MAREX

Pillar 3 Disclosures 2020

Metals | Energy | Agriculture | Financial Futures Options

www.marex.com

CONTENTS

1 INTRODUCTION

The Capital Requirements Directive ('the Directive'), the European Union's implementation of the Basel II Accord, establishes a regulatory framework comprising of three 'Pillars':

- Pillar 1 sets out the minimum capital required to meet a firm's credit, market and operational risks;
- Pillar 2 requires a firm to undertake an Internal Capital Adequacy Assessment Process ('ICAAP') that establishes whether the Pillar 1 capital is adequate to cover all the risks faced and, if not, calculates the additional capital required. The ICAAP is reviewed by the Financial Conduct Authority ('FCA') through a Supervisory Review and Evaluation Process ('SREP'); and
- Pillar 3 requires a firm to disclose specific information concerning its risk management policies and procedures as well as the firm's regulatory capital position.

From 1 January 2014, Marex Spectron Group Limited ('the Group') was required to comply with Basel III requirements, which are implemented through the Directive and the Capital Requirement Regulation ('CRR'), collectively referred to as CRD IV. These regulations are also implemented in the UK through the Prudential Sourcebook for Investment firms (IFPRU) and Prudential Sourcebook for Banks, Building Societies and Investment firms (BIPRU).

This document contains the disclosures outlined in Part Eight of the CRR and FCA BIPRU 11, fulfilling the disclosure requirements under these regimes and making them accessible to clients and market participants.

2 DISCLOSURE POLICY

In accordance with BIPRU 11.3.3 (FCA) and Article 431 (CRR), the Group has adopted a formal disclosure policy to comply with the requirements set out in CRD IV, and has policies in place for assessing the appropriateness of the disclosures, including verification and frequency.

Disclosure requirements are assessed to reflect the risk profile of the firm. Where information has been deemed to be immaterial, confidential or proprietary in nature, the Group has taken advantage of Article 432 of the CRR where a firm may omit one or more of the required disclosures on these grounds.

In accordance with BIPRU 11.3.8 and BIPRU 11.3.10 (FCA), Article 433 and 434 (CRR), the Group will publish this disclosure at least annually on the Group's website.

3 SCOPE AND APPLICATION OF DIRECTIVE REQUIREMENTS

3.1 OVERVIEW OF THE GROUP

The Group is a leading broker whose primary business is providing clients with access to execution and clearing services in both Over-The-Counter ('OTC') and Exchanged-Traded markets for commodity and financial products. The Group is subject to supervision by the FCA under BIPRU 8.4 and Chapter 2 of the CRR.

The Group owns and controls two entities that are authorised and regulated by the FCA:

- Marex Financial (442767) - regulated activities include execution and clearing on exchange-traded products and FX products and acting as principal to OTC commodity derivatives contracts. The firm is a full scope IFPRU 730K investment firm.
- Marex Spectron International Limited (193027) - regulated activity includes arranging transactions in commodity derivatives. The firm is a limited licence IFPRU 730k investment firm.

Marex Spectron International Limited is also supervised by the National Futures Association ('NFA') on behalf of the US based Commodity Futures Trading Commission ('CFTC').

The Group owns and controls four subsidiaries that have authorisations in foreign jurisdictions:

- Marex North America LLC – regulated by the CFTC in the USA;
- Marex Hong Kong Limited – regulated by the Securities and Futures Commission ('SFC') in Hong Kong;
- Marex Spectron Asia Pte. Ltd - regulated by the Monetary Authority of Singapore;
- Marex Spectron Europe Limited – regulated by Central Bank of Ireland ('CBI') in Ireland;
- BIP AM SAS – regulated by the Autorité des Marchés Financiers ('AMF') in France; and
- X-Change Financial Access LLC – regulated by the CFTC and the Securities and Exchange Commission ('SEC') in the USA.

For the purpose of the Directive, all of the above entities are fully consolidated for Regulatory Reporting purposes and are disclosed at the Group Level in the Pillar 3 Disclosures.

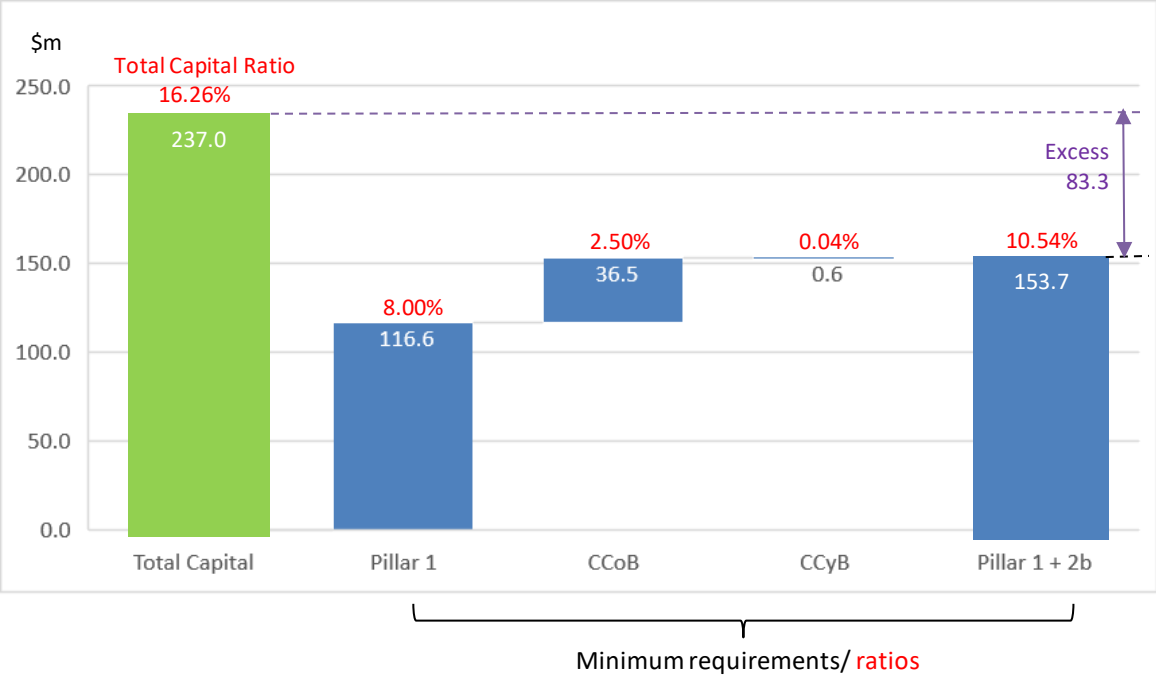
There are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between any of the above entities.

