MOBILIZE

PILLAR 3 DISCLOSURES 2023/2024

18.10.2024

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GLOSSARY OF TERMS

1LOD	First Line of Defence
2LOD	Second Line of Defence
3LOD	Third Line of Defence
ALCO	Asset and Liabilities Committee
BAU	Business as Usual
BEVs	Battery Electric Vehicles
BRC	Board Risk Committee
CET1	Common Equity Tier 1 capital
CRC	Credit Risk Committee
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
DOA	Delegation of Authority
ERMF	Enterprise Risk Management Framework
EU	European Union
EWI	Early Warning Indicator
EXCOM	Executive Committee
FCA	Financial Conduct Authority
GDPR	General Data Protection Regulation
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IMU	Incident Management Unit
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
MRM	Model Risk Management
ORP	Operational Resilience Policy
PCP	Personal Contract Purchase
PRA	Prudential Regulation Authority
RACC	Risk and Compliance Committee
RAS	Risk Appetite Statement
RCSA	Risk and Control Self-Assessment
RV	Residual Value
RWA	Risk Weighted Average
SREP	Supervisory Review and Evaluation Process
TCR	Total Capital Ratio
VT	Voluntary Termination

FORWARD-LOOKING STATEMENTS

This Pillar 3 contains statements that are, or may be deemed to be, forward-looking statements. Forward-looking statements typically use terms such as ‘believes’, ‘projects’, ‘anticipates’, ‘expects’, ‘intends’, ‘plans’, ‘may’, ‘will’, ‘would’, ‘could’ or ‘should’ or similar terminology.

Any forward-looking statements in this Pillar 3 are based on our current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, that could cause our actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements.

Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance. No assurances can be given that the forward-looking statements in this Pillar 3 will be realised.

We undertake no obligation to release the results of any revisions to any forward-looking statements in this Pillar 3 that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement and we disclaim any such obligation.

STATEMENT ON INFORMATION PUBLISHED IN RESPECT OF PILLAR 3

Senior management and the Board of Directors are responsible for implementing and maintaining an effective internal control organisation overseeing the company's publications, including those issued in respect of the Pillar 3 report.

MFS UK is committed to a robust internal controls framework in order to ensure that external reports and disclosures are subject to adequate verification and comply with the relevant standards and regulations. As an external publication, the Pillar 3 disclosures have been subject to internal verification and are reviewed by the RACC, BRC and the Board.

The governance in place allows for sufficient challenge and oversight prior to publication. The disclosures have not been, and are not required to be, subject to independent external audit.

"We attest to the best of our knowledge, after taking all reasonable measures to that end, that the information disclosed as of December 31, 2023, has been subjected to the same degree of internal control and same internal control procedures as other information provided as regards the financial report".

DocuSigned by:
Julien Louisor
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Julien Louisor

Chief Financial Officer (CFO)

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INTRODUCTION

1.1 BACKGROUND

This report presents the Pillar 3 disclosures of Mobilize Financial Services UK (MFS) for the year ended **31st December 2023**, the Pillar 3 disclosure requirements apply to banks, building societies and investment banks.

These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

The framework consists of three pillars:

/ **Pillar 1:** Sets out the minimum capital requirements that banks are required to hold for credit, market and operational risks.

/ **Pillar 2:** This builds on Pillar 1 and incorporates the bank's own assessment of additional capital resources needed to cover specific risks faced by the Bank that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ('SREP') and is used to determine the overall capital resources required by the Bank.

/ **Pillar 3:** Aims to encourage market discipline by requiring banks to publish information on their principal risks, capital structure, risk management and remuneration. This report contains qualitative and quantitative information as prescribed within the Disclosure (CRR) Part of the PRA Rulebook, thereby providing transparency and further information on the capital and risk profile of MFS UK.

We have remained above regulatory minima throughout 2023 and have robust processes in place to ensure we continue to operate above regulatory requirements and within Risk Appetite as set by the Board.

Common Equity Tier 1 (CET1) Ratio

13.81%

(2022: 13.98%)

Tier 1 Capital Ratio

13.81%

(2022: 13.98%)

Total Capital (TCR)

15.99%

(2022: 16.34%)

UK Leverage Ratio

10.9%

(2022: 11.10%)

Liquidity Coverage (LCR) Ratio

236%

(2022: 352%)

Net Stable Funding (NSFR) Ratio

130%

(2022: 138%)

Total assets as per financial statements

£6,932m

(2022: £6,298m)

Risk Weighted Assets (RWA)

£4,842m

(2022: £4,246m)

1.2 LEGAL ENTITY STRUCTURE

The shareholder and regulatory structure of MFS is shown in the Governance Policy. RCI Bank UK is authorised by the PRA & regulated by the Financial Conduct Authority ("FCA") .

MFS in the UK is formed of five companies:

- ✓ RCI Bank UK Limited a 100% owned subsidiary of RCI Banque SA (registered in France);
- ✓ RCI-Financial Services Limited a 100% owned subsidiary of RCI Bank UK Limited; and
- ✓ Cars Alliance 2015 Limited a 100% owned subsidiary of RCI Financial Services Limited.
- ✓ Cars Alliance UK Master Plc a 100% owned subsidiary of RCI Financial Services Limited.
- ✓ Mobilize Lease & Co Limited an 85% owned subsidiary of RCI Bank UK Limited.

MFS operates in the UK car finance and retail deposit markets, with a core business strategy as set out in the Business Strategy 2024 document, which is included within the ERMF.

