

BSN Capital Partners Limited

FCA Capital Requirements Directive

Pillar 3 Disclosure with respect to the year ending December 31, 2020

03 March 2021

BSN Capital Partners Limited (the "Company") is authorised and regulated by the Financial Conduct Authority ("FCA") (Firm Reference Number: 232613) and as such is subject to minimum regulatory capital requirements. The Company is categorised as a limited licence firm by the FCA for capital purposes. The Company has an Appointed Representative which is BSN Capital LLP (FRN: 493788).

The Directors of the Company determine its business strategy and risk appetite along with designing and implementing a risk management framework that recognizes the risks that the business faces. They also determine how those risks may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Directors meet on a regular basis and discuss current projections for profitability and regulatory capital management, business planning and risk management. The Directors manage the Company's risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Directors have identified that business, operational, market (foreign exchange risk only) and credit risks are the main areas of risk to which the Firm is exposed. Annually the Directors formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Directors identify material risks they model the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

Risks

Market Risk: Foreign Exchange Risk

Foreign exchange risk to the business arises from its maintenance of U.S. Dollar bank balances used to settle occasional expenses in U.S Dollars. The foreign exchange risk of these U.S. dollar positions is partially offset by accounts payable in the same currency.

The business did not maintain and does not intend to maintain balances in excess

of its projected U.S. Dollar expenses and therefore the capital allocation to this risk bucket is de minimus at £10,000 (representing 8% of the maximum net USD position held over the prior 12 months).

Market Risk: Interest Rate Risk

The business does not hold any assets or liabilities whose value changes with respect to changes in interest rates. Interest earned on bank balances is de minimus and therefore not considered material for the purposes of this risk section.

Business Risk

The company receives all its revenue from its indirect relationships with the ABCP conduits the group companies advise or manage. In the event of a complete shutdown of the CP market, the decline in conduit balances would thereby cut off the income stream of the business. The company therefore operates such that it holds sufficient capital to support the liquidation of all of the conduits it manages (30 days beyond the longest maturity of any CP outstanding) assuming no further income is received from the conduits.

The analysis under the ICAAP calculates this figure at £1,665,000, which is used as the minimum threshold capital for the Company (including its affiliate BSN Capital LLP).

Operational Risk

Operational risk within the firm may be broken into those related to its advisory work with respect to the ABCP conduits it advises, and general business operations.

Back office operations for the ABCP conduits have been outsourced to the Bank of New York Mellon, London Branch ("BNY"). Trade activity is booked into BSN's systems then sent to BNY via FTP where it is independently confirmed and settled with respective counterparties. BNY manages trade settlement and maintains the books and records of the conduits which BSN checks against its systems for consistency and accuracy. The conduits are then subject to annual audit by Deloitte LLP.

BSN's procedures are documented in an operating manual which has been

reviewed by S&P and Moody's as part of their rating process. BSN is also subject to periodic review by the rating agencies of its trading activity and procedures.

With respect to general business operations, BSN maintains double signature authority on all its bank accounts and keeps in place employer's liability insurance. Technical infrastructure is supported through Options IT whereby data is backed up nightly offsite, and BSN has access to Option IT's technical support team for any technical problems. The Company maintains redundant internet connectivity and maintains equipment to ensure a continuous power supply for 15-20 minutes in the event of a power cut. Physical office space is managed by the Crown Estate in terms of maintenance and services support.

Capital Allocation for Operational Risk has been set at 15% of the trailing 3 years net income which gives a figure of £352,000.

Credit Risk

The Company faces direct credit risk from bank balances, funds receivable from counterparties or prepayment of funds to counterparties, and indirect credit risk from the conduits it advises (in that a collapse of the conduits would necessarily cut off the revenue stream of the business).

The credit rating agencies ("ECAIs") used are Moody's, Standard and Poor's, and Fitch.