3.2 TOTAL CAPITAL RATIO

The Group is required to maintain a minimum capital ratio, based on the following:

- Pillar 1 requirement of 8%
- Combined buffer requirement based on the Capital Conservation Buffer (CCoB) and the Countercyclical Buffer (CCyB).
- At 31 December 2020, the CCoB was 2.5% of the Total Risk Exposure Amounts (TREA) and the CCyB was 0.04% of the TREA.

3.2.1 Total Capital Ratio as at 31 December 2020



The Total Capital Ratio is Total Capital Resources of the Group, over the Total Risk Exposure Amounts (TREA). The Pillar 1 requirement is 8% of TREA. The Group's Capital Resources are comprised of $231m of the Common Equity Tier 1 (CET1) capital and $6m of Tier 2 capital.

In addition, an Individual Capital Guidance (ICG) ratio is required to be held by the FCA to meet the overall financial adequacy rule (IFPRU 2.2.1R) and overall liquidity adequacy rule (BIPRU 12.2.1R). The Group held significant surplus capital over its total requirements as at 31 December 2020.

4 RISK MANAGEMENT

The Group views risk management as a key consideration in delivering its strategic business aims and objectives, whilst ensuring the Group's long-term sustainability and effective corporate governance. The Group's business strategy and risk appetite are linked and form the driver for decision-making across the Group to ensure risk taking remains within the defined boundaries to support business strategy, effective management of capital and efficient use of liquidity.

To ensure effective risk management practices permeate throughout the business there is a comprehensive risk management governance structure in place, articulating the control mechanisms to identify, measure, assess, monitor, control and report on underlying risks. This governance structure is articulated within the Group's Enterprise Wide Risk Management (EWRM) Framework which is enabled by people, processes and systems and sets the foundations and organisational structure for implementing and reviewing risk management practices and activities across the Group.

The Group Board has overall responsibility for ensuring an appropriate governance framework for The Group.

Purpose of the framework is to articulate the control mechanisms to identify, measure, asses, monitor, control & report on underlying risks, ensuring:

- Consistency in approach to risk management across thew Group
- Appropriate measurement, evaluation, aggregation, comparison and control of risks
- Sets governance and control structures to effectively implement risk management strategies.
- Targeted and regular reporting on risk exposures, or concentration.

The Group EWRM Framework is reviewed annually by Risk Management, or more frequently where material changes occur, and approved by the Group Board every three years. The framework is cascaded to relevant senior management to ensure business and risk strategies are formulated and reported consistently.

4.1 COMPONENTS OF THE EWRM FRAMEWORK

4.1.1 RISK CULTURE

Risk culture describes the values and behaviours present throughout the organisation which shape risk decisions made by each employee. The risk culture is consistent with the Group's ethics and values, strategic and risk objectives.

Responsibility for risk management resides at all levels within the Group, from the Group Board and the Board Executive Committee down through the organisation to each business manager, employee and risk specialist. Responsibility for effective review and challenge of risk policies reside with senior managers, risk oversight committees, internal audit, independent Group risk function, the Group Board and the Risk Committee.

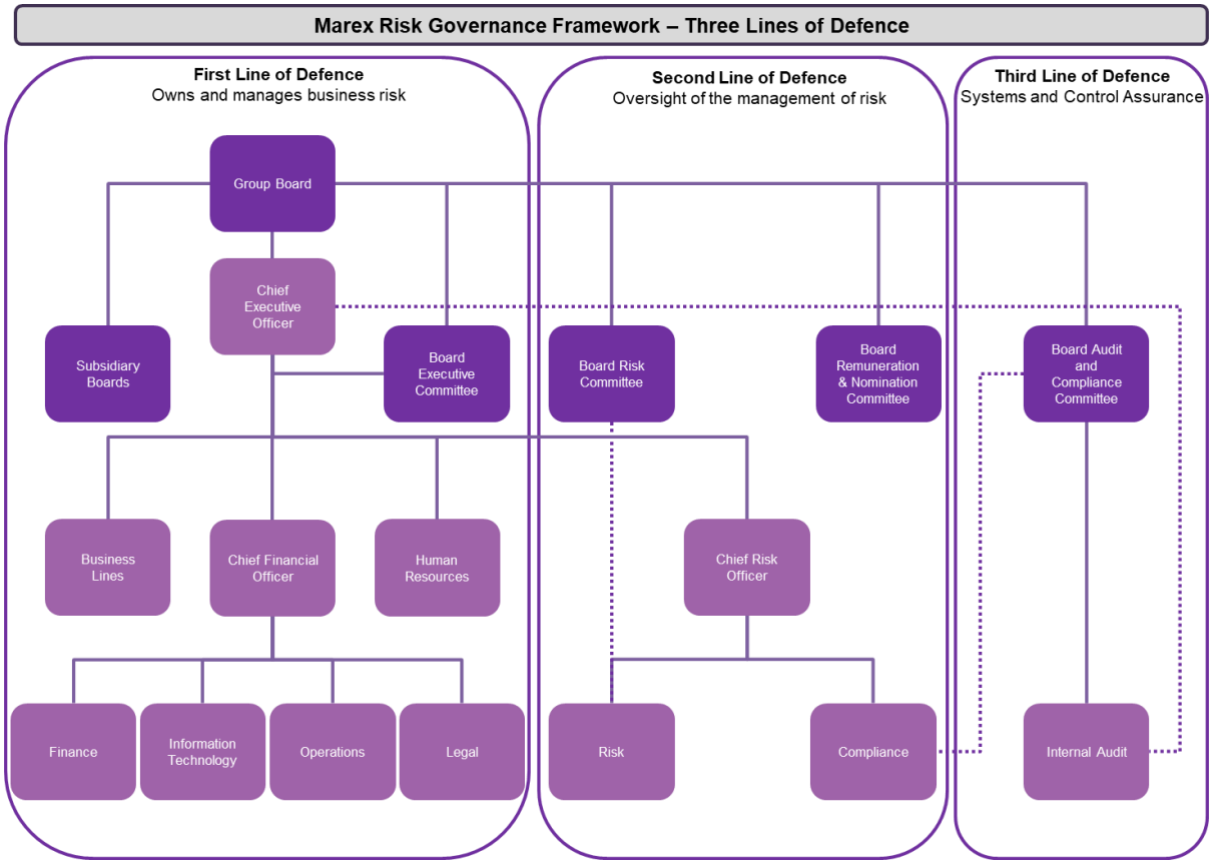
All individuals within the Group should understand its risk and compliance rules, which is fostered through a risk-aware culture and the embedding of risk management throughout the organisation. The Group's risk culture objective is for

every employee to take personal accountability for recognising current and potential risks and managing them effectively.

