Pillar 3 disclosures

at 31 December 2021

Overview

Cenkos Securities plc (the "Company", "Cenkos" or the "Firm") is an independent, specialist institutional securities company, focussed on small and mid-cap companies and investment funds. The Company's principal activity is institutional stockbroking.

The Basel III Accord, implemented in the European Union through Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained.

In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Investment Firms ('IFPRU').

IFPRU 2.2.1 requires that "A firm must, at all times, maintain overall financial resources and internal capital, including own funds and liquidity resources which are adequate both as to amount and quality to ensure there is no significant risk that its liabilities cannot be met as they fall due."

The obligation on firms to maintain sufficient own funds to meet the requirements includes two stages: the ICAAP undertaken by the firm and the Supervisory Review and Evaluation Process ("SREP") undertaken by the FCA, i.e., an assessment of the firm's ICAAP. This includes:

- Pillar 1 – the minimum own funds requirement at the level of each individual risk type (credit, market and operational), calculated by the firm.
- Pillar 2 ICAAP and SREP – an assessment of risks not covered adequately or at all (e.g., pension risk or interest rate risk in the non-trading book) under Pillar 1 and the associated own fund requirements.
- Pillar 2 also encompasses a forward-looking assessment of the risks that a firm might be subject to in periods of stress, resulting in the determination of a capital-planning buffer (where applicable). This is compared to the CRD IV combined buffers[1] and the higher of the two is added to the firm's capital requirement.
- Pillar 3 specifies the disclosures which the firm is required to make about its capital, risk exposures and risk assessment processes.

The Pillar 3 requirements covering the disclosures which an institution is required to make are now covered by Part Eight of Regulation No 575/2013. A firm may choose not to make certain disclosures where the information is not material or if it is proprietary or confidential (Article 432).

[1] The Capital Conservation Buffer (CCB) and Countercyclical capital buffer (CCyB) (the "combined buffer") became applicable from 2016 for banks and IFPRU firms and are calculated based on a firm's total risk exposure amount ("TREA").

I. Frequency of publication (Article 433)

These disclosures are made on a solo basis for the Company and will be reviewed annually, as a minimum, in conjunction with the publication of the Annual Report and, if appropriate, more frequently. These disclosures are not subject to audit and do not constitute any form of audited financial statement.

II. Means of disclosure (Article 434)

The disclosures required under Part Eight of Regulation No 575/2013 can be found in the (Pillar 3) Investors section of our website (www.cenkos.com) and in the 2021 Annual Report.

III. Risk management objectives and policies (Article 435)

Governance policy

The Board recognises the importance of high standards of corporate governance and considers that the Company's success is enhanced by the imposition of a strong corporate governance framework. The Board has agreed to apply the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA Code"). The QCA Code is based around 10 broad principles of good corporate governance, aimed at delivering growth, maintaining a dynamic management framework and building trust. The application of the QCA Code requires Cenkos to apply these 10 principles and to publish certain related disclosures on its website and within its Annual Report. Details of how Cenkos has measured itself against these principles in terms of the substance and form of good Corporate Governance can be found on pages 25 to 27 of the 2021 Annual Report.

The Board

The Directors collectively bring a broad range of business experience to the Board, which is essential for the effective running of the Company. This is achieved through its own decision-making and by delegation of certain responsibilities to Board committees and by authority to manage the business to the Chief Executive. The Board is responsible for overseeing the management of the business and for ensuring high standards of corporate governance are maintained throughout the Company. The Board consists of Executive and Non-Executive Directors. The roles of the Chairman and the Chief Executive Officer are separated, ensuring a clear division of authority and responsibility at the most senior level within the Company. The Board also delegates certain responsibilities to committees of the Board (namely: the Audit, Risk and Compliance Committee ('ARCC'), the Remuneration Committee, and the Nomination Committee) and reviews the decisions of those committees at each of its meetings. The duties of these committees and the frequency with which they meet are disclosed on pages 33 and 34, 35, 42 and 45 respectively of the 2021 Annual Report.

The current and future needs of our business are considered in the context of each recruitment process. Succession planning and recruitment across the firm considers key criteria such as capability, qualifications, experience and skills. The firm has an equal opportunities and diversity policy which is applicable to all employees, consultants, interns and students on work experience, third party employees on secondment to Cenkos, temporary and agency workers and employees of companies to whom Cenkos has outsourced any process.

