BrokerCreditService (Cyprus) Limited

RISK MANAGEMENT DISCLOSURES

YEAR ENDED 31 DECEMBER 2015

APRIL 2016

According to Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012

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1. Introduction

1.1 Corporate Information

BrokerCreditService (Cyprus) Limited ("BCS" or "the Company") is authorised and regulated by the Cyprus Securities and Exchange Commission ("CySEC") as a Cyprus Investment Firm ("CIF") to offer Investment and Ancillary Services under license number 048/04, dated October 2004.

The Company has the licence to provide the following investment and ancillary services:

Investment Services	Ancillary Services
Reception and transmission of orders in relation to one or more financial instruments	Safekeeping and administration of financial instruments, including custodianship and related services
Execution of orders on behalf of clients	Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
Dealing on Own Account	Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings
Portfolio Management	Foreign exchange services where these are connected to the provision of investment services
Investment Advice	Investment research and financial analysis or other forms
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	Services related to underwriting
Placing of financial instruments without a firm commitment basis	Investment services and activities as well as ancillary services where these are connected to the provision of investment or ancillary services

1.2 Pillar 3 Regulatory Framework

1.2.1 Regulatory framework overview

In 2013, the European Union adopted a legislative package to reinforce the regulation of the banking and financial services sector and to implement the Basel III agreement into the European Union's legal framework. The new package replaced the Capital Requirements Directives (2006/48 and 2006/49) with the Capital Requirements Regulation (EU) No. 575/2013 ("CRR") and the Capital Requirements Directive ("CRD IV") and is considered as a key step towards creating a sounder and safer financial system. The CRR and CRD IV came into force on 1 January 2014.

CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, which allows national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to credit and financial institutions including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and financing. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which is not expected to be fully implemented until 2018.

The current regulatory framework comprises of the following three pillars:

- Pillar 1 covers the calculation of risk weighted assets for credit risk, market risk and operational risk;
- Pillar 2 covers the Supervisory Review Process (SREP), which assesses the internal capital adequacy processes and provides for the monitoring and self-assessment of the Company's capital adequacy and internal processes; and
- Pillar 3 covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

1.2.2. Purpose of the Disclosures

The purpose of these disclosures is to provide information on the basis of calculating Basel III capital requirements and on the management of risks faced by the Company.

These may differ from similar information in the Annual Report and Financial Statements, prepared in accordance with International Financial Reporting Standards ('IFRS') and includes balance sheet reconciliation information showing all items affecting regulatory own funds as disclosed in the audited financial statements as required in point (a) of Article 437(1) of Regulation (EU) No 575/2013.

The main differences for the Company are summarised below:

- Pillar 3 exposure values are derived from Balance Sheet values, net of provisions where appropriate, with off Balance Sheet exposures assigned credit conversion factors based on prescribed regulatory values; and
- Regulatory reporting rules require that the Company make certain adjustments to own funds; the most material relate to intangible assets and dated Tier 2 capital instruments.

1.2.3. Basis and frequency of disclosure

The 2015 Pillar 3 disclosures report (Report) of the Company sets out both quantitative and qualitative information required in accordance with Part 8 "Disclosures by Institutions" of the CRR. Articles 431 to 455 of the CRR specify the Pillar 3 framework requirements.

The Report is published annually on the Company's website *www.bcscyprus.com* in accordance with regulatory guidelines.

1.2.4. Verification

This Report is published by the Company as per the formal disclosure policy approved by the Company's Board of Directors (hereinafter "BoD" or "Board"). The Company's Pillar 3 disclosures are subject to internal review and validation prior to being submitted to the BoD for approval. This includes approval by Directors and Heads of Risk, and the Auditors of the Company. The 2015 Pillar 3 Report was approved by the BoD on 28th April 2016.

1.3 Scope of Application

The management of BrokerCreditService (Cyprus) Limited, in accordance with the provisions of Part Eight of the CRR and paragraph 32(1) of DI144-2014-14 of the CySEC for the prudential supervision of investment firms, has an obligation to publish information relating to risks and risk management on an annual basis at a minimum.

The information provided in this report is based on procedures followed by the management to identify and manage risks for the year ended 31 December 2015 and on reports submitted to CySEC for the year under review.

The Company is making the disclosures on an individual (solo) basis.

2. Risk Management Objectives and Policies

2.1 Strategies and Processes to Manage Risks

2.1.1 Risk Management Framework and Governance

The Company's activities expose it to a variety of financial risks: Market Risk (including Price Risk, Currency Risk, Cash Flow Interest Rate Risk and Fair Value Interest Rate Risk), Credit Risk and Liquidity Risk arising from the financial instruments it holds; and non-financial risks: Operational Risk, Reputational Risk and Business Risk. The primary objectives of the financial risk management function are to establish risk limits and then to ensure that exposure to risks stays within these limits. The Company's risk management function is designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date administrative and information systems.

The Company regularly reviews its risk management framework to reflect the changes in markets, products and effective best practice. The current structure of the risk framework implemented by the Company aims to manage risks in order to minimise the exposure of the Company and its stakeholders to any event, or set of occurrences able to cause adverse effects, while concurrently maximising the efficiency and effectiveness of the Company's operations in accordance with best practice. The purpose of managing risks is the prompt identification of any potential problems before they occur so that risk-handling activities may be planned and invoked as needed to mitigate adverse impacts and allow the Company to achieve overall objectives.