4.1.2 RISK GOVERNANCE

The Group has adopted the 'Three Lines of Defence' model in conjunction with a strong risk culture, good communication and understanding. The approved risk governance model includes the Group Board, the Board Executive Committee and the Risk Committees that form the management of risk governance within the Group. Within the risk infrastructure, key risk governance personnel are aware of their key roles.

Information flows and reporting lines are clearly communicated to the relevant personnel and are represented on the risk governance model. The model includes role and responsibility allocation between the organisation centre and business units.



The **first line of defence** for day-to-day risk management is with the business units and support functions. They are responsible for understanding and adhering to the risk and control environment. Front line employees must consider the risk / reward trade off in the short and long term and must ensure compliance with all risk policies and limits. The first line is responsible for the ongoing assessment, monitoring and reporting of risk exposures and events.	The **second line of defence** is the internal control function which includes the Risk Management and Compliance Functions. These teams provide independent risk oversight and challenge to the first line, and supervision of the operation of the risk control framework. Responsibilities also include the formulation and maintenance of risk frameworks, policies and risk reporting.	The **third line of** defence is the Group's Internal Audit Function, who provide independent assurance of the first and second lines. Internal Audit carries out an annual programme of risk-based audits covering all aspects of first- and second-line risk management and risk control activities. The conclusions of each risk-based audit carried out by Internal Audit are reported to all Three Lines of Defence. Internal Audit action plans are tracked through the Audit & Compliance Committee to ensure that resolutions are reached within the indicated timescales.

4.1.3 ROLES AND RESPONSIBILITIES

The scale, knowledge and composition of the Board and separate supervisory committees outlined below are appropriate to achieve the strategic aims of the Group. The Board and subsequent committees provide appropriate challenges, checks and balances to the executive committee which allows for an enhanced risk governance model.

The roles and responsibilities of core functions within the Group are summarised, below:

	Roles & Key Responsibilities
Board of Directors	• Sets 'tone at the top', risk culture and risk philosophy • Oversees establishment and maintenance of business plan and risk strategy • Sets Risk Appetite • Reviews and approves risk strategies, risk management and control framework, risk policies and key risk limits • Monitors risk profile of the businesses and ensures adequate financial resources are in place to meet regulatory and business requirements • Provides oversight for effective functioning of internal control systems The Group Board is structured such that directors bring to the Group a balance of skills, knowledge and experience. The Group Board is comprised of: ○ Independent Non-Executive Chair ○ Chief Executive Officer (Executive Director) ○ Chief Financial Officer (Executive Director) ○ President (Executive Director) ○ One* Independent Non-Executive Director ○ Seven Non-Executive Directors (representing the Shareholders) **appointment of a further Independent Non-Executive Director pending as at 31 December 2020.*
Board Executive Committee	• Assists the Board in the development of strategy, business initiatives and policies and executes the strategy and policies approved by the Board • Implements business initiatives consistent with the strategy determined by the Board; • Refers matters requiring decisions to the Board where they are of such importance as to be of significance to the Group as a whole because of their strategic, financial or reputational implications or consequences • Monitors the Group's business performance, and financial performance against budget • Reviews business and control & support initiatives • Reviews significant business and operational issues arising on a timely basis • Considers risk issues referred to the Committee by the CRO • Considers regulatory issues referred to the Committee by the Head of Legal and Compliance The Board Executive Committee is chaired by the Chief Executive Officer.
Risk Committee	• Provides oversight and advice to the Board on current risk exposures and future risk strategies • Has primary oversight of the Internal Liquidity Adequacy Assessment (ILAA) and the Internal Capital Adequacy Assessment (ICAAP) • Advises the Board on decisions regarding the overall Risk Appetite, tolerances and risk strategy • Approves and monitors appropriate limits on risk exposures and concentrations across the business • Advises the Nomination and Remuneration Committee on risk factors to consider in

	Roles & Key Responsibilities
	determining performance objectives for the remuneration and incentive structures for the CEO and Executive team The Risk Committee is comprised of: ○ Chair: Independent Non-Executive Director ○ Members: Three Non-Executive Directors ○ Attendees: Chief Risk Officer, Chief Executive Officer, Chief Financial Officer, Group Head of Compliance, President, Group Chair, Head of Finance and the Head of Risk.
Nomination & Remuneration Committee	• Reviews and recommends the Remuneration Policy to the Board • Recommends remuneration levels for Board members, senior management, Chief Risk Officer, Head of Compliance, Head of Internal Audit, Group HR Director and key employees to the Board • Presents self-assessment of compliance with the FCA's Remuneration Code to the Board The Committee is comprised of: ○ Chair: Non-Executive Director ○ Members*: One Independent Non-Executive Director and two Non-Executive Directors ○ Attendees: Chief Executive Officer, Group HR Director ** A further Independent Non-Executive Director will be added as a member once appointed to the Group Board.*
Audit & Compliance Committee	• Reviews the systems of internal control, including the effectiveness of policies, controls, risk identification and control, detection and prevention of fraud and compliance with legal and regulatory requirements • Examines Internal Audit reports on internal control systems and management responses and ensures timely resolution of issues. • Approves, monitors and challenges the scope of Internal Audit reviews relative to risk exposures • Ensures Internal Audit is adequately resourced and is appropriately regarded by the business The Committee is comprised of: ○ Interim Chair*: Non-Executive Director ○ Members*: Two Non-Executive Directors ○ Attendees: Global Head of Internal Audit, Group Head of Compliance, Chief Financial Officer, Head of Treasury, Chief Executive Officer, Chief Risk Officer and Head of Finance ** as at 31 December 2020 a Non-Executive Director acts as Interim Chair pending the appointment of an additional Independent Non-Executive Director to Chair the Committee.*
Acquisitions & Disposals Committee	• The Acquisitions & Disposals Committee meets as required and is tasked with evaluating potential acquisition and/or divestment of companies, businesses and/or teams, as proposed by management. The Committee recommends proposals to the Group Board. The Committee is comprised of: ○ Chair: Independent Non-Executive Chair ○ Members: Three Non-Executive Directors ○ Attendees: Chief Executive Officer, Chief Financial Officer