The day-to-day management of Cenkos' business is delegated to the Chief Executive Officer and Executive Director.

The Board meets a set number of times a year and at other times as necessary to discuss formal schedules of matters reserved for its decision which include:

- The Company's strategy and its associated risks;
- Acquisition, disposals, closures and other material transactions;
- Risk management strategy and risk appetite;
- Financial performance, annual budgets, periodic forecasts;

- Half year results, the Annual Report and Accounts and dividends;
- Changes to the Company's capital structure;
- Appointments to, and removals from, the Board and committees of the Board;
- Remuneration policy;
- Communication with shareholders; and
- Conflicts of interest relating to Directors.

The members of the Board as of 17 March 2022 and their biographies are laid out on page 29 in the Company's 2021 Annual Report. The number of directorships held by the Board is given in the table below:

Director	Title	Total directorships	Total directorships adjusted for SYSC 4.3A.7 R
Lisa Gordon	Non-executive Chairman	4	4
Jeremy Miller	Non-executive Director	4	4
Andrew Boorman	Non-executive Director	4	3
Julian Morse	Chief Executive Officer	9	1
Jeremy Osler	Executive Director	1	1

Note: the table above shows total directorships including those held within the same group

The overall governance of the firm is based upon the high-level decision making and control framework, key controls and strategic and capital planning processes in place. The Company's approach to assessing the adequacy of its internal capital to support its current and future activities is documented in its Internal Capital Adequacy Assessment Process ('ICAAP'), which includes an assessment of each of the risks faced by the firm and the internal controls in place to mitigate those risks.

Internal control and risk management

The CEO and the Head of Compliance are responsible for the implementation and on-going maintenance of a comprehensive and effective Risk Management Framework that identifies, measures and mitigates risk within each business area. While input is obtained from all relevant areas, approval of the Risk Framework is provided by the Board. It identifies key drivers, mitigating factors and the progress made in further mitigating those risks. The probability and potential impact of the items is assessed.

Cenkos' Risk Management Framework, including the risk register and associated testing, is the main risk reporting tool used to analyse the risks Cenkos faces. The risk management and internal control framework in place is as follows:

- Significant risks are identified and evaluated by senior management in the areas of business for which they hold responsibility. The Board contributes a top-down view of risks into this review. Actions to mitigate risks are a major focus of the Board with accountabilities delegated to relevant management;

- The risk register and compliance reviews of regulatory and internal control requirements form the basis for risk and compliance testing (including second line monitoring of controls) and internal audit planning. Oversight and challenge are provided through the regular reviews by the Executive Committee ('ExCo'), ARCC and Board at each of their meetings with the Head of Compliance in attendance; and

- New client's transactions or business risks, given their importance, are specifically addressed by the Corporate Finance Supervisory Committee and the New Business Committee, with particular oversight of agreed processes by the Chief Executive Officer.

Cenkos' risk management process is a continual process of:

- Identifying and measuring specific risk exposures;
- Setting specific day-to-day tolerance levels within the formal overall limits set by Cenkos in accordance with its risk appetite;
- Reporting risk exposures as appropriate to stakeholders, including shareholders, the Board, the ARCC and the ExCo; and
- Monitoring the process and taking any necessary corrective actions using the appropriate management tools to manage and mitigate risk, including capital allocation.

Cenkos' senior management are responsible for reviewing and evaluating the business risks within each area of the Firm's business, identifying and assessing the mitigating control(s) and procedures in place and the action plans to address any weaknesses in control. Each business unit and the Co-Heads of Corporate Finance are therefore responsible for the day-to-day management of the risks to which it is exposed, acting as the 'first line of defence'. This includes formally documenting, assessing and managing the key risks faced.

Support functions such as Compliance and Finance act as the 'second line of defence'. They are responsible for developing risk management policies that define what should be done to effect control, and for assuring that these policies are implemented and working to manage the risks as expected.

The third line of defence consists of internal and external audit, which are responsible for providing independent assurance to the ExCo, ARCC and Board. This includes independent reviews of the adequacy of the risk framework and the workings of the first and second line of defence. The risk framework is supported and validated by a dedicated internal audit function.