MFS is present in the UK credit and savings markets.

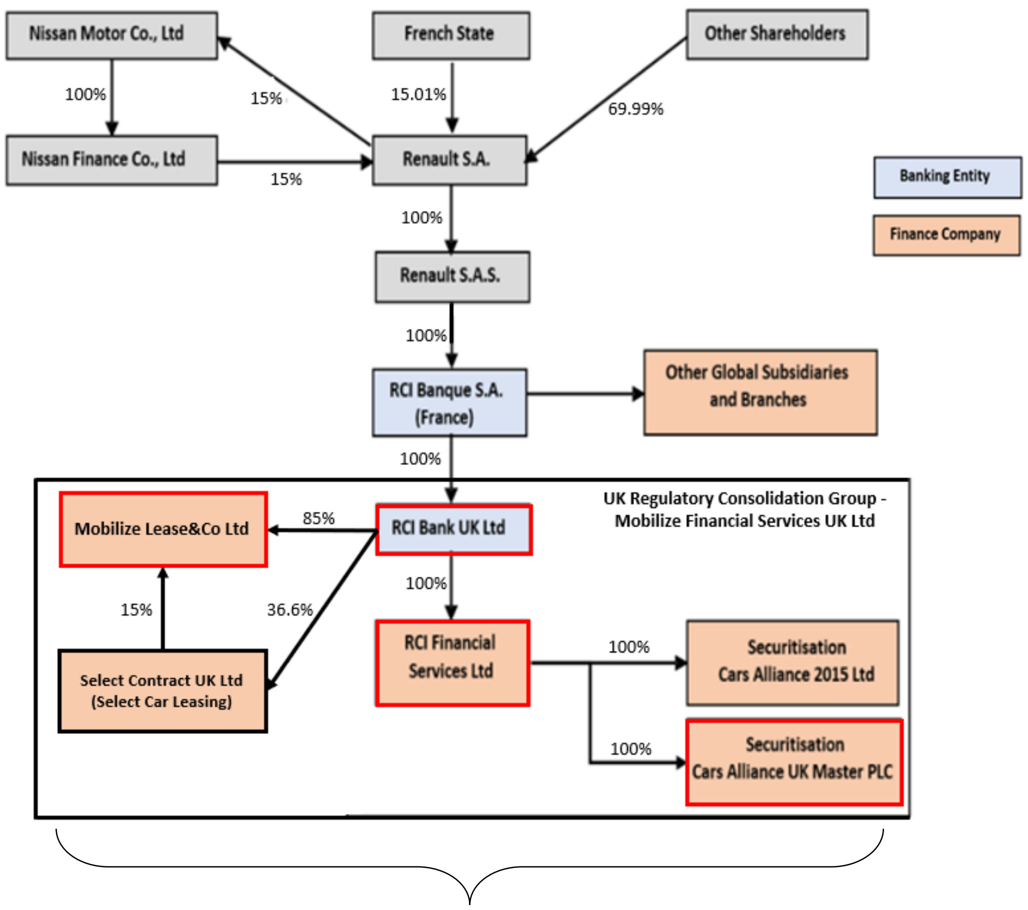
No MFS activity is considered as a "critical function" in the UK market; this means that MFS directly competes with other entities – usually bigger – that would naturally replace it in case of MFS bankruptcy.

RCI Bank UK Limited - The key function of the UK bank is to raise retail deposits in the UK which are lent to RCI Financial Services (RCI FS) to provide car finance to retail customers and dealers in support of the Alliance brands. The credit risk associated with this funds transfer is covered under a large exposure waiver between the two firms, recognised by the PRA. The bank also provides support services for RCI FS.

All funding, liquidity and capital management for the UK Group is managed by the Bank. Given the full interdependence of the two companies the following credit ratings are provided on a consolidated basis:

Credit Ratings (As of December 2023)	S&P	Moody's
RCI Banque	BBB- (stable outlook)	Baa1 (stable outlook)
Renault SA	BB+ (stable outlook)	Ba1 (stable outlook)

MFS UK entity structure as of August 2024 -



- RCI Bank UK (FRN: 815220): PRA/FCA Regulated, Banking Institution
- RCI Financial Services (FRN: 312330): FCA Regulated, Financial Institution
- Mobilize Lease&Co (FRN: 1002137): FCA Regulated, Financial Leasing Company

1.4 SCOPE OF THE REPORT

Scope

MFS UK is authorised and regulated by the PRA and FCA and is required to comply with regulatory rules implemented by the PRA. These rules are enforced in the UK by the PRA and introduce consistent capital adequacy standards governing how much capital banks must hold to protect their depositors and shareholders.

This Pillar 3 report is prepared in accordance with the CRR. The report is also prepared in accordance with the PRA Rulebook which includes a number of new and revised disclosure requirements through the implementation of Policy Statement 22/21 applicable from 1 January 2022.

This document sets out our 2023 Pillar 3 Disclosure in accordance with the rules laid out in the CRR (Part 8). In meeting the regulatory requirements, this document provides information on MFS UK's capital and liquidity position, risk management processes, regulatory methodologies, and disclosure. The purpose of these disclosures is to give information based on calculating Basel 3 capital requirements and on the management of the risks that we face.

Basis of disclosure

We are required to report on the basis of our consolidated financial situation. Unless otherwise stated, all figures are as of 31 December 2023, with comparative figures for 31 December 2022 where relevant.

Frequency of disclosures

Our Pillar 3 Disclosures are published annually with this being the first iteration of the document for MFS UK.

