



**Amana Financial Services UK Limited**

**Pillar 3 Disclosures**

**As at 31<sup>st</sup> December 2016**

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## 1 GOVERNING LAW

The Pillar 3 disclosure is a requirement of the European Union’s Capital Requirements Directive (CRD), as implemented in the UK by the Financial Conduct Authority (FCA) and aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to access key information on firms’ capital adequacy, risk assessment and control processes.

As part of the FCA’s requirements for Systems and Controls (SYSC) for a CRR firm, Amana Financial Services UK Limited (“The Company”) is required to make certain other regulatory disclosures which are contained in the Governance section below. Further details of the requirement can be found in the FCA’s Sourcebook for SYSC.

## 2 SCOPE OF APPLICATION

These disclosures apply to the Company on a solo basis. The Company does not have any subsidiaries and thus does not need to produce any consolidated results.

## 3 FREQUENCY OF DISCLOSURE

The Company will make Pillar 3 disclosures on an annual basis. The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure, or regulatory requirements. Disclosure will be made as soon as reasonably practicable after completion of the annual financial statements.

## 4 LOCATION & VERIFICATION

The disclosures made within this document have been reviewed by the Board of Directors. These Disclosures are not subject to external audit.

The report will be made available for the public on our website at: <http://www.amanafs.co.uk/risk-disclosure/>

## 5 DISCLOSURE FRAMEWRK

The Company’s activities expose the Company to a number of financial risks, including but not limited to: a) Capital risk; b) Credit/Counterparty risk; c) Liquidity risk; d) Market Risk (including foreign exchange risk, price risk and interest rate risk); and, e) Operational risk.

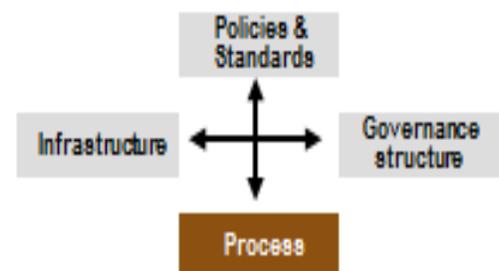
The Directive is based on three pillars as follows:

- Pillar I – Minimum Capital Requirements. This is the calculation of the total minimum capital requirements for market, credit and operational risk.
- Pillar II – Supervisory Review Process. This sets the key principles of supervisory review assessing the internal capital adequacy process and evaluating whether the Company should hold additional capital against risks not covered already in Pillar I.
- Pillar III – Disclosure requirements to the market related to the risks, capital and general the risk management framework.

## 6 THE COMPANY’S APPROACH TO RISK MANAGEMENT

The Board and Management recognize that risk occurs as part of the day-to-day business of the Company. Risk management embraces the whole spectrum of activities associated with the identification, measurement, monitoring and reporting of risk. The risk management framework enables a consistent approach to risk management across the Company.

The Company’s risk framework is comprised by the following four key components:



- Policies and standards;
- Organization and governance structure;
- Risk processes; and,
- Risk infrastructure.

**Policies and standards deal mainly with:**

- Overall objective, risk strategy and appetite
- High level description of approach and minimum risk policy standards
- Relation with other lower level risk management and control policies and processes

**Organization and governance deal mainly with:**

- Clearly documented roles and responsibilities tied to job description
- Risk, MLCO/Compliance and Internal Audit functions which provides independent assessment and challenge to the business
- Senior management oversight

**Risk processes deal mainly with detailed standards and guidelines for:**

- Risk and control assessment process
- Risk monitoring/key risk indicators
- Incident and loss tracking/reporting
- Company risk reporting

**Risk Infrastructure deals mainly with:**

- Technology to support/enable risk data capture and reporting
- Supporting methodologies and tools
- Key risk measures

## 7 GOVERNANCE DISCLOSURES

As part of the required disclosures, the Company confirms that the management body has overall responsibility for the Company (SYSC 4.3A.2). The Board oversees the implementation of the Company's objectives and risk strategy together with internal governance. This includes financial and accounting systems, together with oversight of the process of disclosures and communication.

The Company periodically assesses the effectiveness of governance arrangements. As well as financial and client asset audits, the Company has also retained compliance consultants who review internal arrangements and compliance monitoring on a quarterly basis, reporting findings and deficiencies back to the management body.

In relation to SYSC 4.3A.3, the Company can confirm that the management body has sufficient knowledge, skills and experience to perform its duties. The CEO sits on the Board, alongside an Executive Director, together with one Non-Executive Director.

The Non-Executive Director is required to commit 3 days a month to their duties. The Executive Director is given sufficient support to ensure they have the resources to undertake their duties towards the Company. All have undertaken training at the Group's head office to ensure they fully understand the business.

In relation to other directorships (SYSC 4.3A5 and SYSC 4.3A6), the management body is confident that members of the management body do not hold more directorships than is appropriate given the nature, scale and complexity of the Company's businesses. The number of directorships held by all members remains within the boundaries as outlined in SYSC 4.3A.6.