The internal audit function provides independent assurance over the adequacy and effectiveness of the systems of internal control throughout the business and assurance on the extent to which the Firm's approach to continuous improvement is maintained. The function is performed internally by the Head of Internal Audit, with RSM retained to support and provide technical assistance as required. The ARCC oversees the internal audit function, approving its plans and scope, its resources and considers the reports produced.

Cenkos has a framework for monitoring the adequacy of its liquidity and financial resources, and formally assigns responsibility for overall balance sheet management to the CEO. Cenkos performs daily and monthly calculations to monitor its financial resources. This information is provided to the Board who consider it when assessing risk policies and risk appetite.

Financial regulatory reports are provided to the FCA as appropriate and the ICAAP, ILAA and Recovery Plan are approved by the Board at least annually.

The system of internal control is designed to manage rather than eliminate the risk. As such it can provide only reasonable but not absolute assurance against material misstatement or loss.

Declaration

As noted on page 43 of the 2021 Annual Report, The Board is responsible for the overall adequacy of the Company's system of internal controls and risk management. The Board has delegated responsibility to the ARCC for reviewing and monitoring the effectiveness of the Company's systems of risk management, regulatory compliance and internal control.

Its other key responsibilities include:

- Monitoring the content and integrity of financial reporting.
- Reviewing appropriateness of accounting estimates and judgements.
- Reviewing the Company's risk and compliance policies.
- Reviewing the Company's regulatory reporting procedures and relationship with the regulators.
- Reviewing the Company's risk appetite and making recommendations to the Board.
- Reviewing and approving of financial and other risk limits and adherence to them.
- Reviewing and challenging the Company's process for the ICAAP and the ILAA.
- Reviewing the performance of the Internal Audit function.
- Reviewing the performance of the External Auditors.

Accordingly, the Board confirms that throughout the year ended 31 December 2021 and up to the approval date of the Annual Report, there has been an on-going process of identifying, evaluating and managing the significant risks faced by the Company.

Principal risks and controls

An awareness and appreciation of risks to which our activities are exposed are built into our culture where employees are encouraged to take responsibility for ensuring that the identification, escalation and management of risk, be it reputational, operational, conduct, or other risks specific to their own business area, are integrated into their own working practices and thereby ensuring a robust governance framework from the bottom up as well as from the top down.

The day-to-day management of risk has been delegated by the Board to the senior executives across the Firm overseen by the Audit, Risk and Compliance Committee (ARCC) and underpinned by robust systems and controls proportionate with the Firm's risk appetite and governance arrangements.

Cenkos prides itself on its entrepreneurial and commercial approach, focussed on generating value and the best outcomes for its clients. However, the Board recognises that this must be balanced with a culture that seeks to ensure that all significant and relevant risk exposures are identified and appropriately managed and that mitigation strategies employed are effective.

The Governance policy and framework section on page 25 of the 2021 Annual Report describes how the Board receives input from other key governance committees along with the framework employed by the Company to manage the risks faced in the normal course of business.

In financial terms, the Board's policy aim is to hold sufficient regulatory capital that, at a minimum, it will meet its own interpretation of the most severe but plausible stress test measures and, thereby, maintaining an additional capital buffer available for use should adverse circumstances arise outside the Firm's normal and direct control.

The principal risks to which the Firm is exposed are set out in the following table. Although not exhaustive, this highlights the risks that are currently considered to be of most significance to the Firm's activities and which could affect the ongoing financial health of the Firm.