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RISK MANAGEMENT OBJECTIVES & POLICIES

2.1 RISK MANAGEMENT FRAMEWORK

The primary objective of Risk Management is to ensure that the outcome of risk-taking activity is consistent with the strategies and risk appetite and, as per regulatory guidance, appropriate for the level and type of risks that MFS takes. It ensures that there is an appropriate balance between risk and reward and, when issues arise, they are managed for the best outcome for the customer and shareholders.

Risk Taxonomy

/ A thorough examination of the key risks we face is included in the Risk Management Framework, which outlines our approach to managing and monitoring risk. Our Tier 1 risks are as follows:

- Credit Risk
- Financial Risk
- Regulatory Risk
- Operational Risk
- Business and Strategic Risk
- Group Risk

Definitions of each of these risks can be found on pages 15-17.

/ The following table shows MFS's risk taxonomy which is split into Tier 1 and Tier 2 risk categories. Tier 1 risks reflect primary risk groups and are in line with industry best practice. Tier 2 risks also follow best practice but are tailored to MFS UK (maintenance risk relates to specific MFS insurance services; foreign exchange risk is a recognised but not material risk).

Monitoring Changes in Tier 1 risks

/ On an annual basis, or as frequently as necessary, we evaluate current and emerging risks faced by MFS UK. These risks are categorised based on materiality.

/ We monitor Tier 1 and Tier 2 risks on a monthly basis in our Risk Summary Report with all Tier 1 risks receiving a RAG Status for the current period as well as forward looking status. All owners of these Risks are actively involved in this exercise highlighting any present or potential risk on the horizon.

GREEN – Implies performance is as expected and risks are being actively monitored and mitigated.

AMBER – implies deterioration has been seen in some areas of risks and additional focus is required to monitor the situation going forward.

RED – implies significant deterioration has been seen and immediate actions must be taken in order to monitor these risks and ensure further deterioration is not experienced.

Risks	
Tier 1	**Tier 2**
Credit Risk*	Retail
	Wholesale
	Counterparty
	Concentration
	Large Exposures
Financial Risk	Liquidity / Funding*
	Capital
	Asset Encumbrance
	Interest Rate Risk
	Market
	Tax
Regulatory Risk	Prudential Risk
	Governance
	Conduct
	Compliance (Inc. GDPR, AML)
Operational Risk*	Third Party Risk
	Model Risk
	People Risk
	Business Process Risk
	IT Risk
	Operational Resilience
	Legal Risk (Exc. GDPR)
	Financial Crime (Exc. AML)
Business & Strategic	Commercial Risk
	Loss / Gain of Material Contracts
	Product Management
	Profitability Risk
	External Risk
	Climate Change
Group Risk	
Level 1 Risk	

2.1 RISK MANAGEMENT FRAMEWORK – TIER 2 BREAKDOWN

Risks		
Tier 1	**Tier 2**	**Breakdown**
Credit Risk	Retail	Risk of customer default - this includes the residual value (RV). MFS keeps a provision for RV and VT to mitigate default risks.
	Wholesale	Risk of dealer default.
	Counterparty	Default by one of the counterparties we place funds with.
	Concentration	MFS facing increased risk due to concentration in a single industry or trading from a single location.
	Large Exposures	Risk of material loss from single/connected counterparty default.
Financial Risk	Securitisation	Risks associated with securitisation include risk of default on underlying loans, lack of transparency regarding assets, levels of risk, and early repayment damaging investor's returns.
	Liquidity / Funding	Liquidity risk is defined as the risk that MFS is not able to meet its day-to-day funding requirements as they fall due in both a business as usual and stress environment.
	Capital	Risk of commercial or regulatory capital inadequacy.
	Asset Encumbrance	Risk of material levels of encumbrance that may impede an orderly wind down of the business.
	Interest Rate	Interest rate mismatch managed by hedging and basis risk monitoring.
	Market	Risk associated with trading assets and taking positions in the market, MFS does not take market risk.
	Tax	Risk of loss arising from unanticipated material tax adjustments and penalties.
Regulatory Risk	Prudential	Non-compliance with regulations, including regulatory reporting standards and incorrect regulatory reporting.
	Governance	Risk of inadequate Board effectiveness.
	Conduct	The risk associated to the way MFS and its staff relate to customers leading to poor outcomes, includes reputational risk.
	Compliance	Risk of legal penalties, financial forfeiture and material loss resulting from failure to act in accordance with industry laws and regulations, internal policies or best practices.
Operational Risk	Third Party Suppliers	Risks associated with third party suppliers not preserving the reputation and image of the Group.
	Model Risk	Model governance and oversight to mitigate against the risk from model changes, including those arising from the impacts and uncertainties related to the cost-of-living crisis.
	People Risk	Inadequate resource allocation in order to meet the routine demands and needs of the business.
	Business Process Risk	Risk of loss from poorly executed or controlled business processes.
	IT Risk	Includes risk of cyber-attack and likely subsequent ransom demand / account takeover.
	Operational Resilience	Risk of loss arising due to business being interrupted, including causing harm to clients, other market participants and the reputation/viability of MFS.
	Legal Risk	Risk of loss arising from poorly drafted contracts and / or litigation against MFS, including with reference to GDPR breaches.
	Financial Crime	Includes risk of loss from internal or external fraud events, risk of loss / fine due to MFS allowing its services to be used for the purposes of money laundering.
	Pension Risk	Risk that the defined benefit pension scheme has not been accounted for correctly.
	Maintenance Risk	Risk that costs relating to service plans exceed income, i.e., claims are higher than premiums.
Business & Strategic	Commercial Risk	Risk from a large number of defaults that can devalue the credit portfolio leading to negative reaction from investors.
	Loss / Gain of Material Contracts	Risk arising from a failure in acquiring or embarking on new ventures
	Product Management	Risk of incorrect product management, inefficient product pricing or inadequate product marketing, leading to uncertainty or potential loss of profitability
	Profitability Risk	Risk associated with impact of changes in economic conditions, competitive forces and customer preferences on revenue and profit sustainability.
	External Risk	Risk associated with geopolitical instability, technological disruption and other external risks's impact on MFS's business and strategic objectives.
	Climate Change	Risk of non-compliance with climate-related regulations, risk of default from dealers due to loss / damage from natural disasters.
Group Risk		Risk of loss due to MFS's association with its parent company Mobilize Banque SA.

