
Contingency Funding Plan

FINANCIAL's CFP

2010

THE STANDARD FINANCIAL GROUP PLC CONTINGENCY FUNDING PLAN

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1. PREFACE

A contingency fund plan is a plan for a fund of money that's kept in reserve for use in times when other funding resources have run out. This contingency fund plan helps to guard against possible losses of important assets. In short, this document is about sound budgeting for emergencies and for the unexpected. Historically, companies like the SFG Plc have generally failed because they had no meaningful contingency plan.

2. DEFINITIONS

Abbreviations and definitions

CFP	Contingency Funding Plan
EMT	<ol style="list-style-type: none">1. Chairman2. CEO –3. Financial Director4. Retail Director5. Operations Director6. Networks Director
FOR	Fixed Overhead Requirement
FSA	Financial Services Authority
ICG	Individual Capital Guidance
SFG Plc	Standard Financial Group Plc and its associated subsidiaries.
The Group	SFG Plc

3. INTRODUCTION

What the FSA say

GENPRU 1.2.26R.

...A firm must at all times maintain overall financial resources adequate to ensure that there is no significant risk that its liabilities cannot be met as they fall due...for the purpose of determining the adequacy of its overall financial resources, a firm must estimate the financial resources it would need in each of the circumstances and events considered in carrying out its stress testing and scenario analysis in order to, inter alia, meet its liabilities as they fall due.

Having a credible contingency funding plan will help the SFG to forecast her liquidity in various worst-case scenarios. The sensible realization that at some time in the future things might not be as rosy as today is the first step towards setting up a contingency fund. Financial resources may run dry quickly in an emergency, forcing us to look elsewhere for funding. Designing this contingency fund can help avoid the need to rely on other entities.

Advantages

- A contingency fund estimate will help to relieve SFG Plc of financial problems in times of difficulty.
- A contingency fund estimate will help prevent the liquidation of SFG.

Disadvantages

- The CFP may seem unnecessary when no liquidation is planned.

4. OVERVIEW

The Board of Directors of the SFG recognize the importance of liquidity in the day-to-day operation of our franchise and believe it crucial to have a plan for addressing liquidity in times of crisis.

The directors believe that liquidity crises can occur both from internal as well as external events and our plan addresses both contingencies. SFG has historically recognized the need for funding sources that go beyond the most important source – trading income. The Group has designed a funding program that identifies various funding sources that can be used when appropriate.

The board has been keen to make sure that their CFP uses the principles of our group: *Humility, Integrity and Discipline*.

5. WHAT THE PLAN IS FOR

The contingency fund plan will be for use during a liquidity crisis to enable the SFG Plc to survive. It is recognized that all businesses face crises at certain points and it is their response to these issues that determines their long term success, rather more than their results during good times, which are often due to rising asset prices or when riding a wave of short term demand.

6. THE CONTINGENCY FUNDING PLAN TEAM

In the event of a liquidity crisis, we will activate our CFP Team. Our team has been selected based on the key roles we see as required in such an event. We believe that this event will create enhanced communication between our Group and several key constituents- our Regulators, our Shareholders, Our Board, Our Staff, Our Clients, Local Media, and our Funding Sources.

Our managing team is comprised of the EMT, such as shall be in office at the time of the meeting, and so that the retirement or appointment to any of the above positions is inter alia an appointment or resignation from the same team above.

This team will also be responsible for communicating with our own staff and our key constituents on a regular and consistent basis for as long as the crisis is on-going.

7. SITUATIONS WHERE THINGS MIGHT GO WRONG

What the FSA say

SYS 11.1.24 (1)

A firm should have an adequately documented contingency funding plan for taking action to ensure, so far as it can, that, in each of the scenarios analysed...it would still have sufficient liquid financial resources to meet liabilities as they fall due.

We believe that crisis events can be both short and long term and can be created by internal or external situations.

A Short Term Crisis – by its nature, a short term crisis would not be one that would typically cut the SFG Plc off from its normal funding on an individual basis but rather could lead to systemic risk that affects us along with the market in general. Our plan then in these kinds of situations would be to replenish our funding through the most likely sources that could exist in this situation.

At this time, we can visualize several short term scenarios that would revolve around events like Weather Related issues – Hurricanes, Tornados, Floods -, Acts of War, and PR situations that could reflect badly on our institution leading to withdrawal of funding sources and serious loss of business.

Longer Term Crisis – unlike the former situation, this kind of event could cut us off from several normal funding sources. We believe that of all our funding sources, the raising of tier one share capital or subordinated debt are the most credit sensitive but we do not think that these facilities would be entirely unavailable in this event due to the single shareholder situation. See section 10 for sources of funding.