The Company's direct exposures involving receivables or prepayments include:

- VAT receivable from the UK government (Aa3/AA/AA- – United Kingdom), which the Company views as de minimus given the small amount of VAT outstanding at any given time, and also the credit rating of the government. Capital allocation is charged at a 0% risk weight as is appropriate for a sovereign credit rating in the second highest rating category.
- Prepaid health insurance premiums with Cigna (A/Baa1/BBB+ - United Kingdom), which at peak for 2020 comprised £104,561 or 6.3% of the ICAAP threshold capital minimum. Capital allocation is charged at a 100% risk weight.
- Fixed profit share receivable from BSN Capital LLP (unrated – United Kingdom) which could comprise a substantial amount of capital, and in excess of the 20% maximum advised for related companies. To offset occasions when the receivable could exceed 20% of capital, the Company collects credit balances against future receivables such that when the receivable crystallizes, the Company already has the estimated amount

- due in its bank account. Capital allocation is charged at 100% risk weight.
- Bank balances are held with NatWest (A2/A United Kingdom). The Company continues to monitor the rating of this bank and maintains all its balances on 30 day or less notice so that it may move them rapidly should the bank's credit position deteriorate. Capital allocation for bank balances is charged at a 50% risk weight.

None of these credit exposures is past due, and no impairment charges have been taken. In the event of a downgrade of a rated counterparty below investment grade, business would be directed elsewhere where possible.

Capital allocation for direct credit risks is charged as the highest balance each component has realized over the trailing 12 months. The ICAAP results in a higher calculated requirement of £1,665,000 however, so this figure is used as the Company's capital benchmark.

Capital Resources

The Company is a Limited Company and its capital resources only comprise Tier I capital with no deductions and are summarised as follows:

Capital and reserves (£)	31 Dec 2020	31 Dec 2019
Called up share capital	401	401
Share premium account	339,454	339,454
Profit and loss account	<u>2,689,982</u>	<u>2,370,857</u>
TOTAL	3,029,837	2,710,712

The Company is a limited licence firm and as such its capital requirements are the greater of:

- Its base capital requirement of €50,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement

The Company strives to maintain a conservative capital position such that its capital at all times exceeds the sum of the maximum value that each component of market, credit, and operational risk is separately expected to reach at any point during the year, and to add the fixed overheads requirement to this figure.

Market Risk: Foreign Exchange Risk:	£ 10,000
Business Risk/Annual Expenditure Requirement:	£ 383,000
Operational Risk:	£ 352,000
Credit Risk:	£ 76,000

Total Capital Allocation = £821,000
Tier 1 Capital = £3,029,837
Excess = £2,208,837

As previously mentioned, the ICAAP requirement of £1,665,000 shall be used since it is more stringent.

Other Disclosures

The approach of the business to assessing the adequacy of its internal capital to support current and future activities is contained in the Internal Capital Adequacy Assessment Process, known as ICAAP. This process includes an assessment of the specific risks to the business and the internal controls in place to mitigate those risks. These are tested under different scenarios in order to provide a robust picture of exposures for the business. Finally, an assessment is made of the probability of occurrence and the potential impact, in order to arrive at a level of required capital.

The required capital level has been assessed, in accordance with the Pillar 2 ICAAP and this Pillar 3 disclosure, to be greater than the Pillar 1 requirement. The business therefore uses whichever figure among the various calculations which yields the greatest capital requirement as its internal capital minimum in its business operations. This allows the business at all times to be in a position to carry out its contractual obligations to completion, assuming the worst case outcomes in market conditions.

Remuneration

BIPRU 11.5.18R – Information Concerning the Decision-Making Process used for determining remuneration policy

BSN does not maintain a remuneration committee separate from the governing body of BSN. The governing body meets annually and determines the remuneration policy that will apply for that given year.

BIPRU 11.5.18R(2) – Information on the link between pay and performance

In accordance with SYSC 19A.3.36R, variable remuneration is based on a

combination of the assessment of the performance of:

1. the individual
2. the business unit concerned; and
3. the overall results of the firm

When assessing individual performance, financial as well as non-financial criteria are taken into account.

BIPRU 11.5.18R(6) – Aggregate quantitative information on remuneration

Please see the annual accounts of BSN available at Companies House which contains the latest version of this information.

BIPRU 11.5.18R(7) – Aggregate quantitative information on remuneration, broken down by business area

Please see the annual accounts of BSN available at Companies House which contains the latest version of this information.