2.2 MANAGEMENT OF KEY RISKS

The following risks are categorised as Tier 1 risks in MFS Risk Taxonomy. These risks, both qualitative and quantitative are set at Board level and reported throughout the risk governance structure as set out in MFS UK Enterprise Risk Management Framework.

	Exposures	Key Management Actions	Future Outlook
Credit risk Credit risk represents a primary risk faced by MFS. Credit risk will be retail or wholesale (dealer finance). It is defined as the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. **Key Policies include:** Business Strategy, Credit and Lending Policy.	Our main source of credit risk arises from the risk that customers default on their contracts and the residual value (RV) risk that the vehicle being financed is not worth the amount predicted when returned to MFS (either following default or as a voluntary termination (VT) or return of the vehicle at the end of a PCP contract). In addition, we have exposures across our network of dealers in the event they default on the loans from RCI Bank UK. Furthermore, we are exposed to risk of default by one of the counterparties we place funds with.	The UK Board has a low appetite for credit risk - Credit risk is governed and monitored through KRI and EWI reporting, Risk and Compliance Committee, Credit Risk Committee, Board Risk Committee and Excom. MFS keeps a provision for RV and VT to mitigate the risk. Furthermore, we have strong policies in place that manages lending within risk appetite limits, provides a comprehensive set of policies and lending standards, and sets out a clear set of procedures for managing our portfolios and customers in financial difficulty.	Our level of provisions and portfolio composition has put us in a strong position to remain resilient throughout 2024. We remain focused on monitoring emerging trends and the impact of high inflation, interest rate, unemployment rate and high cost of living pressures on our customers.
Financial Risk MFS runs financial risk as a result of its business strategy and specifically its UK deposit activity. In addition, MFS run the risk of a failure to meet minimum regulatory capital requirements **Key Policies include:** Business Strategy, ICAAP, ILAAP, Liquidity Contingency Plan, Capital Management Policy and Recovery Plan.	Financial risks exposures at MFS arise from the following risks: • Liquidity risk is defined as the risk that MFS is not able to meet its day-to-day funding requirements as they fall due in both a business as usual and stress environment • Capital risk exposures arises from the deterioration of our capital resources which is impacted by an increase in our RWA, changes in regulatory minima or loss in the business activities • MFS also faces securitisation risk which arises from the risks associated which include risk of default on underlying loans, lack of transparency regarding assets and levels of risk, and early repayment damaging investor's returns • Capital Risk – risk of commercial or regulatory capital inadequacy • Asset Encumbrance – risk of material levels of encumbrance that may impede an orderly wind down of the business • Interest Rate in the Banking Book – interest rate mismatch managed by hedging and basis risk monitoring • Market Risk – Risk associated with trading assets and taking positions in the market. MFS does not take market risk. • Tax Risk - risk of loss arising from unanticipated material tax adjustments and penalties	The Bank's risk appetite is to hold a prudent level of liquidity resources through maintaining liquid asset buffer and committed credit facilities to: (1) cover unexpected outflows such that the Bank would be able to meet its financial commitments for an extended period and to (2) manage the liquidity in excess of regulatory requirements to support existing and future activities over the business plan. It is part of the Business Strategy that the funding lines be diversified The Board sets a conservative capital and liquidity risk appetite in recognition of the importance of these to the safety and soundness of the business and to provide the highest levels of customer protection.	We continue to operate above all liquidity buffers, and we will continue to assess both the underlying liquidity risks and the potential management actions on an ongoing basis, as part of the ILAAP. This includes, amongst other things, consideration of idiosyncratic and market wide stress scenarios and whether our funding and liquidity positions remain well calibrated and adequate to meet our business strategy. As at 31st December 2023 we are well capitalised and operate above the board and regulatory capital buffers. We will continue to ensure that we have enough capital to always meet the minimum regulatory requirements. Our low appetite to credit risk combined with our profitability and disciplined approach to asset origination will see us protect our capital ratios. The FCA announced to start a sectorial investigation on selected car financing companies across the market. The FCA plan to issue a consultation update regarding the handling of discretionary commission model related complaints. Developments on this topic and any implications are being regularly reviewed.