Longer term events are seen as ones that severely impact our institution and could lead to failure. By the nature of this event, we see this situation as one involving significant misselling losses brought on by improper controls. To guard against the latter, in addition to our systems and controls, our investment policy for own funds limits the amount of risk we can take without Board approval. Currently all funds are invested solely in top quartile credit institutions, as rated by Moodys and Standard and Poors. We also see this long term risk as one that could be part of a

larger industry-wide demise and recognize that funding ourselves in that scenario could be much more difficult.

For the purposes of this plan, we have identified the following indicators as ones that could lead to a liquidity event. These are all worst case scenarios not covered by our insurance policies.

The scenarios are almost entirely liquidity based risks:

1. Severe recession that leads to a reduction in income by 50%.
2. An exceptional item, leading to a loss of £200,000 at short notice.
3. A combination of the above two items.
4. Mass complaints against one particular product line in the industry.
5. Mass defections of IFAs from the Network due to de-regulation or inability to pass the relevant exams by 2013
6. Severe environmental shock – including flu, flood and fire.
7. Reduced borrowing capacity.
8. The failure of a revolving credit facility to revolve (or an approved overdraft to be approved, and therefore to be withdrawn at short notice.)
9. Off-balance sheet exposure
10. High Individual Capital Guidance (ICG) from the FSA.
11. Bad publicity or rumors leading to mass complaints.
12. Any other situation deemed problematic by Senior Management however we are uncertain what exactly this could be and (it has been said before): *“uncertainty is not measurable at all”*.

8. THE COST OF FUNDING THE SCENARIOS

No.	Scenario	Mitigating factors	Monetary Cost to be planned for
1.	<i>Severe recession that leads to a reduction in income by 50%.</i>	<i>Hits all competitor firms at same time</i>	<i>Long term loss of business. The business must be able to fund at least one quarter of activities without receiving any income. This equates to the fixed overhead requirement of £433,000.</i>
2.	<i>An exceptional item, leading to a loss of £200,000 at short notice.</i>	<i>Unlikely to be uninsured.</i>	<i>The cost £200,000</i>
3.	<i>A combination of the above two items</i>	<i>Low likelihood</i>	<i>£200,000 plus one quarter of expenses – meaning the FOR. This makes a total of £633,000.</i>
4.	<i>Mass complaints against one particular product line in the industry.</i>	<i>Insurance at the top line</i>	<i>██████████ representing the ██████████ risk.</i>
5.	<i>Mass defections of IFAs from the Network due to de-regulation.</i>	<i>The reduced cost of de-regulation will mean that savings can be made Assume 20% defection would lead to a short term hit on finance, but long term the group would trim resources to match.</i>	<i>Assume £150,000 loss</i>
6.	<i>The loss of more than 20% of our IFAs in 2013 due to inability to pass the relevant exams.</i>	<i>As above</i>	<i>As above</i>
7.	<i>Severe environmental shock – including flu, flood and fire.</i>		<i>High level of immeasurable uncertainty.</i>

No.	Scenario	Mitigating factors	Monetary Cost to be planned for
8.	<i>Reduced borrowing capacity.</i>		<i>Loss of current credit facility of [REDACTED]</i>
9.	<i>The failure of a revolving credit facility to revolve. (or an approved overdraft to be approved, and therefore to be withdrawn at short notice.)</i>	<i>Affects future provisions only</i>	<i>Loss of [REDACTED] current credit facility.</i>
10.	<i>Off-balance sheet exposure</i>	<i>Risk is off balance sheet</i>	<i>Nil</i>
11.	<i>Very high Individual Capital Guidance (ICG) from the FSA.</i>	<i>None</i>	<i>Possibility of more than 50% of the FSA minimum extra capital demanded to be held – this would eat into the surplus that the SFG Plc want to keep at 200%</i>
12.	<i>Bad publicity or rumors leading to mass complaints</i>		<i>Long term loss of business it is likely to take some months to crystallize.</i>

9. A BUDGET FOR THE PLAN

A budget is provided by the event scenarios in section 8. The aim is to determine how much money to feed into the funding plan, and how often.

The board has established that the aim is to hold at all times 200% of the regulatory capital minimum.

Board approval is required for all withdrawals, spending or commitments costing more than £50,000. This acts as a significant check on short term expense led breaches of the requirement.

10. SOURCES OF FINANCE

Below is a list of all the sources of finance available to The SFG Plc.