Roles & Key Responsibilities	
CEO	• Has primary responsibility for identification and evaluation of risk and designing, implementing and maintaining suitable internal control systems • Recommends Risk Appetite, risk strategies, EWRM framework, the financial risk limits and risk policies to the Board • Ensures management of risks in line with parameters approved by the Board • Ensures changes to internal control systems recommended by Internal Audit and the Audit Committee are appropriately implemented
CRO	• Has accountability for enabling the efficient and effective governance of significant risks and related opportunities across all segments of the business • Guides the Board Executive Committee on formulation of risk appetite, strategies, policies, delegated authorities and limit structures for the management of risk across the business • Provides independent, informed and objective challenge to the executive line management on the management of strategic and other key risks • Identifies, escalates and oversees the resolution of risk management issues • Advises the Board Executive Committee, risk sub-committees and the Board on developing industry risk management practices, regulatory requirements and impacts on existing risk management approaches across the business.

4.2 RISK APPETITE

The Group-wide business strategy is aligned with the Group's risk appetite to guide the Group's business activity and associated risk taking. This ensures structures exist to identify and analyse emerging risks for issues that could become material risks in the future.

Risk appetite is the level of risk the Group Board is willing to take now and over the future planning horizon, given the financial resources of the firm to pursue the stated business and risk strategies. The risk appetite recognises a range of possible outcomes as business plans are implemented. It is set and implemented against the business and risk strategies from the 'top down', cascading from high level objectives set by the Group Board, down through the Group into the formulation of detailed risk measures by specific departments, trading desks, traders and where appropriate to individual risk exposures.

Qualitative Risk Appetite Statements for each risk category are approved by the Board and are supplemented by various qualitative and quantitative risk metrics. The statements underpin the risk appetite and are monitored monthly to three risk appetite levels (Trigger, Limit, and Capacity) across the following areas;

- Performance Based Measures such as People, Processes, Markets and Profitability;
- Risk Based Measures such as Systems, Capital, Liquidity and Volatility; and
- Compliance Based Measures such as Regulatory / Legal, Transformation and Client Money.

The Group's risk appetite is governed by its Risk Appetite Framework which includes measures that assess risks to ensure the successful delivery of the business and risk strategies. These measures are grounded against key balance sheet and profit and loss figures, as well as other specific measures and qualitative assessments. The framework is responsive to changes in Group's business strategy and plans, which ensures that the Risk Appetite is aligned with changes in the Group's overall strategic goals.

4.3 RISK MANAGEMENT TOOLS

Risk management tools and methodologies form part of the Group's risk management toolkit and assist in fulfilling the risk mandate in understanding the risks its exposed to and how to communicate those risks.

4.4 RISK IDENTIFICATION AND ASSESSMENT

The Group's Risk Characterisation Model, (RCM), considers a range of risks the Group faces. This model forms an integral part of the EWRM Framework and serves as an effective linkage to risk appetite. The risks identified through the RCM model forms the basis of the ongoing risk assessment of the Group and is a foundation of the ICAAP process.

The RCM is reviewed on an ongoing basis and formally on an annual basis

4.5 RISK MEASUREMENT AND CONTROL

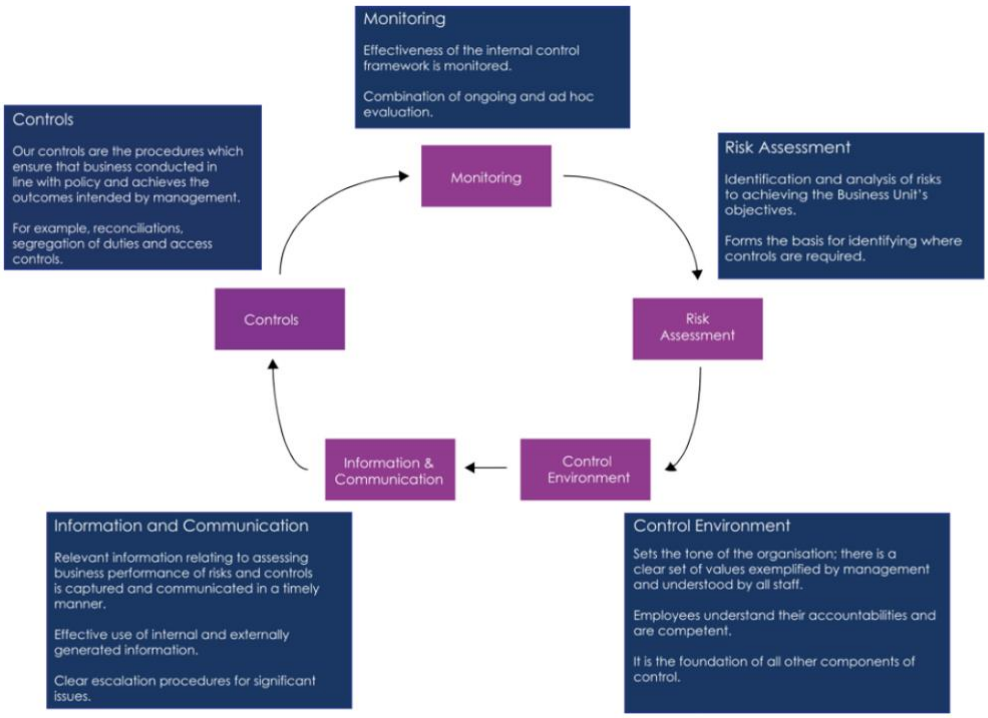
Key risks identified in the RCM are consistently analysed and measured in accordance with approved policies and processes. Key business controls and procedures are implemented to mitigate the risks highlighted by the risk assessment. The Group uses the measures below to varying degrees.