The responsibility for the overall framework of risk governance and management lies with the BoD. Management recognises that the risk is embedded in all of the Company's activities and for this reason it recognises the need for the continuous identification, assessment, examination, and control of each type of risk.

2.1.2 Risk Management Function

The primary goal of the Risk Management Department is to ensure that any Company operations, activities, market position-taking and trading, credit expansion and client dealing do not expose the Company to any credit losses that could threaten the Company's present and future viability. The process of risk management implies identification and analysis of risks and determination of a strategy aimed at minimization of these risks with possible risk prevention, as well as risk mitigation. The purpose of managing risks is the prompt identification of any potential problems before they occur so that risk-handling activities may be planned and invoked as needed to mitigate adverse impacts and allow the Company to achieve overall objectives.

The Risk Management Department is responsible for administering risk management techniques in order to minimize or mitigate risk exposure due to internal and/or external factors. This includes establishing policies and guidelines for risk management throughout the Company in order to ensure that the basic objective of risk management – the preservation of Company assets (both human and physical), by the minimization of loss – is met at the least possible cost to the Company.

The Company's BoD has appointed a Risk Manager in order to administer the Risk Management Function and be responsible for the operation of the Company's Risk Management Department. The Risk Manager reports directly to the BoD and the Senior Management of the Company.

The Risk Manager reports to the Senior Management at least once a year on the status of the Company's conformity with risk issues and other issues that may arise. Moreover, the head of the Risk Manager issues further ad hoc reports on the same matter where he/she decides that this is appropriate.

2.1.3 Risk Committee

The Risk Committee's function is to assess and identify the risks undertaken by the Company and to guarantee that the Company has a well-defined policy regarding the assumption, follow up and management of risks, as well as to communicate the risk policy accordingly to each of the Company's Departments as well as to external third parties where appropriate. The Committee is supported by the Company's Risk Management Function.

The responsibilities of the Risk Committee are, inter-alia, to:

- Recommend to the Board and then formally announce, implement and maintain a sound system of risk oversight, management and internal control which:

- Identifies, assesses, manages and monitors risk;
- Allows investors and other stakeholders to be informed of material changes to the Company's risk profile.

- Recommend to the Board and then formally announce clear standards of ethical behavior required of directors, employees and contractors and encourage observance of those standards;
- Advise the Board on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment, and drawing on financial stability assessments such as those published by relevant industry and regulatory authorities including the CySEC and other authoritative sources that may be relevant for the Company's risk policies; and
- Oversee and advise the Board on the current risk exposures of the Company and future risk strategy.

In addition, the Risk Committee may co-ordinate decision-making and provide oversight in relation to the relevant risk management function. The Risk Committee develops Company-wide and specific risk policies, assigns owners of significant risks and evaluates the effectiveness of the policies in place for managing specific risks.

The Risk Committee is composed by three Non-Executive Directors and meets at least two times annually or more frequently as circumstances dictate. Any of the members of the Risk Committee may call meetings of the Committee. During 2015 the Risk Committee has met six times.

2.1.4 Internal Audit Department

The Internal Auditor reports directly to the BoD of the Company. Moreover, the Internal Auditor discusses relevant issues of concern with regards to Internal Audit matters with the Company's Senior Management.

The Internal Auditor is independent and is not subject to any supervision by the Company nor has to report to any of the Heads of the Departments of the Company. The Internal Auditor has the authority to discuss with the Heads of each Department issues of concern with regards to Internal Audit matters that may or would encompass a risk cause and/or may affect the operations of each specific Department.

The Internal Auditor's duty is the provision, by exploiting its independence and autonomy, of a constant review and evaluation of the operations and activities of the Company in all aspects. Moreover, it is the Internal Auditor's responsibility to offer recommendations and advice in order to ensure that the Company operates at the highest standards, in accordance with best practice and in compliance with the legal framework as formulated by the competent authorities.

The responsibilities of the Internal Audit Department and the Internal Auditor in particular include:

a) Providing an objective and independent appraisal of all the Company's activities, financial, operational and others;
b) Giving assurance to the BoD on all control arrangements;
c) Assisting the BoD of the Company by evaluating and reporting to them on the effectiveness of the controls for which they are responsible and issuing of recommendations and suggestions;
d) Keeping records and books with regards to the internal audit work performed;
e) Establishing, implementing and maintaining an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements; and

f) Submitting, at least once a year, and no later than four months after the end of the calendar year under review, a report to the Senior Management and the BoD with the findings of the Internal Auditor.

2.1.5 Compliance Function

The Company has established and maintains a permanent and effective Compliance Function. The following have been implemented by the Company in order to ensure compliance with legislative requirements:

a) The Company appoints a Compliance Officer, who is responsible for the compliance function and for any reporting requirements as necessary under paragraph 9(2) of Directive DI144-2007-01;
b) The Compliance Officer has the necessary authority, resources, expertise and access to all relevant information; and
c) The relevant members of staff involved in the Compliance Function are not involved in the performance of services or activities they are monitoring.