The Company does not have a nomination committee as details as SYSC 4.3A.9. As required in SYSC 4.3A10, the Company does have in place policies and procedures in place to promote diversity on the management body. Such policies can be found in the Employee Handbook, which is adopted by all staff and members of the management body.

## 8 BOARD COMMITTEE CHARTERS

The Board of Directors is assisted in the oversight function by permanent committees (collectively 'the Committees' and individually 'the Committee'), namely:

- the Audit Committee
- the 'Treating Customer Fairly' Committee; and,
- the Risk Management Committee.

Each committee has a charter which is reviewed on periodically by the chair and members and is presented to the Board for approval. The charter sets out a committee's 'Mission', 'Membership' and 'Duties and Responsibilities'.

### 8.1 Audit Committee

The Audit Committee assists the Board in:

- (i) the oversight of the qualifications, independence and performance of the

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Company's internal and external auditors; and,

(ii) the appropriate implementation of systems and controls in order to safeguard the assets and income of the Company; ensure the integrity of the Company's financial statements; maintain compliance with the Company's policies, procedures, and applicable laws and regulations.

## **8.2 Treating Customers Fairly (TCF) Committee**

The TCF Committee assists the Board in:

- (i) Influencing change across the business to improve the customer experience in relation to TCF;
- (ii) Identify early indicators of TCF issues and ensure these are escalated via appropriate management information;
- (iii) Review TCF measures and controls to ensure these work as intended and allow for changes in the business.

## **8.3 Risk Management Committee**

The Risk Management Committee is formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general. During 2016 the Risk Committee held 2 meetings.

# **9 CAPITAL RESOURCES**

**9.1** The Company's Capital Resources consist of Tier 1 Capital only.

**9.2** The Company's total capital resources and capital resources requirement as at 31 December 2016 are shown in Table 1 below:

<b>Table 1: Capital Resources Summary</b>	<b>GBP</b>
Equity Share Capital	243,270
Audited (Accumulated losses)/retained earnings	(813)
Audited loss for the year	(28,786)
<b>Core Tier 1 capital</b>	<b>213,671</b>
Deductions from Tier 1 Capital	-
<b>Total Capital Resources (CR)</b>	<b>213,671</b>
<b>Pillar 1 requirements:</b>	
Credit and counterparty risk capital requirement	59,091
Market risk capital requirement	102,342
Fixed overheads requirement	186,824
<b>Total Pillar 1 Capital</b>	<b>213,671</b>
<b>Resources Requirement (CRR)</b>	<b>186,824</b>
<b>Excess CR over CRR</b>	<b>26,847</b>
<b>Total Capital Adequacy Ratio</b>	<b>9.15%*</b>

*“Total Capital Adequacy Ratio is based on the percentage Total Capital Resources (“CR”) to Total Risk Exposure Amounts (“TREA”)*

*TREA is based on the firm’s Pillar I requirement i.e. its Fixed Overheads Requirement of £186,824 multiplied by a factor of 12.5 which equals £2,335,300.*

*Consequently £213,671 divided by £2,335,300 \*100 = 9.15%.”*

**9.3** As the Company is a Limited License firm, under Article 95 within the CRR, its Pillar 1 capital requirement is the greater of:

- Its base capital requirement of €125,000 or,
- Sum of its market and credit risk capital requirement or,
- Fixed overhead requirement.

The fixed overhead capital requirement exceeds the base capital requirement and the capital requirement for credit risk and market risk.

The fixed overhead requirement is based on one quarter of the Company's relevant fixed expenditure as per the Company's most recent audited annual report and accounts.

**9.4** The Company also carries out an Internal Adequacy Assessment Programme (ICAAP) to determine if any additional Pillar 2 capital is required. The ICAAP process includes an assessment of specific risks to the Company's business, the likelihood of these risks occurring and controls implemented to mitigate these risks. Based on the ICAAP no additional Pillar 2 capital is required.

**9.5** In order to manage its capital risk, the Company monitors, constantly, its capital adequacy ratio to ensure that this remains, at all times, above the regulatory minimum of 8%. Calculations are submitted the FCA quarterly and undertaken internally monthly.

## 10 PRINCIPAL BUSINESS RISKS

The main objective of Amana Financial Services Limited's Risk Management framework is to monitor and control the following risk factors:

### 10.1 Credit Risk

Credit risk is the risk that a counterparty could fail to discharge partially or in full their obligation and cause the Company as a result to incur a financial loss.

Credit risk could arise for the Company primarily as a result of the following activities: a) Own and Client funds held at banks; b) Own funds held at counterparty financial institutions for hedging purposes; and, c) Credit or loans provided to investors/clients.

The Company keeps its cash with European and Dubai banks (licensed and regulated by the DFSA) banks. The Company monitors and reviews, among other things, regularly the credit rating and performance of these banks.