2.2 MANAGEMENT OF KEY RISKS

	Exposures	Key Management Actions	Future Outlook
Regulatory Risk The risk of regulatory sanction, financial loss and reputational damage as a result of failing to comply with relevant regulatory requirements. **Key Policies include:** Business Strategy, Conduct Risk Policy and Compliance Operating Manual.	We remain exposed to regulatory risk as a result of our normal day to day business activities, as well as significant ongoing and new regulatory change.	The Board has a zero-tolerance approach to regulatory non-compliance. The UK business is managed on the basis of full regulatory compliance and to this end its second line functions of Risk and Compliance are well-established. The process of escalation of regulatory breaches is set out in the Risk Appetite Statement. We manage regulatory risk through a combination of clearly defined risk frameworks covering our principal risks, a comprehensive set of risk appetite measures and limits together with appropriate compliance policies and standards. We undertake a range of mitigating actions to manage regulatory risk, key regulatory developments and proactive coordinated engagement with our key regulators. Our risk oversight committees monitor and assess compliance with our regulatory requirements.	MFS focus is to remain compliant with relevant regulatory requirements. We undertake regular reviews of our risk frameworks, appetite limits and monitoring processes in order to ensure these remain up to date and reflect current regulatory priorities. In line with Consumer Duty principles and MFS UK's commitment to achieve good customer outcomes, the Consumer Duty programme has transitioned to business as usual but remains a continued focus across the business.
Operational Risk The risk that events arising from inadequate or failed internal processes, people and systems, or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/or detriment to our customers. **Key Policies include:** Operational Risk Policy, Operational Resilience Policy, Cyber Risk Policy, Outsourcing and Third-Party Risk Management Policy, Model Risk Management Policy.	We are exposed to a broad range of operational risks across our businesses and functions, these include: • People risk – inadequate resource allocation in order to meet the routine demands and needs of the business • Business process risk – risk of loss from poorly executed or controlled business processes • IT Risk – includes risk of cyber-attack and likely subsequent ransom demand / account takeover. • Operational Resilience - risk of loss arising due to business being interrupted, including causing harm to clients, other market participants and the reputation/viability of MFS • Legal risk – risk of loss arising from poorly drafted contracts and / or litigation against MFS, including with reference to GDPR breaches • Financial Crime risk – includes risk of loss from internal or external fraud events, risk of loss / fine due to MFS allowing its services to be used for the purposes of money laundering	Operational risk is governed and monitored through Risk and Compliance Committee, Board Risk Committee and Excom. The 2nd line operational risk team provides assurance. We aim to minimise operational risk incidents by maintaining robust IT systems and requiring all employees to complete mandatory training. We hold sufficient capital in line with regulatory and board requirement to mitigate potential yet severe operational risk exposures from our assessment of a range of operational risk scenarios. We consider and prepare for a range of potential disruption events and when they do occur, we respond effectively and ensure that operational risk events and losses are recorded, assessed and corrective steps taken to avoid recurrence.	Our focus will remain on operational resilience. The management of risks associated with our Important Business Services and our risk to third party suppliers are key priorities. In addition, the Operational Risk Management focus for 2024 will remain on collating a list of subjects which would benefit from a 2nd level review. These are captured via incidents, RCSA review, Committee comments, supporting the growth of the business strategy, noting regulatory/legal changes, industry topics, changes in systems, processes and the organisation. The objective being to gain assurance and give feedback on risk control.

2.2 MANAGEMENT OF KEY RISKS

	Exposures	Key Management Actions	Future Outlook
Business & Strategic Risk The risk of having an insufficiently defined, flawed or poorly implemented strategy, a strategy that does not adapt to political, environmental, business and other developments and/or a strategy that does not meet the requirements and expectations of our stakeholders. **Key Policies include:** Business Strategy, Climate Change Policy and Mobilize Group Delegation of Authority.	Business & Strategic risk arises from implementing an inappropriate strategic plan, design an appropriate plan but fail to implement it as intended. The current macroeconomic challenges in the UK continue to create an uncertain outlook. In addition, we operate in an increasingly competitive environment, with the pace of change and complexity posing risks to strategic initiatives.	MFS maintains a board-approved business strategy and actively takes account of current and forward-looking risk in making commercial decisions. The Board considers commercial risk as a combination of internal (including Renault/Mobilize Group) and external factors. The UK business is managed on an ongoing basis of balancing risk and opportunity.	Although there remains existing and emerging macroeconomic and geopolitical uncertainties, our strategy remains essentially unchanged. Furthermore, we continue to monitor strategic risks associated with the new venture project with Select Car Leasing. Despite the current UK EV market challenges, MFS is aligned with the overall Renault Group EV strategy of being a 100% electric brand in Europe by 2030.
Group Risk Risk of loss due to MFS's association with its parent company Mobilize Banque SA. **Key Policies include**: Business Strategy, and Governance Policy.	The UK Board recognises the important relationship with its 100% shareholder. Local governance of the UK business is maintained through the independence and effectiveness of the Board and through the Mobilize Group Delegation of Authority (DOA) as set out in the Governance Policy. However, the UK Board recognises that the performance and strategy of the wider Renault/Mobilize Group may affect the UK business strategy and financial risks (through parental capital and funding in particular).	Group risk is monitored by the Board and by Excom and considers the impact on MFS of Renault or Mobilize Group activity. Existing SLAs are in place to ensure cohesive collaboration between MFS and Renault / Mobilize Group.	As of 31st December 2023, MFS Parent company Renault SA rating: • Moody's long-term rating is positive at Ba1. • Renault SA – S&P: BB+ (Stable). • Moody's outlook also remains stable for RCI Banque's long-term deposit rating at Baa1. • RCI Banque SA long term rating - S&P: BBB - (Stable).

2.3 RISK GOVERNANCE AND STRUCTURE

MFS operates a 'Three Lines of Defence' risk model based on the overriding principle that risk capability must be embedded within the first line of defence (Business) teams to be most effective.