The responsibilities which have been assigned to the Head of the Compliance Function are the following:

a) Monitor and assess the adequacy and effectiveness of the measures and procedures put in place and designed to detect any risk of failure by the Company to comply with its obligations under Law 144(I)/2007, as well as the associated risks;
b) Ensure that adequate measures and procedures are in place for minimising Compliance risks;
c) Advise and assist the relevant persons responsible for carrying out investment and ancillary services and activities, in order to comply with the Company's obligations under Law 144(I)/2007 and the Directives issued pursuant the Law;
d) Review the account opening documents kept in files for existing Clients (Agreements);
e) Perform a check of the Company's work and operations on a continuous basis. The check should include the following: supervision of record keeping, letters to Clients, counterparties and the CySEC, compliance with the legal and regulatory framework, assessment and review of the activities of all functions/operations/departments of the Company;
f) Submit an annual report to the BoD and the Senior Management over the activities of the Compliance Department, with special consideration to appropriate remedial measures that have been taken over the year in the event of the detection of any deficiencies verified within the operations of the Company.

2.1.6 Risk Inventory

The Company's activities expose it to a variety of financial risks: Market Risk (including Price Risk, Currency Risk, Cash Flow Interest Rate Risk and Fair Value Interest Rate Risk), Credit Risk and Liquidity Risk .arising from the financial instruments it holds.

Credit Risk

Credit Risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets held at the balance sheet date. Credit Risk arises from cash and bank balances, trade receivables, loans receivable and derivative financial assets.

The management of Credit Risk, including Counterparty Credit Risk, is the primary responsibility of the Risk Management Function, with Senior Management assuming a supervisory role in the process. Under the Risk Management Function, the Risk Manager examines and manages Credit Risk for each counterparty separately. The Risk Manager sets counterparty limits in accordance with internally generated methodologies. Counterparty creditworthiness is reviewed annually by the Risk Management Function on the basis of new information acquired during the year. The Risk Management Department together with the Senior Management are responsible for establishing policies and procedures which identify, analyse, evaluate, treat and monitor risks during the course of business.

The Company as a general rule does not provide direct credit facilities to customers concerned with its retail business section. Instead, the Company may provide fiduciary loans to these clients, which are not considered to carry any element of Credit Risk as the loan advance is fully secured by an equivalent amount which the Company has already received in the form of pledged securities.

Furthermore, the Company monitors closely portfolio concentration limits, as well as cases where limit utilisation is close to a maximum, such that the impact of new transactions on the concentration within the Company's portfolio is consistent with its risk appetite and portfolio limit structure.

Liquidity Risk

Liquidity Risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and by having available an adequate amount of committed credit facilities.

The balance-sheet Liquidity Risk is managed jointly by the Risk Manager and the Accounting Department. The Accounting Department is responsible for planning and supervising asset flows on accounts; the Risk Manager is in charge of analyzing risks connected with the failure to receive, partly or in full, incoming projected cash payments and other assets.

Should there be a severe possibility of Liquidity Risk arising, the Company will liquidate existing investments in its portfolio, even at a market loss to cover this risk. Additionally, the Company always keeps the minimum cash requirements for the financial year (the authorised budgeted expenditure) either with local or foreign banking institutions, thus eliminating the risk to run out of cash and be forced to liquate trading positions.

BCS monitors its Liquidity Risk on at least a daily basis. Group Treasury conducts several intra-day forecasts of liquidity gaps. This includes real-time monitoring of collateral. If the value of collateral falls below parameters agreed with the client, BCS CY may request additional collateral or, in certain circumstances, unwind the trades.

Market Risk

Price Risk

Price Risk is the possibility that the Company may suffer a loss resulting from the fluctuations in the values of, or income from equity securities classified at fair value through profit or loss and derivative financial instruments. The Company is exposed to Market Price Risk because of investments held by the Company and classified as financial assets at fair value through profit or loss which are susceptible to Market Price Risk arising from uncertainties about future prices of these investments.

The Company is susceptible to Market Price Risk arising from financial instruments received under Title Transfer Collateral Arrangements that are measured at fair value through profit or loss if and only if the Company has sold these financial instruments due to obligation to return back to the clients a financial instrument of equivalent fair value. As at 31 December 2015 and 2014 no financial instruments received under Title Transfer Collateral Arrangements have been sold, therefore the Company is not exposed to Price Risk. The Company is also exposed to Market Price Risk and Commodity Price Risk through the Contracts for Differences ("CFDs") that it offers to its clients. As at 31 December 2015 the Company was not materially exposed to Market Price Risk and Commodity Price Risk. The Company is also exposed to Price Risk from CDSs.

To manage its Price Risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company's BoD.

Currency Risk

Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency Risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to Foreign Exchange Risk arising from various currency exposures primarily with respect to the Russian Rouble and the Euro.

In order to limit the risk of loss from adverse fluctuations in exchange rates, overall open currency position limits have been set and monitored. The Risk Management Department is responsible for monitoring Foreign Exchange (FX) position limits. In addition, Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Cash Flow and Fair Value Interest Rate Risk

The Company's Interest Rate Risk arises from interest-bearing assets and long-term borrowings. Interest-bearing assets and borrowings at variable rates expose the Company to Cash Flow Interest Rate Risk. Interest bearing assets and borrowings issued at fixed rates expose the Company to Fair Value Interest Rate Risk. At 31 December 2015 and 31 December 2014 the Company did not have significant interest-bearing assets and borrowings at variable rates, thus any small fluctuation of interest rates would not have a material impact on the profit or loss for the year either in 2015 or in 2014.

The Company is also exposed to Interest Rate Risk from CDSs. The Company's management closely monitors the interest rate fluctuations on a continuous basis, and frequently performs a detailed analysis of the Company's asset and liability structure.

Operational Risk
Operational Risk is the risk that derives from the deficiencies relating to the Company's information technology and operational systems, as well as the risk of human error and natural disasters. The Company's systems are evaluated, maintained and upgraded continuously.