1. Bank deposits [REDACTED]

We favour bank deposits whenever they are available at efficient cost and on demand. So our primary source of funding will be our bank deposit base. We will generate this funding by setting aside profits accumulated on a monthly basis with the aim of achieving the target for 2010 of holding at all times double the regulatory capital minimums. The current levels available are in the region of [REDACTED]. This cash is available on demand, which effectively means instantly. In some cases it should be noted that there will be a loss of 60 or 90 days of interest for this instant access.

In the event this source is not sufficient, we will consider the following source below.

2. Bond capital adequacy surplus float [REDACTED]

There is a float of money that is planned to be held not in credit institutions but rather held as bonds and Gilts in the money markets. The group actually manages its regulatory capital buffer on a weekly basis and has recently drawn up plans to increase the returns from deposit cash using bonds and Government stock. The current levels are zero, but the SFG Plc have set out a plan to invest approximately [REDACTED] in this format. This cash will be available on demand, which effectively means instant access.

In the event this source is not sufficient, we will consider the following source below.

3. [REDACTED] trade guarantee [REDACTED]

This money is guaranteed to the group by the individual IFA's. It is calculated as [REDACTED] of the individual IFAs incurred credit liability with insurance providers, known as the "indemnity debt". The amount is recallable on demand. The current levels available are approximately [REDACTED]. Although this money is available on demand it is likely to take approximately [REDACTED]. In addition it is expected that there will be timing recovery difficulties with [REDACTED] of the demands. These difficulties will mean indefinite delay. Only [REDACTED] of the full amount should be accounted for.

In the event this source is not sufficient, we will consider the following source below.

4. Increasing prices [REDACTED]

The bulk of the SFG's income derives from bank direct debits payable monthly that average [REDACTED] each. There is room for a special one off levy using this tool, or even a longer lasting simple increase in prices. A special one off monthly levy even on the current scale per month would produce well in excess of [REDACTED]. It is anticipated that [REDACTED] of this will be recoverable within [REDACTED] and the remaining [REDACTED] will create timing recovery difficulties leading to indefinite delay.

In the event this source is not sufficient, we will consider the following source below.

5. Bank lending overdraft [REDACTED]

This money has been made available by a credit institution and can and is drawn upon on a regular basis. The current levels available are approximately [REDACTED]. The access is instant.

In the event this source is not sufficient, we will consider the following source below.

6. Fixed or floating rate loan from existing shareholder [REDACTED]

The existing majority shareholder is able to make loans to the company as and when required and has indicated a willingness to contribute up to [REDACTED].

In the event this source is not sufficient, we will consider the following source below.

7. Bank fixed rate loan [REDACTED]

A bank has conditionally agreed to lend money to the Group up to the level of a further and new [REDACTED]. Verbal agreement has been reached and the legal paperwork is being drawn up by the lawyers at the time of writing.

In the event this source is not sufficient, we will consider the following source below.

8. Cost cutting [REDACTED]

The extra capital available from cost cutting is relatively small. The biggest single expenditure is labour, which accounts for approximately 60% of total expenditure. The savings generated from redundancy in the short term is offset by the cost of redundancy. After accounting for redundancy ongoing annual savings of up to [REDACTED] per annum will be made. The timescale for such savings are one full year.

In the event this source is not sufficient, we will consider the following source below.

9. Trade finance [REDACTED]



In the event this source is not sufficient, we will consider the following source below.

10. Subordinated Loan

The extra capital that could be raised from a loan subordinated to any the other creditors at the SFG Plc would be approximately [REDACTED]. The advantages of this is that it would rank nearly as share capital and thus clear the capital adequacy hurdles that this paper seeks to address. Raising such funds is likely to [REDACTED]. This solution is an alternative to 6 or 7 above and is not as well as these.

In the event this source is not sufficient, we will consider the following source below.

11. Share capital via a rights issue [REDACTED]

We include the following items which will create share capital for the SFG Plc.

Firstly a shareholder issue using pre-emption rights to existing shareholders. This would be quick, painless and effective remedy for the SFG. The amounts available from this source are approximately £2m. The timescale for raising this money in full is six to nine months, although lesser amounts are available at different times: [REDACTED] within one week; another [REDACTED] within a second week; a further [REDACTED] within a further [REDACTED] and a final [REDACTED] within [REDACTED] months.

12. Share capital via Public Offer [REDACTED]

Secondly a Public Offer of Securities could be utilized. It is unknown how much this would raise, but history shows that prices between 0 and [REDACTED] per IFA have been paid for IFA networks like SFG Plc over the past decade. This values the group at between 0 and ([REDACTED]). This money would be partly paid to existing shareholders and partly into the group, depending on dilution applied. It is clearly very difficult to estimate an amount or the timing. But a fire-sale would raise [REDACTED] and take [REDACTED] months.