Responsibility for risk management resides at all levels within the Bank and is supported by Board and Executive-level committees. The table sets out how responsibility for risk management is allocated and how that responsibility is discharged.

	Risk Management Framework		
	First line	**Second line**	**Third line**
Lines of Defence	• Employees understand and manage risks inherent in their roles specific to their lines of business. • Effective oversight of all outsourcing arrangements including provision of technology support and other services. Individual risk owners for each material outsource contract. • Activities remain within the Risk Appetite set by the board. • Ownership of risks associated with daily operations and activities including product & service delivery and tests of customer outcomes. • Setting business level policies and controls, Quality Assurance, KPIs and MI. • Performance measurement against relevant KRI's and against limits in risk appetite statement. • Involvement in annual risk identification process. • Completion of six monthly RCSA process (see Operational Risk Management Policy).	• Role in challenging and approving policies, controls and procedures set by the first line. • Oversee and monitor first line ensuring consistent application of policies and standards of conduct of business including all outsourcing arrangements. Advising first line in respect of best practice standards. • Develop a risk-based approach to oversee and monitor the lines of business. • Horizon scanning for regulatory and legislative changes and support 1st line in monitoring the implementation of changes (incl. training as required). • Develop and maintain a risk management framework across MFS. • Manage the annual risk identification exercise across the business. • Manage and oversee the six monthly RCSA process, particularly in cases where weaknesses are identified in the design and/or operation of individual controls. • Propose and manage and oversee the annual assurance testing plan. • Escalation of breaches / incidents is detailed in the Operational Risk Policy.	• The Internal Audit team are responsible for conducting risk-based internal audits on the effectiveness of first and second lines in identifying, managing, controlling and monitoring risks. • They review at least annually the operations of all risk functions. • Report to the Chair of the Board Audit Committee on the effectiveness of 1st and 2nd lines (including the oversight of RCI Bank UK outsourcing arrangements with RCI FS, RCI Banque SA and NSSL). • The Board Audit Committee challenge and approve the internal audit program.
Risk governance committees	• Executive Committee • Assets and Liabilities Committee - ALCO • Credit Risk Committee	• Board Risk Committee • Risk and Compliance Committee	• Board Audit Committee

2.3 RISK GOVERNANCE AND STRUCTURE

Board

Sets risk appetite and strategy

• Sets our strategy, corporate objectives, risk appetite.	• Ensures an adequate framework is in place for reporting and managing risk.	• Maintains an appropriate control environment to manage risk effectively.	• Ensures capital, liquidity and other resources are adequate to achieve our objectives within risk appetite.

Board Risk Committee

Oversees risk governance and management

• Recommends risk appetite statement measures to the Board.	• Reviews risk exposures in relation to the risk appetite.	• Reviews risk frameworks and policies, • and approves or recommends to the Board for approval.	• Monitors the effectiveness of risk management processes and procedures put in place by management.

Board Audit Committee

Oversees financial reporting

• Reviews our annual financial statements and accounting policies.	• Reviews the effectiveness of the internal audit, audit controls, whistleblowing and fraud systems in place.	• Advises on the appointment of external auditors.	• Reviews internal and external audits and controls, monitors the scope of the annual audit and the extent of the non-audit work undertaken by external auditors.

Executive Level Committees

Oversee the risk management framework

Risk and Compliance Committee

- Ensures that there is a comprehensive, independent risk control framework with suitable oversight.
- Provides effective second line oversight and challenge of risk management within the first line by ensuring effective management and control of all risks in line with the ERMF across MFS UK
- Ensures that MFS's risk management framework remains appropriate and is understood and being effectively managed within the first line business areas to ensure compliance with all applicable regulations and obligations. has context menu
- Endorses the risk appetite for approval by the Board and monitors performance against risk appetite.
- Reviews and recommends risk frameworks for approval by BRC or the Board.
- Oversees and advises on financial and non-financial risk matters, including those escalated from oversight committees.

Asset and Liability Committee

- Consider MFS UK financial risk profile in relation to current and proposed business strategy and risk appetite;
- Oversee the impact of market trends, events and regulatory changes on MFS UK risk appetite and risk exposures;
- Set up liquidity and capital related policies/strategies and review regularly;
- Ensure appropriate first line management of financial risk;
- Review the establishment and regular update of MFS various funding programmes and vehicles;
- Monitor KPIs associated with Treasury Service Level Agreement.

Credit Risk Committee

- Ensures that there is a comprehensive oversight of credit risk management at MFS UK.
- CRC will consider MFS UK's credit risk profile in relation to current and proposed business strategy and risk appetite, identifying any current or future risks, trends, exposures or concentrations that may necessitate mitigation.

2.4 CORPORATE GOVERNANCE & POLICIES

A core objective for MFS is the effective governance and management of risk. MFS operates a 3 Lines of Defence (3 LoD) model, and the Board have ultimate responsibility of monitoring and governing risks. The key frameworks and processes for managing risks are outlined within this section.

Enterprise Risk Management Framework (ERMF)

MFS's ERMF and component documents set out the MFS methods of managing risk by identification, assessment, Risk-Response, Monitoring, Reporting and Review.

The ERMF comprises of:

- The key risk identification process;
- The culture of MFS and the tone from the top;
- The outline of MFS's Risk Appetite and Business Strategy;
- The operation of the 3LOD model; and
- The responsibilities of committees in place to govern risk.

Recovery Planning

MFS maintains a Board approved Recovery plan which calibrates triggers and Early Warning Indicators (EWIs) to allow timely and effective recovery option use in the event of severe stress.