The Company is monitoring the following causes of Operational Risk:

- Failure of the processes in which it is involved executing business, including documentation to operate its business, payment or settlement failures, valuation and pricing feed failures, reporting both internal and external;
- Failure of the people or staff employed by the Company; this includes fraud, someone acting outside their authorization level, staff training, staff not being properly supervised and the Company itself not following employment law;
- Failure of the systems that are developed to support the processes and the people - these failures can occur for a number of different reasons including power failure to a system, back-up systems not working correctly as they were intended, viruses and bugs affecting the operating systems at the Company or overloading and over usage of the systems so that they are unable to operate;
- External events that affect the Company, its people, processes and/or technology, including external crime, economic conditions, competition, law, tax policy, the labor market, the pace of change and natural disasters.

Operational Risk Management is achieved through policies and procedures for identification, measurement, assessment and monitoring of Operational Risks arising during the Company's activities. Operational Risk events are registered in an internal Loss Data Base, which is reported to Management. Remedial Action Plans are prepared and implemented for the identified Operational Risks events.

The Risk Management Department has not found any material evidence of any Operational Risk exposure during the reported period. The Company maintains adequate backup systems in order to manage IT system failings. The Company also has a team of IT professionals who manage IT issues on a daily basis.

Reputation Risk
Reputation Risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation Risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor customer service, fraud or theft, customer claims, legal action and regulatory fines.

The Company has policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. In addition, the Company's Directors are made up of high calibre professionals who are recognized in the industry for their integrity and ethos; this adds value to the Company.

Strategic Risk
This could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to Strategic Risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

Business Risk
This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic forecasts are conducted with a view to minimize the Company's exposure to Business Risk. These are analyzed at a Group level and taken into consideration when implementing the Company's strategy.

Capital Risk Management
This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, comply with regulatory license requirements and to maintain an optimal capital structure to reduce the cost of capital. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital.

The Company is further required to report on its capital adequacy every quarter and has to maintain at all times a capital adequacy ratio of at least 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Senior management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is also achieved through the preparation on a monthly basis of accounts to monitor the financial and capital position of the Company.

Regulatory Risk
Regulatory Risk is the risk the Company faces by not complying with the relevant Laws and Directives issued by its supervisory authority, the CySEC. If materialized, Regulatory Risk could trigger the effects of Reputation and Strategic Risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the CySEC. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and Compliance Officer and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually.

Legal and Compliance Risk
Compliance Risk is the risk of financial loss, including fines and other penalties, which could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards. The probability of this risk occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and the regular reviews carried out by the Internal Auditors and the Compliance Officer. Furthermore, the structure of the Company is such as to promote clear coordination of duties, while the senior management consists of individuals with suitable professional experience and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the Board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by the Senior Management.

IT Risk
IT Risk could occur as a result of inadequate information technology and processing, or from an inadequate IT strategy and policy or inadequate use of the Company's information technology. Policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet, access rights and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

2.1.7 Adequacy of Risk Management Arrangements
The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements, which are designed to manage and mitigate the risks of not achieving business objectives.

The Board considers that it has in place adequate systems and controls with regards to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

2.1.8 Risk Appetite Statement
The Company operates with a strong customer focus and provides transparent services and products, which aim to deliver value for customers. The Company's strategy is pursued within a defined Risk appetite.

Risk appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, Credit, Market, Operational, Conduct, Reputational and Compliance Risk.

The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

2.1.9 Internal Capital Adequacy Assessment Process and Pillar 2

ICAAP Overview

In accordance with Directives DI144-2014-14 and DI144-2014-15 of the CySEC on the Capital Requirements of Investment Firms:

- BCS shall have in place sound, effective and complete strategies and processes to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital that it considers adequate to cover the nature and level of the risks to which it is or might be exposed. In this respect, BCS shall adopt the relevant guidelines issued by CySEC;
- These strategies and processes shall be subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the Company.

As a result of the above mentioned requirements, BCS has in place an Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP is an internal tool which allows BCS to assess its position and determine the amount of internal capital it needs to hold in order to be covered against all the risks it is facing or against the risks to which it may be exposed in the future.

The ICAAP falls under the scope of Pillar 2, which can be described as a set of relationships between the Commission and the investment firm, the objective of which is to enhance the link between the investment firm's risk profile, its risk management and risk mitigation systems, and its capital.

Pillar 2 establishes a process of prudential interaction that complements and strengthens Pillar 1 by promoting an active dialogue between the regulator and the investment firm such that, any inadequacies or weaknesses of the internal control framework and also other important risks, the fulfillment of which may entail threats for the investment firm, are identified and managed effectively with the enforcement of additional controls and mitigating measures.

The ICAAP comprises of all the measures and procedures adopted by BCS, with the purpose of ensuring:

- the appropriate identification and measurement of risks;
- an appropriate level of internal capital in relation to the Company's risk profile; and
- the application and further development of suitable risk management and internal control systems and tools.

The ICAAP is clearly owned and approved by BCS's BoD.

From BCS's perspective, the ICAAP:

- promotes a comprehensive risk management framework for the Company;
- aligns capital with risk management and strategy; and
- provides a tool for communicating to the Board and the regulator the key aspects of its risk management and governance structure.

ICAAP Profile and Methodology

According to the size of BCS and the complexity of its operations, the Company utilizes the **minimum capital requirement approach** for the calculation of the additional capital for Pillar 2.