Limit Type	Description
Sensitivity Limits	Effective and direct method for restricting the size of certain risks. It is easily implemented, simple to understand and enables management of highly granular exposure metrics such Vega, Delta, etc.
Concentration Limits	Used where exposure to a specific segment of the market is desirable; E.g. country specific credit risk limits.
Value at Risk	The Group Board VaR limit sets the overall risk appetite in order to meet the Group's business strategy. The CRO has the delegated authority to allocate this limit across business lines taking into account historic diversification of markets. Desk heads have the autonomy to allocate this VaR to their traders, allowing for diversification. VaR is immediately responsive to increases in market volatility or decreases in diversification and this will force the reduction of positions in times of stress.
Stress Testing Limits	Discussion triggers for risk to engage with senior management on risk concentrations which may cause P&L events. Examines market stress events which have a lower probability than the risk captured by VaR. Such a limit breach (or near miss) prompts discussion around size of actual or potential exposure, and management's view on business strategy and risk appetite.
Non-Limit Control Measures	Used to restrict undesirable risk concentrations or mitigate risk. E.g. increasing margin rates required to hold exposures to certain underlying in times of volatility; reducing credit lines (overall / specific); exiting certain types of business or increasing capital to support a desired increase in exposure for a market segment deemed attractive.

4.9 RISK REPORTING

An important part of the risk management remit is regular and appropriate reporting and communication of risk. In line with the governance structure in place, periodic reporting and risk analysis is presented to the relevant governing bodies as well as the relevant risk takers, including the Group Board; Risk Committee; the Board Executive Committee; and daily senior management. The escalation procedures for raising significant issues with managers and supervisors are clear and well embedded across the Group. The Risk Committee held five meetings between 1 January 2020 and 31 December 2020.

The Control Framework consists of the following components:



4.10 RISK CATEGORIES

The risk categorisation model forms an important part of the EWRM Framework and provides a benchmark to evaluate the Group's Risk Appetite. The Group's risk appetite is determined by the Board across a number of dimensions and tracked via a dashboard of targeted key indicators. Risk is monitored and measured against trigger levels, limits and capacity, as determined by the Board.

The framework includes a broad range of risks as described below:.

Risk Type	Description
Credit Risk	Potential loss incurred where a counterparty fails to perform its contractual obligations in a timely manner. The Group control credit risk using a robust framework for the creation, use and monitoring of credit risk models. Additionally, Risk Management support business decision-making and proactive identification of new risks.
Market Risk	Potential loss arising from fluctuations in the values of traded positions due to changes in the value of price, volatility or interest rates within the financial markets. There are robust procedures to measure and set position limits to control market risk with growth facilitated in a controlled and transparent risk management framework.

Risk Type	Description
Operational Risk	Potential loss from inadequate or failed internal processes, personnel, systems or external events. This category includes Conduct Risk, Legal Risk but excludes Strategic/ Reputational risks. Operational risk is captured, assessed and reported to minimise the frequency and impact of risk events on a cost-benefit basis.
Liquidity Risk	Represents the risk that the Group, although solvent, has insufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The Group operates extensive liquidity management processes and procedures that involve scenario stress testing.
Compliance / Legal Risk	Represents the risk to the Group arising from violations of, or non-conformance with, laws, rules and regulations. There are established Legal and Compliance departments to monitor and deal with such risks.
Strategic/ Business Risk	Represents the risk from changes in the business model, including the risk that the Group may not be able to carry out its business plan and desired strategy. It also includes risks arising from the Group's remuneration policy.
Financial Crime Risk	Financial Crime Risk* encompasses five key risk areas: 'Sanctions', 'Money Laundering and Terrorist Financing', 'Bribery and Corruption', 'Tax Evasion' and 'Fraud' risks. Respectively, these represent the risk that the Group: (i) knowingly makes funds or services available, deals in economic resources, directly or indirectly, to or for the benefit of, a designated sanctions target subject to an asset freeze (or an entity majority owned by such a target) listed by sanctions regimes; (ii) partakes in acts of money laundering or terrorist financing either directly or indirectly; (iii) is involved in active or passive bribery, or other acts of corruption; (iv) facilitates, directly or indirectly, the establishment of solutions to evade taxes, anonymise beneficial owners or hide assets of any third party engaged in a relationship with the Firm; and (v) perpetrates fraud, either directly or indirectly through related third parties. Marex Spectron has adopted a holistic approach to financial crime and has one group-wide Financial Crime Policy that sets the minimum control requirement in the five key risk areas. This combined approach allows us to identify and manage connections between the key risk areas. Entity-level policies formally adopt the Group Financial Crime Policy and define any local regulatory requirements that apply to specific entities across the Group. Methodologies and Standards underpin the Group and Entity-Level policies. Methodologies identify, select, process, and analyse Financial Crime Risk. Standards provide the detailed guidance on how to comply with the financial crime policies. Procedures provide the 'step-by-step' instructions to assist process operators in carrying out routine or complex operations consistently in alignment with policies and standards. For each financial crime typology an overarching risk appetite statement has been produced, which is supported by qualitative statements and quantitative thresholds and limits. A set of Key Risk Indicators and Key Performance Indicators measure the quantitative thresholds and limits. These are produced on a quarterly basis in order to assess compliance standards and highlight areas of potential weaknesses. Financial Crime management information is presented to the Financial Crime Committee and Audit & Compliance Board Subcommittee for review and challenge as part of their oversight responsibilities. An annual MLRO Report is produced to articulate and summarise the current risks across financial crime and the adequacy and effectiveness systems and controls in place to combat the risks. The report is presented to the Audit and Compliance Committee each year. *Market abuse, whilst considered a financial crime, is treated as a standalone Compliance risk within Marex Spectron

Risk Type	Description
Concentration Risk	Concentration risk can be defined as any single (direct and/or indirect) exposure or group of exposures with the potential to produce losses large enough to threaten the Group's ability to maintain its core business. Concentration risk can arise from credit concentration to a specific country, or to specific counterparty, revenue concentration, exposure concentration to a specific product or concentrations from specific suppliers. To counter such risk, the Group impose various concentration limits, specifically within credit and market risk exposures.
Settlement Risk	Settlement risk is the risk that arises when payments are not exchanged simultaneously. it is a type of counterparty risk associated with default risk as well as timing differences between parties. Robust policies and procedures ensures that Group settlement risk is kept to a minimum.
Technology Risk	Technology risk, or information technology risk, is the potential for any technology to disrupt the business. Risk management includes the strategies, processes, systems and people aimed at effectively managing potential technology risks. The goal of cybersecurity risk management is to identify potential technology risks before they occur and have a plan to address those technology risks. Risk management looks at internal and external technology risk that could have an effect on the Group.
Group Risk	Group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole Group. For Marex Spectron, this risk is small because over 90% of the market risk and credit risk faced by the group sits within Marex Financial Limited, the main trading entity.
Reputational Risk	Reputational risk is viewed as a secondary risk by the Group, one resulting from the impact of other risks, such as operational risk or compliance risk. It is important to note, that all departments have their own control processes and procedures in place to limit the impact of all relevant risks.

