



Thomas Murray

Risk Intelligence | Due Diligence | Cyber Security

Post-trade risk and custody services

Prime Broker Monitoring

The Prime Broker Monitoring (PBM) service assists depositary banks in meeting the regulatory requirements they face under AIFMD to monitor their delegates that hold their clients' assets in custody.

The PBM service was driven by industry consensus from the largest depositary banks and prime brokers. The outcome was a focused, streamlined service to help all parties satisfy their obligations as efficiently and effectively as possible.

Annually, a Prime Broker Monitoring Questionnaire (PBMQ) is issued on behalf of each depositary bank client to their requested prime brokers. The responses are then analysed against a proprietary methodology to assess the risk that each prime broker poses resulting in a written report being produced for each prime broking legal entity. The report is broken down into four key risks: Financial; Asset Safety; Asset Servicing; and Operational. Each is assessed separately and then their individual scores are combined to reach the overall risk grade.

The services offered include: Global execution services, custody, corporate action services, stock borrowing & lending, position financing, margin financing, leveraged financing, listed derivatives clearing, cash securities clearing, OTC derivatives clearing, IRS clearing through CCPs, FX clearing, energy & commodity derivatives clearing, CFDs, creation & redemption of ETFs, conversion services for ADR/GDR/IDR, trading authorisation for cash securities, overnight position transfer and derivatives take up services, though not all of these are available in all locations due to local regulatory restrictions.

PBS provides access to 85 markets across Europe, the Americas and Asia-Pacific, and had assets under custody totalling EUR 335 billion as of January 2021. PBS has a managing director for the UK and each European market in which it operates. These, along with the heads of the various departments within the bank, report into the Chairman and Vice-Chairman, forming the management committee. Custody services sit within PBS's operations department.

Financial Risk Last Reviewed: 6/10/2022

Financial Risk Summary Level of Risk: **Low risk**

PBS has a strong balance sheet and capital ratios are strong, with Tier 1 and total capital ratios well above the regulatory minimum of 10%. However, expenses have increased continuously and significantly over the last five years, which has had an impact on profitability. Despite this, it is considered unlikely that the bank will encounter financial difficulties, and even so PBS does have the parental guarantee from PBG. However, this does not cover subsidiaries.

Ownership Structure & Credit Rating

The PBS group structure is split across the two principal lines of business: Retail Banking and Services, and Corporate and Institutional Banking (CIB). PBS maintains strong long-term credit ratings with each of the main three ratings agencies. The ratings have remained stable over the past three years, reflecting the stability of PBS.

Financial Performance

PBS' balance sheet is secure, as reflected by the credit ratings. Regarding capital value, PBS NA (the parent) reported share-holder equity amounting to EUR 213.78 billion for Q1 2021, rising from EUR 112.80 billion reported in the previous quarter. PBS's tier 1 and total capital adequacy ratios stood at 14.0% and 16.2%, increasing from 13.9% and 15.5% when compared to the same period in the previous year.

Total revenue for the first quarter of 2021 amounted to EUR 11.63 billion, increasing by 8.6% from USD 10.88 billion year on year. The bank reported total expenses of EUR 8.7 billion for the same period, compared to EUR 8.7 billion in the previous year, with net income for the period reported as EUR 2.93 billion, compared to EUR 2.18 billion in the previous year. Expenses include a European Union initiative to support the stabilisation of the financial markets.

PBS' revenues of EUR 591 million were boosted by Revenues for Equity and Prime Services were reported as EUR 87 million reported in the previous year, due to the repercussions of the COVID-19 pandemic.

There are no restrictions on raising capital, and current capital is sufficient to meet the bank's needs.

Net Assets/Shareholder Equity	Total Revenue	Total Expenses
EUR 213.78 billion	EUR 11.63 billion	EUR 8.7 billion

Thomas Murray Prime Broker Risk Assessment

Piccadilly Bank Last Review Date: -

Risk Category	Score	Level
Overall Risk	673	Low risk
Financial Risk	673	Low risk
Asset Safety	673	Low risk
Asset Servicing	673	Low risk
Operational Risk	673	Low risk

Overall Risk Summary Last Reviewed: 6/10/2022

The overall level of risk for the prime brokerage activities of PBS is considered low. The bank is considered to have a strong financial base with capital ratios well above the minimum regulatory requirements. In addition there is a parental guarantee from PBG, which provides added comfort. Asset safety is also considered low risk, with full segregation of client and proprietary securities within the bank's internal records and at the appointed sub-custodians. A contingency plan for network management is in place in the event of a failure of the primary sub-custodian network. Securities are registered in the name of the bank through a dedicated nominee with a client designation in most markets, however this will not apply to derivatives positions. The bank appears to have a strong control culture in place with documented control procedures for all processing routines and systems access controls that are periodically monitored and restricted to the appropriate staff. The business is subject to regular internal and external audit inspections, and an independent controls risk report on the bank's business is completed annually. Business contingency and disaster recovery plans are documented and appear strong and subject to regular review and testing.

About Prime Broker Last Reviewed: 6/10/2022

Piccadilly Banking Services (PBS, the bank) is a wholly-owned subsidiary of Piccadilly Bank Group (PBG) and a public limited company, established in September 1994, under British Law. PBS is a regulated entity under the jurisdiction of the Bank of England (BoE) and UK Financial Conduct Authority (FCA).

The bank provides its services in the UK, its home market, and through branches in Paris, Frankfurt and Hong-Kong, and wholly-owned subsidiaries in Australia, Singapore, Japan, and the USA.

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