The Company has implemented the minimum capital requirement approach in two stages:

1) The Pillar 1 minimum capital requirement was used as the foundation, since it reflects the Company's exposure to Pillar 1 risks (i.e. Credit Risk, Operational Risk and Market Risk);
2) The adequacy of the minimum capital required under Pillar 1 was then assessed, in relation to risks arising from the following three categories:

   i. Risks covered in Pillar 1;
   ii. Risk not fully covered in Pillar 1 (e.g. Concentration Risk which is part of Credit Risk); and
   iii. Risks not covered in Pillar 1 (e.g. Liquidity Risk, Strategic Risk and Reputation Risk).

ICAAP results

The results of ICAAP relative to additional capital requirements can be included in the Capital adequacy report, upon demand by CySEC. The present report does not include such information as CySEC has not requested their disclosure.

2.2 Governance Arrangements

2.2.1 Recruitment Policy

Recruitment into the BoD combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework. Candidates must have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. Recruitment as a member of the BoD is subject to the approval by the BoD itself.

Prior to the appointment, the Company must comply with the relevant fitness and probity requirements and obtain the approval of the CySEC.

2.2.2 Other Directorships

The table below provides the number of directorships held by each member of the Company's management body in other entities, including the one in BCS.

Name of Director	Number of Directorships
Ms. Olha Sidleruk	1
Mr. Marios Yiasoumi	2
Dr. Roman Lokhov	2
Ms. Tonia Antoniou	3
Mr. George Yiallourides	3
Mr. Andrei Aletdinov	1

Mr. Ratmir Levchuk resigned from the Board of Directors on 14 of February 2015.

2.2.3 Diversity Policy

The Company recognises the benefits of having a diverse Board of Directors which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences will be considered when determining the optimum composition of the Board of Directors. The Nomination Committee is responsible for ensuring there is an appropriate balance of skills and experience across the Board.

2.2.4 Reporting and Control

The management body receives:

a) the Company's Annual Report; and

b) Risk information which flows up to the Board through the Risk Committee.

3 Own Funds

3.1 Balance sheet reconciliation

Eligible Own funds as at December 2015	$'000
Share Capital	1.640
Share Premium	25.360
Retained Earnings	92.600
Profit & Loss	20.297
Intangible assets/Goodwill	-13
Original Own Funds (Tier 1 Capital)	**139.884**

3.2 Own funds disclosure template under the Transitional and fully phased in definition

As at 31 December 2015	Transitional Definition	Prescribed residual amount of Regulation (EU) No 575/2013	Full - phased in Definition
	$'000	**$'000**	**$'000**
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and the related share premium accounts	27.001		27.001
Retained earnings	112.896		112.896
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**139.897**		**139.897**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets (net of related tax liability)	(13)		(13)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)			
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(13)**		**(13)**
Common Equity Tier 1 (CET1) capital	**139.884**		**139.884**
Additional Tier 1 (AT1) capital			
Tier 1 capital (T1 = CET1 + AT1)	**139.884**		**139.884**
Tier 2 (T2) capital			
Total capital (TC = T1 + T2)	**139.884**		**139.884**
Total risk weighted assets	**351.018**		**351.018**
Capital ratios and buffers			
Common Equity Tier 1	39,85%		39,85%
Tier 1	39,85%		39,85%
Total capital	**39,85%**		**39,85%**

3.3 Main terms and conditions of capital resources

As at 31st December 2015, the Company maintained Tier 1 as eligible own funds. The Company's Tier 1 Capital comprises of share capital and reserves less any intangible assets. Share Capital includes the Company's paid up capital and share premium and Reserves include retained earnings.

As at 31 December 2015, the Company's issued share capital amounted to US$ 1.640.100, divided into 5.467 issued and fully paid shares with a par value of US$300 per share. Share premium amounts to US$ 25.360.400.

4 Minimum required own funds for Credit, Market and Operational Risk

4.1 Risk weighted assets and Capital Adequacy Ratio

Type of Risk	31 December 2015	
	Capital requirements	Risk-weighted amounts
	$'000	$'000
Credit	9.562	119.526
Credit Valuation Adjustments	58	726
Market	15.775	197.188
of which FX market risk	12.802	160.025
of which Commodity market risk	767	9.593
of which Equity market risk	2.206	27.570
of which Interest rate market risk	0	0
Operational	2.686	33.578
Total Capital Requirement	**28.081**	**351.018**
Capital Adequacy Ratio	**39,85%**	

As at 31st December 2015, the capital adequacy ratio of BrokerCreditService (Cyprus) Limited stood at 39,85%.

The CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8%. The CySEC may impose additional capital requirements for risks not covered by Pillar 1.

4.2 Credit Risk

The Company uses the Standardized Approach for measuring Credit Risk. The table below presents the allocation of Credit Risk by exposure class as at 31st December 2015:

Asset Class	31 December 2015	
	Risk-weighted amounts	Minimum capital requirement
	$'000	$'000
Public sector entities	120	10
Institutions	20.444	1.636
Corporates	89.689	7.175
Retail	9.115	729
Other Items	158	12
Total	**119.526**	**9.562**

4.3 Market Risk

The Company adopted the Standardised approach for Market risk. The standardised measurement method for the capital requirement for position risk in equities adds together all positions of financial instruments and funds according to predefined models and according to capital requirements.