Together with the ICAAP, ILAAP and RAS, the Recovery Plan promotes

- MFS's strategy for preservation of capital and liquidity surpluses significantly in excess of regulatory requirements.
- Effective monitoring of risk metrics and escalation of any deterioration in risk exposure.
- A scaled framework of credible and tested management/contingency actions.
- Recovery Options, preserving MFS's self-sufficiency even in times of severe stress.

Risk Appetite Statement (RAS)

MFS's RAS considers the most significant risks to which MFS is exposed to and provides an outline of the approach to managing these risks.

It raises risk awareness across the organisation and guides staff regarding acceptable and unacceptable risks.

The RAS supports the Board of Directors and senior management in planning formulating and executing strategic business decisions, in engaging in discussions on risk-taking, risk management and business strategy, and in monitoring and aligning the Bank's risk profile with the risk Appetite.

Operational Resilience

MFS has developed its Operational Resilience Framework during FY2023. The purpose of the Operational Resilience policy (ORP) is to ensure that BAU continues so that MFS's important business services, stakeholders, customers, activities, systems, and processes are not disrupted.

The ORP also has an important aspect of ensuring the continuity and safeguarding of the priority business outcomes for the customers and stakeholders of MFS. This is especially important in the event of a contingency situation, to ensure the ability of RCI UK to recover quickly. This includes enabling it to deliver priority business outcomes and services uninterrupted or as soon as possible in the event of disruption.

Additionally, during FY2023, MFS developed an Operational Resilience Self Assessment report as outlined in the PRA Supervisory Statement SS1/21. This focuses on MFS's Important Business Services and the impact to the business a disruption to these services would cause.

2.4 CORPORATE GOVERNANCE & POLICIES CONT.

Business Continuity and Disaster Recovery

MFS's Business Continuity Plan (BCP) consists of alternative/adapted processes and resources that can be put in place to cope with an incident which disrupts BAU (Business as Usual). It is most likely to be in response to an incident which was Unexpected / Unscheduled / Unplanned / Unprecedented / Unpleasant.

It is not possible to foresee when a disaster will occur; its nature nor its duration - the Business Continuity Plan must be capable of being adapted to meet the circumstances effectively.

It is an essential document to ensure that all staff are aware of their responsibilities and what actions should be taken in a crisis situation so that the organisation can continue to work effectively and efficiently.

As part of the BCP, MFS has an Incident Management Unit (IMU) that is responsible for managing/coordinating activities in the event of a major incident and until a return to normal is possible. In the event of a disaster scenario where MFS systems are unavailable, a disaster recovery alert will be made via the IS team and will be communicated to the IMU.

Risk and Control Self-Assessment (RCSA)

The Risk and Control Self-Assessment (RCSA) is a tool used to identify, assess and examine operational risks and the effectiveness of controls and actions used to mitigate those risks as defined in the RCSA procedures.

The objective is to provide assurance that operational risk events do not impede all business objectives being met, and that existing risk management protocols are sustainable and robust.

The risk taxonomy forms part of the RCSA toolkit, whereby it is a comprehensive, common and stable set of risk categories that are used within the MFS business. It encourages those involved in the risk identification process to consider all types of operational risks that could affect MFS's objectives.

Monitoring and reporting

Risk monitoring ensures that an ongoing awareness of risk management and current risk exposure is maintained. MFS's core risk monitoring activities include:

- Monitoring large exposures on a daily basis.
- Monitoring Key Risk Indicators (board approved) and Early Warning Indicators (internal) on a monthly basis and escalating any breaches or potential breaches to the relevant management level.
- Recovery planning including stress testing and scenario analysis.

Risk reporting provides Senior Management, Executive Committee, the Board and the regulator with an accurate, frequent and clear account of the current risk position.

Reporting will also highlight any risk breaches or potential breaches in the business. MFS's risk reporting processes include:

- First Line of Defence risk reporting on a monthly basis.
- Quarterly reporting of material risks to the relevant committees including Board Risk Committee.
- Monthly reporting of Key Risk Indicators and Early Warning Indicators to the Board and Regulator.
- Monthly Risk MI reporting to the Executive Committee, highlighting key risks across the 6 risk areas as shown in the Risk Taxonomy.
- Escalation and reporting of any risk breaches to the relevant management level.
- Progress reporting to the relevant management level to bring risk exposures back within appetite.

Model Risk Management (MRM)

Model risk can be reduced or mitigated, but not entirely eliminated, through an effective MRM framework starting with a comprehensive governance and oversight framework supported by effective model lifecycle management.

MFS operates a robust MRM framework which sets out the rules for effective EUC and model management, outlines the data security and other safeguards required in accessing and using models and other EUC and mitigates the potential risks associated with the use of EUC and models.

03

DISCLOSURE OF KEY METRICS

DISCLOSURE OF KEY METRICS

Table 1: UK OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs) £'million		Total own funds requirements £'million
		31st December 2023	31st December 2022	31st December 2023
1	Credit risk (excluding CCR)	4,543	3,978	652
2	Of which the standardised approach	4,543	3,978	652
6	Counterparty credit risk - CCR	10	9	1
7	Of which the standardised approach	10	9	1
UK 8b	Of which credit valuation adjustment - CVA	9	0*	1
23	Operational risk	280	259	40
UK 23a	Of which basic indicator approach	280	259	40
29	**Total**	**4,842**	**4,246**	**695**

Internal Capital Adequacy Assessment Process (ICAAP)

In assessing adequacy of internal capital, MFS conducts an annual Internal Capital Adequacy Assessment in line with the PRA's methodologies for setting Pillar 2 capital. MFS conducts both a qualitative and quantitative assessment of identified material risks and Pillar 2A capital is set aside based of the outcome of this assessment.