	Description	How the risk is mitigated	Change in the year and trend in residual risk
People	At Cenkos the health and well-being of our employees is of fundamental importance as they are central to our success in delivering high quality service and advice to our clients and are a critical factor in determining the long-term success of the business. Attracting, developing and retaining talent is essential to maintain the Company's competitive advantage.	The retention, professional development and growth of our people remains at the top of the Board's agenda. We seek to minimise people risk by creating the right culture and working environment to drive the best outcomes for clients and by positively rewarding our people with a competitive total remuneration package. Company-wide culture surveys are used to drive employee engagement and understand their views and opinions. Our business continuity plans have evolved to ensure our ongoing operational resilience providing long-term support to employees working remotely, including the provision of IT solutions and equipment to ensure they can operate effectively from home.	Further improvement in the Firm's financial performance in 2021 has meant an increase in variable remuneration payments to staff. During 2021, Cenkos ran several share incentive schemes, which now mean that all staff have an interest in the Firm's equity. The schemes will be run again in 2022. Demand for talent is high. This risk is therefore likely to remain high throughout 2022. No change in residual risk after mitigating actions. **No Change**
Health of financial markets and investor sentiment	Our income is heavily dependent upon the health of the financial markets and in particular the economic conditions of the UK and how they impact the equity capital markets.	Cenkos continues to demonstrate success in raising capital for its corporate clients. The Company's financial performance has further enhanced its cash and capital position. This success, combined with the Company's strong institutional relationships and its flexible business model, means it is well-placed to withstand financial turmoil.	The war in Ukraine and global sanctions which continue to be applied to entities and individuals connected with the Russian Federation, in the short term at least mean it is unlikely that the broadly positive market conditions seen at the start of 2022 will continue. Although Cenkos has no direct links to the Russian Federation, it is reliant on the health of financial markets and investor sentiment. There are signs of a cooling in global markets as the war in Ukraine and lingering effects of COVID-19 continue to affect the labour market and supply chains, which in turn is stoking inflation. Along with the UK's departure from the European Union and the impact of climate change, all have the potential to detrimentally impact investor sentiment and the health of the financial markets. The risk is likely to remain high in 2022. **No change**

	Description	How the risk is mitigated	Change in the year and trend in residual risk
Reputational	One of the most significant risks the Company faces is the damage to our reputation and the potential impact that may have on relationships with our stakeholders including our clients and shareholders and the future performance of the business. Reputational risk can arise from financial, operational, legal or conduct risks or a failure to meet the expectation of one of the Company's stakeholders.	The Board sets the Company's cultural tone by requiring a strong ethical and professional culture with a commitment to diversifying its cognitive thought. All new business is subject to rigorous multi-tier and multi-disciplinary committees each of which must approve any new business and/or appointments. These are both chaired by Nick Wells, Co-Head of Corporate Finance and Sponsor Services, with other independent, skilled and experienced members to appropriately support and challenge. Emphasis is placed upon hiring the right people with a strong work ethic and professional mindset. We regularly engage with stakeholders and market practitioners to understand how our reputation is perceived.	Given our market share of both IPO and secondary fund raisings in 2021, we believe our reputation remains strong. This has been enhanced by the Company's ability to continue to operate effectively and raise funds for its corporate clients throughout the ongoing period of uncertainty brought about by the COVID-19 pandemic including completing 34 transactions and two IPOs. There is, however, no room for complacency with a continued focus on all mitigating factors. The residual risk remains static. **No change**
Strategic	The Board recognises that the key to the Company's long-term success is the clear articulation and execution of its strategy.	The Executive Committee (ExCo) is subject to robust and healthy challenge from the Board and its sub-committees on the Company's strategic direction and execution. The Board reviews strategy execution and the risks that threaten the achievement of the strategy. The corporate governance structure and relatively small size of the Company ensures that the Board has sufficient, well-articulated, timely and accurate information on which they can make informed decisions and gain appropriate levels of assurance.	Cenkos' growth in revenue and profits in 2021 have further reinforced its already healthy cash and capital position. Combined with the increase in size of the client base demonstrate a reasonable execution of the strategy. 2022 has started well with the completion of several transactions including three IPOs, although there are signs of a cooling in global markets and competition for clients mean this risk remains high. **No Change**
Conduct, regulatory & legal	Conduct risk is defined as the risk that inappropriate behaviour, conduct or practices result in poor outcomes for clients, the Company or for the wholesale markets. Regulatory and legal risk is the risk of fines, penalties, sanctions or legal action arising from the Company's failure to identify or meet regulatory, legislative or its legal requirements. The Senior Managers and Certification Regime has rightly put the focus on senior management and those performing FCA certification functions to be responsible and accountable. The Conduct Rules, which accompanied this in many ways, codified what is and should be the right behaviour and ensure the right culture.	The Company monitors and updates systems and controls where necessary and as new regulation and legislation requires this or where market practice and regulatory expectations develop. Continued enhancement of the Company's systems and controls remains a focus for the Compliance Function together with a continued strengthening of the corporate governance framework. Training continues to be carried out through a combination of internal training delivered by the Head of Compliance and other senior managers and external third parties as appropriate. The senior management team has continued to improve communication techniques to demonstrate leadership and enable close oversight of the Company's business activities.	Regulatory obligations are significant, and the pace of change continues with the supervisory imperatives set forth by the FCA together with ongoing changes as a result of the UK's withdrawal from the EU, the continued focus on sustainability issues including the increase in prominence of ESG factors in business operations, company disclosures and investor sentiment and the role that the financial services sector plays in this important area. We continue to strengthen our systems and controls to ensure the Company's robust approach to its regulated activities enables it to remain relevant and focussed. The ongoing remote working environment, embedding of the certification regime within the Firm and the increased focus on conduct and operational resilience in light of COVID-19, the residual risk remains static. **No Change**