The table below shows the Capital Requirements for Market Risk as at 31st December 2015:

Risk Type	31 December 2015	
	Risk-weighted amounts	Minimum capital requirement
	$'000	$'000
Market Risk		
of which FX market risk	160.025	12.802
of which Commodity market risk	9.593	767
of which Equity market risk	27.570	2.206
of which Interest rate market risk	0	0
Total	**197.188**	**15.775**

4.4 Operational Risk

The Company adopted the Basic Indicator Approach (BIA) for Operational risk. The Basic Indicator Approach calculates the average of positive income, on a three year basis, of net income to be used in the risk weighted assets calculation. The capital requirement for operational risk is equal to 15% of the relevant indicator.

The table below shows the Capital Requirements for Operational Risk as at 31st December 2015:

Income Item Description	2013 $'000	2014 $'000	2015 $'000
Commissions and fees from brokerage services	12.818	12.871	13.073
Net gains on derivative financial instruments	5.014	8.230	18.954
Net gains on financial assets at fair value through profit or loss - held for trading	-1.530	-5.740	7.196
Direct costs	-14.613	-19.198	-16.244
Other operating income	1.365	2.060	3.604
Net foreign exchange gains/losses	-9.767	-3.590	-28.645
Finance income	37.482	28.919	30.727
Finance costs	-17.734	-7.153	-4.374
Total	**13.035**	**16.399**	**24.290**
Average of 3 years	**17.908**		
Capital Requirement	**2.686**		
Risk Weighted Assets	**33.578**		

5 Counterparty Credit Risk

5.1 Internal capital and credit limits for counterparty credit exposures

Counterparty Credit Risk arises from the possibility that a counterparty will fail to perform on an obligation arising from transactions such as money market placements, FX, derivatives and other transactions.

The Company considers that there is a certain element of counterparty credit risk which arises from trading operations. The Company considers that this pre-settlement and settlement Credit Risk is limited due to the fact that for the majority of transactions the duration of this risk exposure is limited to the hours or days from the time a transaction is agreed upon until settlement. Beyond that, most transactions are executed under the Delivery Versus Payment (DVP) method, thus minimizing the Counterparty Risk.

Under the Risk Management Function, the Risk Manager also examines and manages Credit Risk for each counterparty separately. The Risk Manager sets counterparty limits in accordance with internally generated methodologies. The use of limits for Credit Risk and Counterparty Credit Risk contributes to the effective management of the Company's exposure to such risks. The assessment of a counterparty's creditworthiness, on examination of a credit limit application, begins with an analysis of the counterparty's financials and the quality of its business (competitive positioning, corporate and organizational structure, etc.), regional and sectorial factors (corporate clients) and account conduct within the Company. The Company is also using credit risk ratings from well recognized External Rating Agencies in order to assess the probability of default of a specific counterparty and, if necessary, refers to elements of other approaches, methods and models used to assess and manage these risks.

Counterparty creditworthiness is reviewed annually by the Risk Management Function on the basis of new information acquired during the year. The counterparty is assessed within its business sector, where relevant, thus considering the maximum exposure of the Company. In fierce market and economic conditions, the Company reviews limits more regularly to keep changes in counterparties' solvency profiles under strict control. At the same time, the Company introduces amendments into the existing methods of limits assessment, reflecting results of stress-tests.

The Company as a general rule does not provide direct credit facilities to customers concerned with its retail business section. Instead, the Company may provide fiduciary loans to these clients, which are not considered to carry any element of Credit Risk as the loan advance is fully secured by an equivalent amount which the Company has already received in the form of pledged securities.

5.2 Policies for securing collateral and establishing credit reserves

The Counterparty Credit Risk mitigation techniques utilised by the Company are classified into two broad categories:

- "Funded Credit Protection": A technique of Credit Risk mitigation where the reduction of the Credit Risk on the exposure of an institution derives from the right of the institution - in the event of the default of the counterparty or in the occurrence of other specified credit events relating to the counterparty - to liquidate, or to obtain transfer or appropriation of, or to retain certain assets or amounts, or to reduce the amount of the exposure to, or to replace it with, the amount of the difference between the amount of the exposure and the amount of a claim on the institution, and
- "Unfunded Credit Protection": A technique of Credit Risk mitigation where the reduction of the Credit Risk on the exposure of an institution derives from the undertaking of a third party to pay an amount in the event of the default of the borrower or on the occurrence of other specified credit events.

The Company’s policies for securing collateral, in relation to repurchase transactions and/or securities lending or borrowing transactions, revolve around two parameters:

- The use of Master Netting agreements: The Company's dealings are based on internationally recognised and acknowledged Master Netting agreements, like the International Securities Market Association TBMA/ISMA Global Master Repurchase Agreement.

- Eligibility of Collateral: In order for Funded Credit Protection to be eligible for recognition, the assets relied upon shall be sufficiently liquid and their value over time sufficiently stable to provide appropriate certainty as to the credit protection achieved. This requirement is applicable to both the repurchase transactions and/or securities lending or borrowing transactions activity and the margin lending activity of the Company.

5.2.1 Main types of collateral accepted

The Company receives the following types of collateral:

- Collateral received under fiduciary services
- Collateral received under Title Transfer Collateral Arrangements ("TTCA"), and
- Third party collateral (belonging to third party, not being the borrower).

Collateral received under fiduciary services

Cash and non-cash collateral, received under fiduciary services is held by the Company in a fiduciary capacity and is not recognized on the Company's Balance Sheet.