The Company uses as counterparties, to hedge its market risk exposure, banks and financial institutions that have strong balance sheet and capital base. The Company monitors and reviews the performance of these counterparties regularly against a number

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of internally developed qualitative and quantitative criteria. Furthermore, the Company uses a number of counterparties and diversifies and restricts the maximum amount of cash held in each of the counterparties.

The Company monitors constantly the ratio of cash held on each of the counterparties. Finally, one of the important criteria in selecting the counterparty is the bank that the counterparty uses to hold the Company's cash. Namely, the Company uses only counterparties that keep the Company's money in blue chip banks.

The Company's policy is not to provide credit or loans to investors/clients and it accepts as collateral only the highest liquid asset, namely cash. Hence, the credit risk arising from client trading is minimum.

## **10.2 Past due and Impaired Receivables**

A provision for impairment of trade and other current receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss. When a trade or other current receivable is uncollectible, it is written off against the allowance account for trade and other current receivables.

A financial asset is 'past due' when a counterparty fails to make a payment that is contractually due.

The Company did not have any 'past due' or 'impaired' items as at 31 December 2016.

## **10.3 Market Risk**

Market risk is the risk that the fair value of financial assets or financial liabilities will fluctuate as a result of changes in the market prices, currency rates and interest rates. The Company follows the Standardized Approach for Market Risk.

A Master Technology Agreement ("MTA") has been signed with Amana Capital Ltd, a member of the Amana Group incorporated in Cyprus and regulated by CySEC, under which each and every client transaction is automatically hedged with Amana Capital Ltd. As a result the Company is not exposed to any significant Market Risk from its client trading.

In order to manage its market risk, the company records, through its trading platform(s)

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and real time reporting tool, the Clients' trading activity including but not limited to the transactions that are executed; this gives the option to constantly monitor the Company's exposure and take appropriate action, if required.

Market risk comprises from different types of risks which the Company is exposed too, including foreign exchange risk, price risk, interest rate risk, correlation risk and liquidity risk. The Company also maintains hedging accounts with other financial institutions in order to hedge its exposure, when the need arises.

### 10.3.1 Price Risk

Price risk is similar to foreign exchange risk but it applies to all other spot and Futures financial instruments offered by the Company on its trading platform, for example Crude Oil.

As the Company's principal activity involves trading in other financial instruments (in addition to currencies), the Company is exposed to price risk primarily as a result of the existence of open CFD positions.

### 10.3.2 Interest Rate Risk

Interest rate risk is the risk that the value of financial positions changes/moves due to change in interest rates (both OTC spot and Futures). Interest rate is not a risk factor on itself because the Company does not offer interest rate products but changes in interest rates cause fluctuation in the value of the financial instruments and therefore expressed and quantified via either foreign exchange risk and/or price risk.

The Company is exposed to interest rate risk also in relation to its bank deposits. The Company does not have any interest rate loans but only assets and as a result does not face interest rate mismatch. The risk therefore is limited only to the size of income the Company will be able to generate during a time period.

### 10.3.3 Correlation Risk

Correlation risk is the risk that prices (including prices of foreign currencies) of financial instruments move in the same or opposite direction. If the financial instruments move in the same direction then this is known as positive correlation, if they move in the opposite direction it is known as negative correlation and if they move independently it is known as not correlated.

Correlation risk is not a risk factor in itself because the Company does not offer correlation as an instrument/product but in general terms, given the broad base of instruments offered by the Company, positive correlation tends to increase risk at principal portfolio level and negative correlation tends to decrease risk at principal portfolio level.

### 10.3.4 Liquidity Risk

Liquidity risk is the risk that over a time period the Company will not be able to meet its payment obligations as and when they fall due and/or without incurring substantial losses as a result.

### 10.3.5 Impairment Risk

Past due loans are those with delayed payments or in excess of authorized credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognized on an individual basis or for which incurred losses exist at their initial recognition. The Company does not have any past due or impaired assets.

## 11 REMUNERATION

The Company seeks to attract and retain employees, who are motivated by its culture, high ethical business standards and reputation.

The Company's remuneration policy promotes staff retention and loyalty and all variable remuneration paid rewards excellence based upon individual and Group success with the Company's profitability underpinning all variable remuneration schemes in operation.

The Company considers its processes and procedures for those senior staff that control the Company and/or could affect its risk profile. For the year ended 31 December 2016 the Company identified the persons classified as Code Staff and the disclosure of the aggregate remuneration of the Code Staff can be found below:

	Total number Of staff	Fixed Remuneration	Variable Remuneration	Total in GBP
Executive Directors	1	11,874	-	<b>11,874</b>
Other Code Staff	3	200,776	21,666	<b>222,442</b>
<b>Total</b>	<b>4</b>	<b>212,650</b>	<b>21,666</b>	<b>234,316</b>

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## 12 FURTHER INFORMATION

Questions regarding this Report should be addressed to the Compliance Department.

Compliance Department  
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