	Description	How the risk is mitigated	Change in the year and trend in residual risk
Operational resilience	Operational risks can arise from the failure of the Company's core business processes or one of its third-party providers which then materially impact its ability to provide services to clients.	We aim to be able to sustain resilient operations and client services with minimum disruption from a combination of strong supplier relations, cloud-based data storage, remote collaborative communication tools and business continuity planning. Senior management is actively involved in identifying and analysing operational risks to find the most effective means to mitigate them particularly where these involve the outsourcing of critical or important functions.	Operational risk exposures remain at similar levels to those in prior years, with the exception of technology, information security, cyber security and fraud, where the risk has increased as a result of the pandemic and the shift to online platforms. We continue to invest in systems and training our people to understand and manage those risks, especially in the hybrid working environment. Consequently, the residual risk after mitigating actions remains static. No Change
Financial	Financial risks are set out and described in more detail in note 24 to the financial statements. Financial risks include: ▪ Market; ▪ Credit/Counterparty; ▪ Liquidity; and ▪ Capital.	As a regulated entity, the Company is required to stress test its business model under various scenarios to measure its resilience in terms of its solvency and liquidity and its recovery capacity under stress. Previously, this was conducted under the Internal Capital Adequacy Assessment Process (ICAAP), the Individual Liquidity Adequacy Assessment (ILAA)) and (Recovery and Resolution Plan (RRP)), although from January 2022, this will be combined under the Internal Capital and Risk Assessment (ICARA) process. These reports are updated regularly and reviewed by the ARCC and Board – see the Governance section.	The war in Ukraine and global sanctions which continue to be applied to entities and individuals connected with the Russian Federation, the lingering effects of COVID-19 on the labour market and supply chains and inflationary pressure all have the potential to detrimentally impact market conditions. These stresses have been modelled, in all but name, in the stress tests detailed in the Firm's ICARA. In addition, the strength of the Company's balance sheet, the flexibility of the business model and low fixed cost base, results in it being well placed to face the challenges ahead. Notwithstanding this strength, the financial risk remains high, similar to the previous year. Consequently, the residual risk after mitigating actions remains static. No Change

IV. Scope of application (Article 436)

Cenkos is regulated by and to the FCA on an individual and a fully consolidated basis as a full scope IFPRU 730k investment firm (FRN 416932).

V. Own funds and capital requirements (Article 437, 438, 445, 446 & 447)

As noted earlier, Cenkos has a Board approved ICAAP, which documents senior management's assessment of the risk profile of the business and the resulting capital requirements. The risk profile is assessed against mitigants and controls in place and is reasonably designed to ensure that sufficient capital is maintained to withstand the resulting residual risk. This includes stress testing the results to ensure that there is adequate capital available under such conditions.

Cenkos calculates and reports its capital resources and requirements in accordance with the current FCA regulations as laid out in IFPRU. In addition to providing reconciliation between total equity per the 2021 Statement of financial position and capital for regulatory reporting purposes, [in accordance with Article 437 (1) a], the following table summarises the capital resources available and the capital requirements under Pillar 1 from a Company perspective:

Company	see note		31/12/2021 £ 000's
Total capital held			
Share capital - Ordinary shares		567	
Share premium		3,331	
Capital redemption reserve		195	
Own shares		(8,360)	
FVOCI reserve		(170)	
Retained earnings		31,424	
Total equity per audited financial statements			26,987
Final 2021 dividend declared March 2022			(1,593)
Total tier 1 capital			25,394
Tier 2 & 3 capital			-
Total capital	***1***		**25,394**
Pillar 1 capital requirement			
Credit risk requirement			
Non trading book	***2***		1,495
Counterparty risk	***3***		1
Market risk requirement			
Position risk	***4***		766
Foreign exchange risk	***5***		284
Operational risk requirement	***6***		4,735
Total pillar 1 capital requirement		**349%**	**7,281**
Surplus over pillar 1 capital requirement			**18,112**
Total pillar 1 & CCB capital requirement	**7**	**265%**	**9,575**
Surplus over pillar 1 & CCB capital requirement			**15,819**