Collateral received under TTCA

Cash collateral received by the Company under TTCA is cash by which a client agrees that full ownership of such monies is unconditionally transferred to the Company. Cash collateral under TTCA is accordingly held on the Company's Balance Sheet with a corresponding liability to clients within trade payables. All cash collateral received under TTCA is deposited in the Company's own bank accounts.

Non-cash collateral received by the Company under TTCA consists of financial instruments by which a client agrees that full ownership of such financial instruments is unconditionally transferred to the Company. Non-cash collateral under TTCA is not held on the Company's Balance Sheet unless the non-cash collateral is sold where the Company recognises the proceeds from the sale and a respective liability measured at fair value through profit and loss, for its obligation to return the non-cash collateral.

Third Party Guarantors and hedging certain exposures using credit derivatives

The Company may accept guarantees from third parties to mitigate Credit Risk for customers. Such arrangements represent obligations for the guarantor to make payments to the Company if a customer fails to fulfill its obligation under a borrowing arrangement or other contractual obligation. The Company typically accepts guarantees from banks, investment grade corporate entities and financial institutions within the Institutional Securities business segment. Guarantees are monitored against eligibility requirements on an ongoing basis, and eligible guarantees for exposures may be recognized when determining the Company's overall capital requirements.

All guarantors must be evaluated through the credit scoring or other evaluation processes that are issued from time to time, using relevant assets and liabilities statements.

Guarantors are required to provide audited financial statements as well as various documents depending on the case. In calculating the repayment ability of the customer (borrower), guarantors are assessed for creditworthiness and may be rejected for any negative financial or other reasons.

The Company may also hedge certain exposures using credit derivatives. The Company may enter into credit derivatives, principally through credit default swaps, under which it receives or provides protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities.

The Company recognizes certain third-party guarantees and credit derivatives for the reduction of its capital requirements.

5.2.2 Collateral management/valuation

The collateral management process of the Company is based on the following principles:

- Common approach for assets valuation, describing market data sourcing and pricing sequence;
- Continuous controls for sufficiency of clients and counterparties' collateral, including real-time and daily-based automated monitoring tools with alerting and processes which cover margin calls and liquidation; and
- Continuous monitoring of sufficiency of funds placed on different market venues, custodians, clearing partners and external brokers for covering Company obligations.

5.2.3 Exposures covered by eligible financial collateral and credit protection

The table below outlines the Company's exposures by asset class which are covered by financial collaterals:

Asset Class	31 December 2015		
	Exposure values before credit risk mitigation	Exposure values after credit risk mitigation	Value of Exposures secured by Financial Collaterals
	$'000	$'000	$'000
Public sector entities	120	120	0
Institutions	102.219	102.219	0
Corporates	116.934	89.689	355.441
Retail	12.153	12.153	0
Other Items	158	158	0
Total	**231.584**	**204.339**	**355.441**

5.3 Policies with respect to wrong-way risk exposures

Wrong way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty, i.e. changes in market rates (interest rates, FX or other rates which are the main underlying factors of the Company's counterparty transactions) have an adverse impact on the probability of default (PD) of a counterparty.

This risk is not currently measured as it is not anticipated to be significant given the existence of Credit Support Annexes for almost all derivative transactions, with daily settlement of margins that significantly reduce credit risk.

The Company also prohibits the repurchase counterparty and the issuer of the collateral being the same, or related, entities. The Company has no exposure to wrong-way risk in this respect.

5.4 Collateral the Company would have to provide given a downgrade in its credit rating

There were no instances where the Company had to provide additional collateral in the event of a downgrade during the year ending 31 December 2015.

5.5 Derivatives exposure and mark-to-market method

The Company's total exposure to derivatives as at 31 December 2015, after the recognition of collaterals, amounted to $29,2 million and was calculated using the "Mark-To-Market Method" as the sum of the current replacement cost and potential future credit exposure.

The minimum capital requirement calculated for the Company's open derivative positions as at 31/12/2015 is presented in the following table:

Derivative Description	31 December 2015						
	Positive Fair Value	Negative Fair Value	Nominal Value	Exposure Amount before CRM	Exposure Amount After CRM	Risk Weighted Assets	Capital Requirements
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Coffee	110	-62	4.701	578	578	481	38
Cotton	2	0	35	4	4	3	0
Crude oil	585	-151	30.725	892	892	672	54
Equity CFDs	74	-21	3.033	104	104	78	6
FX CFDs	1	-2	212	13	13	10	1
Gold CFDs	14.060	-5.913	985.939	60.334	27.571	27.571	2.206
Total	**14.832**	**-6.149**	**1.024.645**	**61.925**	**29.162**	**28.815**	**2.305**

5.6 Repos and securities lending transactions

The table below outlines the Company’s exposure to Repos and Securities lending agreements:

Type of exposure	31 December 2015			
	Exposure values before credit risk mitigation	Volatility adjustments	Financial collaterals	Exposure values after credit risk mitigation
	$‘000	$‘000	$‘000	$‘000
Repos	1.412	250	1.110	552
Securities lending agreements	0	0	0	0
Total	**1.412**	**250**	**1.110**	**552**

6 Exposure to Credit Risk and Impairment Risk

6.1 Past due and impaired financial assets

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that it would not otherwise consider;
- It becomes probable that the borrower will enter into bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio; and
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists. For loans and receivables the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. As at 31 December 2015, no financial assets, loans or receivables, or trade and other receivables, were past due or impaired.