5 GROUP CAPITAL RESOURCES

The calculation is based on the consolidated balance sheet of the Group in accordance with BIPRU 8.6 and Article 437 (1a) (CRR).

The Group reconciliation of Capital Resources and Audited Financial Statements as at 31 December 2020:

5.1 GROUP CAPITAL RESOURCES

	31 December 2020 $m	31 December 2019 $m
Common Equity Tier 1 Capital		
Share Capital	176	176
Share Premium	134	134
Reserves	133	108
Cash Flow Hedge Reserve	2	0
Revaluation Reserve	(1)	0
Less Common Equity Tier 1 deductions:		
Intangible Assets	(209)	(187)
Valuation Adjustments	(2)	(1)
Cash Flow Hedge Reserve	(2)	0
Total Common Equity Tier 1 after deductions	**231**	**230**
Subordinated loans	6	0
Tier 2 Capital	**6**	**0**
Total Capital Resources	**237**	**230**

Reconciliation to Financial Statements	31 December 2020 $m	31 December 2019 $m
Shareholders' Equity	**444**	**418**
Common Equity Tier 1 deduction:		
Intangible Assets	(209)	(187)
Other Regulatory Adjustments	(4)	(1)
Total Common Equity Tier 1 after deductions	**231**	**230**
Tier 2 Capital	**6**	**0**
Total Capital Resources	**237**	**230**

The following deductions are deducted from Common Equity Tier 1 capital of the Group:

a) Intangible Assets/Goodwill: Article 36 requires the Group to deduct intangible assets and goodwill balance from its Common Equity Tier 1 capital (31 December 2020: intangible assets $11m and goodwill $198m). Goodwill increased by $19m and other intangibles increased by $3m as the Group acquired the following businesses during 2020:

- Volatility Performance Fund SA (including BIP Asset Management SAS)
- X-Change Financial Access LLC
- Tangent Trading Holdings Limited Group

b) Additional Valuation Adjustments: the Group follows a simplified approach in estimating its additional value adjustment deductions from Common Equity Tier 1 capital ($2.1m deduction as at 31 December 2020).

c) Cash Flow Hedge Reserve: the Group adjusts Common Equity Tier 1 capital for cash flow hedge reserves ($1.8m deduction as at 31 December 2020).

The Group had $231m of Total Common Equity Tier 1 and reported profit after taxation of $43.8m as at 31 December 2020. Group's deferred tax assets of $0.6m are not deducted from capital but are considered as credit risk items and risk weighted at 250%.

6 GROUP CAPITAL RESOURCES REQUIREMENT

This is calculated as the sum of credit risk, market risk and operational risk capital requirement. The total consolidated capital resources requirements and components are as follows:

6.1 TOTAL CAPITAL REQUIREMENT

	Capital Requirement 31 December 2020 $m	Total Risk Exposure Amounts 31 December 2020 $m
Market Risk Capital Requirement		
Commodity PRR	31.2	390
Foreign Exchange PRR	1.2	15
Interest Rate PRR	0.6	8
Collective Investment Units and Equity PRR	2.4	30
Sub Total	**35.4**	**443**
Credit Risk Capital Requirement		
Credit Risk	49.2	615
CVA	0.3	4
Sub Total	**49.5**	**619**
Operational Risk Capital Requirement	31.7	396
Total Group Capital Requirement (Pillar 1)	**116.6**	**1,458**
Common Equity Tier 1 ratio 2020		**15.84%**
Total Capital ratio 2020		**16.26%**

	Capital Requirement 31 December 2019 $m	Total Risk Exposure Amounts 31 December 2019 $m
Total Group Capital Requirement (Pillar 1)	92.3	1,155
Common Equity Tier 1 ratio 2019		19.91%

Per Article 92 of the CRR, an institution shall at all times satisfy the following own fund requirements:

a) Common Equity Tier 1 ratio in excess of 4.5%;
b) Tier 1 capital ratio in excess of 6%; and
c) Total capital ratio in excess of 8%.

As at 31 December 2020 the Group has the Total Capital ratio of 16.26% and the Common Equity Tier 1 ratio of 15.84%. The Total Capital ratio is calculated as the quotient of Total Capital Resources ($237m) and Total Risk Exposures ($1,458m). The Common Equity Tier 1 ratio is calculated as the quotient of Total Common Equity Tier 1 Resources ($231m) and Total Risk Exposures ($1,458m).

The Group's Total Capital Resources include Common Equity Tier 1 capital, which comprises Share Capital, Share Premium and reserves, and Tier 2 capital as at 31 December 2020.

6.2 CREDIT RISK CAPITAL REQUIREMENT

Marex Spectron has adopted the standardised approach for Credit Risk as prescribed by BIPRU 3 and CRR Part Three, Title II, Chapter 2, for the purpose of calculating the Credit Risk Capital Requirement ('CRCR'). Counterparty credit risk is calculated under the mark-to-market method in accordance with CRR Part Three, Title II, Chapter 6. Credit risk arises from the risk that parties are unable to meet their obligations as they fall due.

Concentration risk is calculated in accordance with BIPRU 10 and Articles 392 – 403 (CRR).

	Capital Requirement 31 December 2020 $m	Risk Weighted Assets 31 December 2020 $m
Exposure Class		
Central Government	0.1	2
Corporate	32.9	411
Equity Exposures	0.5	6
Collective Investment Units	0.5	6
Exposures in Default	0.1	1
Banks/Financial Institutions	6.4	80
Other	8.7	109
Total 2020	**49.2**	**615**
Total 2019	**29.5**	**369**

6.3 PRE-CRM EXPOSURES AND AVERAGE AMOUNT OVER THE PERIOD 442C (CRR):

Credit Risk Mitigation ('CRM'):

Existing Credit Exposures are mitigated by valid collateral and third-party guarantees, which are reflected in the Post CRM credit exposures.

The Group's credit mitigations are guarantees and tripartite agreement with highly rated institutions, which allow the guaranteed exposure to be risk weighted at the guarantors' risk weighting, thereby reducing the RWA.