Source: Cenkos Securities plc

Notes

1. Capital composition

Total capital comprises solely of tier 1 capital as Cenkos does not hold any tier 2 or 3 capital or instruments. Tier 1 capital includes ordinary share capital, audited retained earnings, a deduction for the cost of shares held by the Cenkos Securities Employee Benefit Trusts and a deduction for the final 2021 dividend declared.

2. Credit risk requirement: non trading book

Cenkos uses the standardised approach to calculating credit risk on non-trading book assets. As outlined in article 112 onwards of CRR, each exposure is assigned to an exposure class and a risk weighting applied according to that class or where appropriate the exposures' credit quality step to give the risk weighted exposure as per the table below:

Table 2: Credit risk by exposure class

Exposure class	balance	risk weighting	risk weighted exposure	capital charge	requirement
	£ 000's	%	£ 000's	%	£ 000's
Central governments or central banks	1,461	various	2,401	8%	192
Institutions [(1)]	34,014	various	6,941	8%	555
Corporates [(2)]	2,241	100%	2,241	8%	179
Equity [(3)]	3,135	100%	3,135	8%	251
Other items	3,975	100%	3,975	8%	318
			18,693		1,495

Source: Cenkos Securities plc

[(1)] Where available, an ECAI rating (Source: Fitch) has been used to risk weight exposures to Institutions. Credit exposure to Institutions is broken down by credit quality step in the table below:

Credit quality step	Risk weighting	Exposure	Risk weighted exposure
	%	£ 000's	£ 000's
1	20%	20,725	4,145
2	20%	13,115	2,623
other	100%	173	173
		34,014	6,941

Note: of the £34.0m exposure noted above, £33.4m is represented by cash deposits with banks.

[(2)] Risk weighted exposure amount after SME supporting factor.

[(3)] Includes: Includes: warrants and share options acquired or received in lieu of fees. The warrants and share options are carried as financial assets at Fair Value through Profit or Loss ("FVTPL") respectively and classified as level 3 as the valuation techniques used involve one or more non-observable significant inputs. An analysis of the movements in level 3 instruments is given in note 24 of the Company's 2021 Annual Report.

Past Due and Impaired Financial Assets

A financial asset is past due when the counterparty has failed to make a payment when contractually due. An exposure is considered to be impaired when there are indications that likelihood of full repayment is in doubt and therefore the carrying value exceeds the amount to be recovered through use or sale. Such indications may include ageing of the debt, persistent lack of communication from the debtor and internal awareness of a third-party's trading difficulties or inability to pay the amount due. Trade and other receivables include amounts due from Cenkos' corporate and investment trust clients for corporate finance advisory services and retainer fees. An allowance for doubtful receivables is made on a case-by case basis where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. In addition, the Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit Exposure by Geographical Distribution

Of the credit exposures totalling £45.2m (before SME supporting factor), 99% of the exposures are inside the UK.

3. Credit risk requirement: counterparty risk

Cenkos has credit risk including counterparty risk on outstanding settlements and on non-trading book assets. Settlement/delivery risk is calculated on adverse movements in price on unsettled delivery versus payment transactions. Using the method outlined in Article 378 of CRR, the exposure (adverse movement in price) created by each trade is multiplied by the appropriate factor, determined by the age of the balance. The factors applied are as follows:

Table 3: Counterparty risk factors

Number of working days after due settlement date	Risk factor
1-15	8%
16-30	50%
31-45	75%
46 and over	100%

Source: Cenkos Securities plc

4. Market risk: position risk

Cenkos calculates its Position Risk Requirement ("PRR") using the standardised approach. The vast majority of Cenkos' holdings at any given time would be made up of UK (or other qualifying market) listed equities (both LSE and AIM). Under the standardised approach to market risk under Pillar 1, the appropriate PRR weightings are calculated as the sum of market risk (the general risk inherent in the market) and specific risk (the risk specific to the instrument issuer or the instrument itself) and are typically as follows:

Table 4: Position risk requirement weightings

Security type	Market risk	Specific risk	Total PRR weighting
Equities	8%(i)	8%(i)	16%
CIU's (art 348 – no look through)	16%(ii)	16%(ii)	32%
CIU's (art 350 – look through to underlying equities)	8%(ii)	8%(ii)	16%

Source: Cenkos Securities plc

(i) Equity market risk is calculated on the net exposure per country portfolio, while specific risk is calculated on the aggregate of the absolute gross exposure values.

