Falcon Money Management LLP (the "Firm") 31 March 2018

Please note, while this document specifically mentions Falcon Money Management LLP, when computing capital adequacy it relates both to Falcon Money Management LLP and Falcon Money Management UK Ltd (holding company for Falcon Money Management LLP). These calculations have, therefore, been computed on a consolidated basis.

The Capital Adequacy Directive ("the Directive") of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("FCA") in its regulations through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital amount that meets the Firm's credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provisions for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations and will be disclosed on an annual basis.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

Scope and application of the requirements

Falcon Money Management LLP is authorised and regulated by the Financial Conduct Authority and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a limited license firm and a BIPRU 50K firm by the FCA for capital purposes. It is an investment management firm and as such has no trading book exposures.

Risk management

The Firm is governed by its senior management who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm's governance arrangements along with designing and implementing a framework for managing the risks faced by the business. The senior management also determine how such risks may be mitigated and assess the risk management arrangements on an ongoing basis. The senior management meet periodically and discuss business planning, risk management and current projections for profitability, cash flow, and regulatory capital management. The senior management manage the Firm's risks though a framework of policies and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are reviewed at least annually or as new risks are identified and updated as required.

The senior management have identified that business and credit risks are the main areas of risk to which the Firm is exposed. Annually senior management formally review risks, controls and other risk mitigation arrangements and assess their effectiveness. Where senior management identify material risks they consider the financial impact of these risks as part of business planning and capital management and consider whether the amount of regulatory capital is adequate.

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership Deed. As at 31 March 2018 the Firm's regulatory capital resources of £1,000,000 comprised solely core Tier 1 capital.

The Firm's Pillar I capital requirement is calculated in accordance with the General Prudential Sourcebook ("GENPRU") as the higher of the Fixed Overhead Requirement (£417k), sum of Credit Risk and Market Risk Requirement (£19k – principally consisting of the "Credit risk capital component" as set out in BIPRU 3.2) and the base capital requirement of €50,000. The Fixed Overhead Requirement is calculated in accordance with GENPRU 2.1.53-59 and equates to one quarter of the Firm's annual expenses excluding variable costs, and it is this number which determines the Firm's Pillar I capital requirement. As at 31 March 2018 the Firm's Pillar I requirement was £417,356 which gives a capital surplus of £582,644. The Firm is small with a fairly simple operational infrastructure. Its credit risk is from cash held in the bank. The Firm follows the simplified standardised approach to credit risk.

Under pillar II of the FCA's capital requirements the Firm periodically assesses the adequacy of capital based upon all the risks to which the business is exposed ("ICAAP"). This involved performing stress tests and scenario analysis of the material risks to which the Firm is exposed.