that prevail in these markets.

Credit risk

The exposure to the possibility of financial loss resulting from counterparty default is monitored carefully. The Group aims to minimise exposure to credit risk by operating as a matched principal broker and ensuring it has no direct exposure on its own account. The Group's brokerage business is typically conducted on a delivery versus payment basis and significant credit risk is not expected to arise in the normal course of business. However, losses could arise in a scenario where one of the broking counterparties on a matched trade defaults and there is a significant movement in the price of the underlying security.

The Group is exposed to credit risk through the receivables due from its settlement and clearing agent and other authorised UK entities. These receivable balances settle on a regular basis and the credit worthiness of counterparties is monitored closely.

Non-trade related exposure is predominantly restricted to the various UK and US banks where cash is deposited. It is the Group's policy to distribute its cash deposits across a number of banks to mitigate credit risk and to regularly assess the credit risk of those banking counterparties.

Capital and liquidity risks

These risks include the possibility of having insufficient liquid resources to meet liabilities as they fall due or insufficient capital to meet regulatory requirements or absorb financial losses. In the normal course of business, liquidity risk is low since the Group maintains a cash buffer.

Short term liquidity to facilitate settlement timing differences is committed by BNP Securities Services ("BNPSS") and Pershing Securities Limited, which undertake settlement services for the Company. However, if an extreme stress event such as a material broking error or default of a broking counterparty were to materialise, this could result in a significant cash outflow and resultant liquidity and capital stress. The Company undertakes liquidity stress testing on a regular basis and has developed a Recovery Plan.

In January 2022 the Company's shareholders approved a transaction whereby £9.4m of new capital (net of professional fees) will be injected into the Company by Rothschild & Co, subject to regulatory approval. This will restore capital and liquidity buffers, which declined during 2021. Whilst the Directors fully expect regulatory approvals to be granted, the timing of such approvals is uncertain.

Reputational risk

This is the risk of loss arising from the negative perception on the part of key third-party relationships including customers, counterparties, shareholders and regulators. This risk also encompasses litigation risk as this arises for the Group where events that would typically lead to reputational risk escalate such that there is then litigation risk.

The Group's reputation is preserved, and the risk of a sustained period of reduced revenue therefore reduced by: ensuring compliance with regulations and ethical standards; attracting and retaining talented staff; and, providing accurate and timely execution of contractual obligations.

Compliance risk

Compliance risk is the risk of financial loss arising from regulatory action, legislation, contract or other laws and regulations. Management is committed to full regulatory compliance and has developed policies and procedures in order to conform to regulatory requirements.

Capital Resources & Requirements

As at 31 December 2021 (post verification of results) the Company's capital resources after deductions, primarily goodwill, were £18.1m. The Company's capital requirement at that date was £13.1m. The surplus of capital resources over the capital requirement (the "capital buffer") was therefore £5.0m.

Following completion of the transaction described earlier, whereby £10m of new capital will be injected into the Company (£9.4m net of fees), subject to regulatory approval, there will be a meaningful increase in the size of the capital buffer.

From 1 January 2022, the Company was required to calculate its capital buffer under the new Investment Firms Prudential Regime ("IFPR"). This transition did not have a material impact on the Company's capital buffer.

Capital Resources

31 December 2021	£m
Total Capital & Reserves (Tier 1 Capital)	62.1
Less Deductions	(44.0)
Total Capital Resources, net of deductions	**18.1**

Capital Requirement

Pillar 1

The Company is an IFPRU €730,000 firm. Its capital requirement is the greater of:

1) The base capital requirement of €730,000; and
2) The variable capital requirement, which is the sum of market risk, credit risk and the fixed overhead requirement:

31 December 2021	Approach	Requirement (£m)
Credit Risk	Standardised Approach	2.0
Market Risk	Standardised Approach	0.5
Operational risk	Fixed Overhead Requirement	10.6
Capital Requirement		**13.1**

- Credit risk relates primarily to cash held on deposit at UK / US Banks and amounts due from clients.
- Market risk primarily relates to the positions the Company holds in foreign currencies. The largest exposures are in USD and EUR.

Pillar 2

As previously described, the Company also undertakes an ICAAP process to assess whether the capital held is sufficient. The total level of capital the ICAAP exercise indicated that should be held was below that of the Pillar 1 requirement. The capital requirement is therefore the Pillar 1 requirement.

Remuneration Disclosures

As an IFPRU firm the Company is required to adhere to the FCA's IFPRU Remuneration Code (the "Remuneration Code") contained in SYSC 19A.

FCA guidance on proportionality states that the requirements of the Remuneration Code do not apply to all firms equally. The proportionality concept takes into account the nature and size of a firm and the complexity of its operations. The FCA has defined three proportionality levels and the Company currently falls within the lowest tier, level 3. The disclosures in this document therefore reflect the disclosure requirements for a level 3 firm.

Remuneration Policy

The Board delegates responsibility for the firm's remuneration policy to the Remuneration Committee. The policy is designed to comply with the Remuneration Code and as such:

- is consistent with, and promotes, sound and effective risk management and does not encourage excessive risk taking;
- is in line with the business strategy, objectives, values and long term interests of the Company;
- is designed to avoid conflicts of interest; and
- is designed to ensure that a prudent capital buffer is maintained.

Bonuses are determined with reference to several factors including Redburn's profitability, team and individual contribution and market rates.

The Company aims to be recognised as the 'employer of choice' in the European equities secondary market. One of the criteria to be considered as part of that assessment is the economic reward received by the individual staff members. The Company needs to attract, motivate and retain high quality employees to support its premium brand. Subject to the overall profitability of the business, the Company expects to compensate its staff well relative to the market when measured over the medium term.

Governance

The Remuneration Committee consists of Independent Non-Executive Directors. This Committee makes decisions relating to remuneration of employees and dividend proposals. In doing so the Committee takes into account the long term interests of all stakeholders, as outlined in the Terms of Reference of the Committee.

Code Staff

The Remuneration Committee has identified the individuals who undertake activities that could materially impact the Company's risk profile and has categorised such individuals as 'Material Risk Takers' or 'Code Staff'.

The following individuals have been identified as Code Staff:

- Members of the Board;

- Members of the GMC who are not members of the Board; and
- Any individual identified as a material risk taker but is not a member of the Board or the GMC.

All Code Staff have been categorised as 'Senior Management' Code Staff on the basis that they are either full members of the Board and/or GMC or perform other senior management roles. There are no 'Other' Code Staff.

In reaching this conclusion, management has considered the roles and risk profiles of other employees who receive similar compensation to Senior Management Code Staff. The Company does not engage in proprietary trading activities and its business is limited to providing brokerage and research services to professional and institutional investors on a matched principal basis. Brokers are therefore not permitted to expose the firm to proprietary risk through their activities and there are clear reporting lines within the brokerage area to a member of the GMC.

Quantitative Disclosures

The Company is required to disclose aggregate remuneration for code staff split between fixed and variable compensation. Employees receive the following remuneration:

- A fixed salary and in the case of Non-Executive Directors, a fixed fee (Fixed).
- Pension contribution, which is a fixed proportion of the base salary (Fixed).
- Other benefits (e.g. medical insurance) (Fixed).
- Performance related compensation in the form of a cash bonus or equity award (Variable).

Equity awards are included in variable compensation on the basis of the accounting expense recognised for year ended 31 December 2021 under UK GAAP.

Year ended 31 December 2021	**Aggregate Compensation (£000s)**
Fixed Compensation	**1,916**
Variable Compensation	**669**
Total Compensation	**2,585**
Number of Code Staff at year end	**17**