(ii) Collective Investment Undertakings ("CIU") are subject to a combined specific and general risk of 32% of the aggregate of long and short positions.

The definition of CIU's has been extended under Basel III to include not only Undertakings for Collective Investment in Transferable Securities ("UCITS") but also Alternative Investment Funds ("AIFs") and non-EU AIFs. This means closed-ended quoted investment funds are now covered by this extended definition. Consequently, the PRR is calculated at a rate of 32% of the aggregate of long and short positions. Article 350 of the CRR allows, under certain circumstances, a "look through" approach to calculate the market and specific risk on the underlying assets using percentages appropriate to those classes of assets.

5. Market risk: foreign exchange risk

Foreign Exchange PRR risk is calculated using the standardised approach, typically 8% of net exposure. Cenkos is exposed to foreign exchange risk due to holding some USD and Euro denominated shares and balances in its Euro, US Dollar bank accounts.

6. Operational risk

Cenkos applies the Basic Indicator Approach ("BIA") for operational risk. Under the BIA, the capital requirement is equivalent to 15% of the rolling annual average of the last three years' audited net interest and non-interest income.

7. Combined Capital buffer

In addition, Cenkos is also required to maintain a Combined Capital Buffer ('CCB') to be met with Common Equity Tier 1 capital, to provide for losses in the event of stress. This comprises the:

- Capital conservation buffer which on 31 December 2021 is calculated as 2.5% of total risk exposure amount; and

- Counter Cyclical Buffer which is calculated as the total risk exposure amount multiplied by the weighted average of the Counter Cyclical buffer rates that apply to exposures in the jurisdictions where the firm's relevant credit exposures are located. On 31 December 2021, the geographical distribution of the firm's relevant credit exposures meant the Counter Cyclical Buffer rate came to 0.02% of the total risk exposure amount.

Therefore, on 31 December 2021, the CCB equates to 2.52% (2.50% + 0.02%) of total risk exposure amount, which is equivalent to 31.5% (2.52% / 8%) of Pillar 1 risk requirement.

Interest Rate Risk in the Non-Trading Book

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. Cenkos' interest-bearing assets are predominantly cash or cash equivalents which are subject to floating rates of interest. It has no external debt. The firm's exposure to fluctuations in the market rate of interest is, therefore, immaterial.

VI. Remuneration Policy (Article 450)

The Remuneration Policy Statement can be found in the Investors section of our website (www.cenkos.com).

VII. Leverage Ratio (Article 451)

The leverage ratio is calculated as the firm's Tier 1 capital divided by the total exposure value of all assets and off-balance sheet items not deducted when determining the capital measure.

Table 5: Leverage ratio

	31/12/2021
	£ 000's
Total assets in the 2021 Statement of financial position	56,365
Own shares	(8,360)
Total Exposure value	48,005
Tier 1 Capital	25,394
Leverage Ratio	52.9%

VIII. Return on Assets (Article 90 CRD)

Under Article 90 of the CRD, return on assets is calculated as net profit divided by total balance sheet assets. This is disclosed in the table below:

Table 6: Return on assets (Article 90 CRD)

	31/12/2021
	£ 000's
Profit after tax	3,398
Total assets	56,365
Return on total assets	6.03%

Figures extracted from Cenkos audited 2021 Annual Report.

IX. Country by country reporting (CRDIV)

The figures in the table below have been extracted from the 2021 Annual Report.

Name	Nature of activities	Geographic location	Average number of employees	Turnover	Profit before tax	Corporation tax paid
				£ 000's	£ 000's	£ 000's
Cenkos Securities plc	Institutional Stockbroker	UK	91	37,225	3,950	783

The Company has received no public subsidies.