MFS also conducts a stress test on its balance sheet, profitability and capital over a forecasted 5-year period through defined severe but plausible scenarios.

The outcome of this stress test determines the need for Pillar 2B capital. The outcome of the Internal Capital Adequacy Assessment Process (ICAAP) is documented in line with regulatory guidelines and global best practice. It is subject to detailed internal review and challenge before final approval by the Board. It is sent to the PRA on an annual basis.

The result of the internal capital adequacy assessment process has been last shared with the PRA in July 2023. The 2024 review process has been finalised and approved by the Board on 25th July 2024.

*Previous to Q3 2023, MFS did not calculate any CVA deduction

DISCLOSURE OF KEY METRICS

Table 2: UK KM1 - Key metrics template

		31st December 2023 £'million
Available own funds *(amounts)*		
1	Common Equity Tier 1 (CET1) capital	669
2	Tier 1 capital	669
3	Total capital	774
Risk-weighted exposure *(amounts)*		
4	Total risk-weighted exposure amount	4,842
Capital ratios *(as a percentage of risk-weighted exposure amount)*		
5	Common Equity Tier 1 ratio (%)	13.81%
6	Tier 1 ratio (%)	13.81%
7	Total capital ratio (%)	15.99%
Additional own funds requirements based on SREP *(as a percentage of risk-weighted exposure amount)*		
UK 7a	Additional CET1 SREP requirements (%)	1.86%
UK 7c	Additional T2 SREP requirements (%)	0.46%
UK 7d	Total SREP own funds requirements (%)	9.86%
Combined buffer requirement *(as a percentage of risk-weighted exposure amount)*		
8	Capital conservation buffer (%)	2.5%
9	Institution specific countercyclical capital buffer (%)	2.0%
11	Combined buffer requirement (%)	4.5%
UK 11a	Overall capital requirements (%)	14.36%
12	CET1 available after meeting the total SREP own funds requirements (%)	3.95%
Leverage ratio		
13	Total exposure measure excluding claims on central banks	6,148
14	Leverage ratio excluding claims on central banks (%)	10.9%
Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	1,035
UK 16a	Cash outflows - Total weighted value	718
UK 16b	Cash inflows - Total weighted value	251
16	Total net cash outflows (adjusted value)	467
17	Liquidity coverage ratio (%)	236%
Net Stable Funding Ratio		
18	Total available stable funding	5,622
19	Total required stable funding	4,312
20	NSFR ratio (%)	130%

OWN FUNDS

Table 3 : UK CC1 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		31st December 2023 £'million	Reference
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	**290**	(h)
	of which: Instrument type 1	290	
2	Retained earnings	399	
3	Accumulated other comprehensive income (and other reserves)	(5)	
5	Minority interests (amount allowed in consolidated CET1)	0	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**685**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)		
8	Intangible assets (net of related tax liability) (negative amount)	(16)	(a)minus (d)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(16)**	
29	**Common Equity Tier 1 (CET1) capital**	**669**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
45	**Tier 1 capital (T1 = CET1 + AT1)**	**669**	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	100	
50	Credit risk adjustments	6	
51	**Tier 2 (T2) capital before regulatory adjustments**	**106**	
Tier 2 (T2) capital: regulatory adjustments			
58	**Tier 2 (T2) capital**	**106**	
59	**Total capital (TC = T1 + T2)**	**774**	
60	**Total Risk exposure amount**	**4,842**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.81%	
62	Tier 1 (as a percentage of total risk exposure amount)	13.81%	
63	Total capital (as a percentage of total risk exposure amount)	15.99%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	10.04%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	2%	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**6.76%**	
Amounts below the thresholds for deduction (before risk weighting)			
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	17.65% threshold added	

OWN FUNDS

Table 4 : UK CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		Balance sheet as in published financial statements £'million As at period end	Under regulatory scope of consolidation £'million As at period end	Reference
Assets - *Breakdown by asset class according to the balance sheet in the published financial statements*				
1	Cash and cash at central banks	1,049	1,050	
2	Derivative financial instruments	38	38	
3	Investment securities	106	106	Regulatory Scope of Consolidation includes proportional consolidation of Select Vehicle Leasing Group Holdings in which RCI Bank (trading as MFS) has 36.6% shareholding.
4	Inventory	18	18	
5	Loans and advances to customers	4,925	4,929	
6	Property, Plant and Equipment	575	575	
7	Deferred tax asset	19	18	
8	Other assets	187	188	
9	Intangible assets	1	16	
10	Investment in associate	16	-	
	Total assets	6,932	6,937	
Liabilities - *Breakdown by liability class according to the balance sheet in the published financial statements*				
1	Deposits from customers	4,795	4,797	
2	Deposits from banks	565	566	
3	Derivative financial instruments	13	13	
4	Debt securities issued	600	600	
5	Current tax liabilities	14	14	
6	Other liabilities	245	246	
7	Retirement benefit liability	4	4	
	Total liabilities	6,236	6,241	
Shareholders' Equity				
1	Issued capital	290	290	
2	Retained earnings	410	410	
3	Non-controlling interests	0	0	
4	Other reserves	- 4	- 4	
	Total shareholders' equity	696	696	

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