The Group uses industry standard documentation with netting clauses as appropriate.

Credit conversion factors ("CCF") are applied to the Group's off-balance sheet exposures e.g. unutilised client credit lines. All the Group's off-balance sheet exposures have 0% CCF.

Exposure Class	Post-CRM and CCF 31 December 2020 $m	Pre-CRM 31 December 2020 $m	Pre-CRM Average 2020 $m
Central Government	716	716	825
Corporate	410	556	518
Equity Exposures	6	6	6
Collective Investment Units	6	6	4
Exposures in Default	1	1	2
Banks/Financial Institution	1,446	1,444	1,217
Other	147	147	167
Total 2020	**2,732**	**2,876**	**2,739**
Total 2019	**2,461**	**2,659**	**2,752**

Central government exposures mostly comprise of US treasuries.

6.4 GEOGRAPHICAL ANALYSIS OF CREDIT RISK EXPOSURES AS PER ARTICLE 442D (CRR):

	Credit Risk Exposures 31 December 2020 $m	Credit Risk Exposures 31 December 2020 $m	Credit Risk Exposures 31 December 2020 $m	Credit Risk Exposures 31 December 2020 $m	Credit Risk Exposures 31 December 2020 $m
Exposure Class	**Americas**	**Asia**	**EMEA**	**Oceania**	**Grand Total**
Central Government	703	-	13	-	716
Corporate	190	59	155	6	410
Equity Exposures	-	-	6	-	6
Collective Investment Units	-	-	6	-	6
Exposures in Default	1	-	-	-	1
Banks/Financial Institutions	996	2	448	-	1,446
Other	-	-	147	-	147
Total 2020	**1,890**	**61**	**775**	**6**	**2,732**
Total 2019	**1,485**	**34**	**939**	**3**	**2,461**

6.5 CREDIT POST CRM BY COUNTERPARTY TYPE AS PER ARTICLE 442E (CRR):

	Credit Risk Exposures 31 December 2020 $m
Exposure Class	
Central Government	716
Corporate Financial	14
Corporate Non-Financial	236
SME (Corporates)	160
Banks/Financial Institutions	1,446
Equity Exposures	6
Collective Investment Units	6
Exposures in Default	1
Other	147
Total 2020	**2,732**
Total 2019	**2,461**

6.6 ANALYSIS OF IMPAIRED AND PAST DUE EXPOSURES AND ALLOWANCE FOR IMPAIRMENT AS PER ARTICLE 442H (CRR)

The Group does have past due exposures as at 31 December 2020 which predominantly relate to agency brokerage. These exposures are not impaired and are still collectible in full. Analysis of historical payment behaviour of Trade debtors supports this assertion. The Group monitors brokerage receivables extensively and reviews where an impairment might be necessary as part of a monthly review process. As at 31 December 2020, there were no material provisions. In the overall context of the Group's credit exposure, past due exposures and credit risk adjustments are immaterial.

6.7 ANALYSIS OF CREDIT EXPOSURES BY RESIDUAL ANALYSIS AS PER ARTICLE 442F

All of the Group's material risk weighted assets are on-demand and therefore a residual maturity breakdown of all exposures as required by the CRR has not been deemed necessary. As noted above, past due exposures are immaterial to the Group's overall credit risk exposure.

6.8 OPERATIONAL RISK CAPITAL REQUIREMENT

Marex Spectron has adopted the basic indicator approach for calculation of the Pillar 1 capital requirement for operational risk as prescribed by Article 315 of CRR. This is computed as 15% of the average relevant income for the Group over three years (Operational Risk Capital requirement was $31.7m at 31 December 2020).

6.9 MARKET RISK CAPITAL REQUIREMENT

The Group calculates its Pillar 1 Position Risk Requirement ('PRR') according to the approach set out in Part 3 Title IV of the CRR. To calculate the commodity PRR, the Extended Maturity Ladder ('EML') approach set out in Article 361 of CRR is used, combined with the scenario approach outlined in the RTS for Article 358(4) to reflect other risks aside from delta risk. The total market risk capital requirement was $35.4m at 31 December 2020.

The primary internal measure of trading market risk is VaR calculated according to the Group's internally-specified model. The model is implemented using the Algorithmics risk engine, which uses Monte Carlo simulation to derive a one-day VaR and four-day VaR measure at several different confidence levels. For the purposes of both monitoring of exposures against limits and deriving internal estimates of capital requirements, a confidence level of 99.75% is used. Daily back-testing is performed to validate the risk capture of the VaR model.

The Board is satisfied that the model is appropriately conservative and represents a prudent estimate of the Group's capital needs to cover any losses against trading positions due to market movements.

6.10 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ('ICAAP')

The Group's latest ICAAP assessment as at 31 December 2020 demonstrates that the Group's internal assessment of risk under Pillar 2 is significantly less than the minimum requirements under Pillar 1 of the regulatory framework.

6.11 EXPOSURE TO INTEREST RATE RISK POSITIONS NOT INCLUDED IN THE TRADING BOOK

The main sources of interest rate risk is in the interest paid by Marex Spectron on its revolving loan facilities, and the interest it receives from its treasury investments, time deposits, demand deposits at institutions and from exchanges based on the cash deposits to cover initial margins. This exposure is not material.

6.12 EXTERNAL CREDIT ASSESSMENT INSTITUTIONS (ECAI)

The Group applies credit assessment to government, corporate and institution exposures, using Standard and Poor as the nominated ECAI.

6.13 NON-TRADING BOOK EXPOSURES IN EQUITIES

As at 31 December 2020 the Group had exposures in equities of LME Holdings Limited, Intercontinental Exchange Inc, CME Group Inc, which are required to be held for the Group to trade directly on these exchanges. The Group also held shares in S.W.I.F.T. SCRL, which are required for the Group to make swift payments. These non-trading book equities are classified as fair value through other comprehensive income on the balance sheet. At 31 December 2020, there were revaluation gains in relation to these equities of $1.4m included in Common Equity Tier 1.

The fair value of these exposures is below:

Equities in non-trading book	31 December 2020 $m
Chicago Mercantile Exchange (CME)	1.60
London Metals Exchange (LME)	3.00
Intercontinental Exchange (ICE)	1.80
Swift	0.02
Total	**6.42**

6.14 CAPITAL BUFFERS

The Group is required to maintain a Capital Conservation Buffer and an Institution Specific Countercyclical Capital Buffer ('The Combined Buffers'). As at 31 December 2020, the Capital Conservation Buffer was calculated as 2.5% of total risk weighted assets. The Countercyclical Buffer is calculated as the weighted average of Countercyclical Buffer Rates that apply to exposures in the jurisdictions where the Group's relevant credit exposures are located multiplied by total risk weighted assets (see 6.15 below). As at 31 December 2020, the Countercyclical Buffer Rate for the Group was 0.04%.

For the purposes of the Countercyclical Buffer, relevant credit exposures exclude those to institutions and central governments.

6.15 COUNTERCYCLICAL CAPITAL BUFFER GEOGRAPHICAL EXPOSURES AS PER ARTICLE 440 OF THE CRR

Country	Credit Risk - Exposure Value for SA	Final Exposure	RWA	Own Funds Charge	Own Funds Weights	CCyB Rate	Weighted Rate (%)
United States	154	162	165	13	30%	0.00%	0
United Kingdom	170	171	134	11	24%	0.00%	0
Switzerland	72	72	74	6	13%	0.00%	0
Singapore	37	37	38	3	7%	0.00%	0
Monaco	24	24	25	2	4%	0.00%	0
Brazil	21	21	21	2	4%	0.00%	0
Hong Kong	21	21	21	2	4%	1.00%	0.04
Spain	15	15	15	1	3%	0.00%	0
Luxembourg	1	4	12	1	2%	0.25%	0.00
Canada	9	9	9	1	2%	0.00%	0
United Arab Emirates	8	8	8	1	1%	0.00%	0
France	5	6	6	0	1%	0.00%	0
Australia	6	6	6	0	1%	0.00%	0
Saudi Arabia	5	5	5	0	1%	0.00%	0
Germany	3	4	4	0	1%	0.00%	0
Netherlands	3	3	3	0	0%	0.00%	0
Belgium	2	2	2	0	0%	0.00%	0
Other	8	9	9	1	2%	0.00%	0
Grand Total	**564**	**579**	**557**	**44**	**100%**		**0.04**

	2020	2019
Total Pillar 1 RWA ($m)	1,458	1,155
Countercyclical Buffer Rate	0.04%	0.38%
Countercyclical Buffer Charge ($m)	**0.6**	**4.4**

7 ASSET ENCUMBRANCE

Encumbered assets are those that have been pledged or are subject to any form of arrangement to secure, collateralise or credit enhance, any transaction from which it cannot be freely withdrawn. The definition is not based on an explicit legal definition, such as title transfer, but rather on economic principles.

Most of the Group's encumbered loans of demand comprise collateral placed at clearing systems and CCPs to cover margin and default fund requirements. Encumbered debt securities relate to securities placed at CCPs in lieu of cash to cover margin requirements. Encumbered equities comprise exchange memberships (see section 6.13).

7.1 ENCUMBERED AND UNENCUMBERED ASSETS

	Carrying amount of encumbered assets 31 December 2020 $m	Carrying amount of unencumbered assets 31 December 2020 $m
Loans on demand	1,029	336
Equity instruments	7	52
Debt securities	1,707	76
Other assets	18	541
Assets of the reporting institution	**2,761**	**1,005**

8 LEVERAGE

The Group calculates the leverage ratio in accordance with Article 429 of the CRR regulations. Although the CRR does not stipulate a minimum leverage ratio, the Basel Committee on Banking Supervision proposed a minimum of 3%.

8.1 LEVERAGE RATIO

	31 December 2020 $m
Total Leverage Ratio Exposures	4,007
Tier 1 Capital	231
Leverage Ratio 2020	**5.8%**
Leverage Ratio 2019	**8.8%**

9 REMUNERATION CODE

The following disclosures are made in compliance with Article 450 of the CRR regulations.

9.1 REMUNERATION POLICY

The Group has a remuneration policy that applies to employees of the Group.

It is the Group's intention that the total remuneration of its employees recognises team and individual performance and the contribution made by each employee to overall long-term success of the Group. Such contribution is expected to be consistent with the Group's cultural values, regulatory compliance and the sound and effective management and control of risks inherent in our business.

Fixed remuneration paid to employees is determined considering an individual's level of knowledge, skills, competencies and experience. The Group ensures that fixed remuneration is comparable to current market rates.

Any variable remuneration paid to employees must be consistent with the Group's remuneration policy. The purpose of the Group's variable remuneration schemes is to compensate employees based on their individual performance, the performance of the relevant desk or team and the contribution made by the employee to overall long-term success of the Group.

Variable remuneration is also one of the tools used to promote sound and effective risk management, discouraging risk-taking in excess of the Group's Board approved risk appetites, and to promote and reinforce behaviour in respect of the Group's cultural values.

9.2 REMUNERATION GOVERNANCE

The Group's remuneration policy is considered and approved by the Remuneration & Nomination Committee. The detail of the composition of the Remuneration & Nomination Committee is found in the Corporate Governance section 4.4.5.

The term of office of each member of the Remuneration & Nomination Committee is reviewed periodically and changes in membership are approved by the Board. The Committee held four meetings and passed five written resolutions between 1 January 2020 and 31 December 2020.

The Remuneration & Nomination Committee annually reviews the remuneration of the Group's Remuneration Code staff and has the ability to apply influence to variable remuneration payments.

9.3 RECRUITMENT POLICY FOR THE SELECTION OF MEMBERS OF MANAGEMENT BODY

Appropriate candidates are identified for senior management vacancies based on candidates' skills and experience. The senior executive for each of the relevant business or support areas, together with stakeholders within the Group, evaluate each candidate's suitability for the role.

Marex Spectron has an active diversity agenda and is committed to promoting diversity within the Group, starting with the attraction of talent.

9.4 REMUNERATION OF SENIOR MANAGEMENT AND MEMBERS OF STAFF WHOSE ACTIONS HAVE A MATERIAL IMPACT ON THE RISK PROFILE OF THE GROUP

	Number of Code Staff 31 December 2020	Fixed Remuneration 31 December 2020 $m	Variable Remuneration 31 December 2020 $m	Total Remuneration 31 December 2020 $m
Senior management	18	10.7	18.0	28.7
Other staff	72	11.7	48.5	60.2
Total	**90**	**22.4**	**66.5**	**88.9**