6.2 Exposures post value adjustments by exposure class

The table below outlines the Company's exposures by exposure class net of any specific provisions but before applying Credit Risk Mitigation:

Asset Class	31 December 2015	
	Original exposure amount, net of specific provisions	Average exposure
	$'000	$'000
Public sector entities	120	127
Institutions	102.219	216.383
Corporates	116.934	386.016
Retail	12.153	10.960
Other Items	158	146
Total	**231.584**	**613.632**

6.3 Exposures post value adjustments by significant geographic area and exposure class

The table below outlines the Company's exposures by exposure class and geographic area net of any specific provision but before applying Credit Risk Mitigation:

Asset Class	Country of exposure (31 December 2015)					
	Cyprus	Great Britain	Russia	Netherlands	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Public sector entities	120	0	0	0	0	**120**
Institutions	96	76.091	0	23.884	2.148	**102.219**
Corporates	46.426	0	53.471	15.675	1.362	**116.934**
Retail	10	0	12.056	0	87	**12.153**
Other Items	158	0	0	0	0	**158**
Total	**46.810**	**76.091**	**65.527**	**39.559**	**3.597**	***231.584***

6.4 Exposures post value adjustments by industry and exposure class

The table below outlines the Company's exposures by exposure class and industry area net of any specific provision but before applying Credit Risk Mitigation:

Asset Class	Industry Sector (31 December 2015)			
	Banking/Financial services	Private Individuals	Other	Total
	$'000	$'000	$'000	$'000
Public sector entities	0	0	120	**120**
Institutions	102.219	0	0	**102.219**
Corporates	41.636	0	75.298	**116.934**
Retail	0	12.153	0	**12.153**
Other Items	0	0	158	**158**
Total	**143.855**	**12.153**	**75.576**	***231.584***

6.5 Exposures post value adjustments by residual maturity and by exposure class

The table below outlines the Company's exposures by exposure class and residual maturity net of any specific provision but before applying Credit Risk Mitigation:

Asset Class	Residual Maturity (31 December 2015)		
	Up to 3 months	More than 3 months	Total
	$'000	$'000	$'000
Public sector entities	120	0	**120**
Institutions	102.219	0	**102.219**
Corporates	65.245	51.689	**116.934**
Retail	12.153	0	**12.153**
Other Items	158	0	**158**
Total	**179.895**	**51.689**	***231.584***

7 External Credit Assessment Institutions (ECAIs) used for calculating Risk-weighted Assets under the Standardised Approach

The Company has elected to use Moody's as the External Credit Assessment Institution ("ECAI") and as an alternative Fitch Ratings.

7.1 Application of External Ratings from Recognised ECAIs

The Company has used the credit quality step mapping table below to map the credit assessment to credit quality steps.

Credit Quality Step	Moody's	Fitch
CQS 1	Aaa to Aa3	AAA to AA-
CQS 2	A1 to A3	A+ to A-
CQS 3	Baa1 to Baa3	BBB+ to BBB-
CQS 4	Ba1 to Ba3	BB+ to BB-
CQS 5	B1 to B3	B+ to B-
CQS 6	Caa1 and below	CCC+ and below

The table below outlines the exposure classes for each ECAI used:

Asset Class	Credit Quality Step (31 December 2015)			
	CQS 2	CQS 6	Unrated/ N/A	Total
Public sector entities	0	0	120	**120**
Institutions	25.001	96	77.122	**102.219**
Corporates	120	0	116.814	**116.934**
Retail	0	0	12.153	**12.153**
Other Items	0	0	158	**158**
Total	**25.121**	**96**	**206.367**	**231.584**

7.2 Transfer of Credit Assessments onto items not included in the Trading Book

For exposures to regional governments or local authorities, public sector entities and institutions, the ECAIs are applied in the following priority:
1) Issue/Exposure;
2) Issuer/Counterparty; and
3) Sovereign.

For exposures to central governments or central banks, multilateral development banks, corporates, and CIUs, the ECAIs are applied in the following priority:
1) Issue/Exposure; and
2) Issuer/Counterparty.

The ECAIs are not taken into account where all relative exceptions per the CRR apply.

7.3 Exposures before and after Credit Risk Mitigation

The table below analyses exposures per Credit Quality Step before and after Credit Risk Mitigation:

Credit Quality Step	31 December 2015	
	Exposure values before credit risk mitigation	Exposure values after credit risk mitigation
	$'000	$'000
CQS 2	25.121	25.121
CQS 6	96	96
unrated/N/A	206.367	179.123
Total	**231.584**	**204.340**

8 Exposures in Equities not included in the Trading Book

As at 31 December 2015, the Company did not have any exposures in equities which were not included in the Trading Book.

9 Exposures to Interest Rate Risk on positions not included in the Trading Book

The Company's Interest Rate Risk arises from interest-bearing assets and long-term borrowings. Interest-bearing assets and borrowings at variable rates expose the Company to cash flow interest rate risk. Interest bearing assets and borrowings issued at fixed rates expose the Company to fair value interest rate risk.

As at 31 December 2015 the Company does not have significant interest-bearing assets and borrowings at variable rates thus any small fluctuation of interest rates would not have a material impact on the profit or loss for the year either in 2015.

10 Remuneration Policy and Practices

The aim of the Company's remuneration policy is to ensure that the Company has risk-focused remuneration policies which are consistent with and promote effective risk management and do not expose the Company to excessive risk.

10.1 Remuneration Committee

The Remuneration Committee shall be responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the Company and which are to be taken by the BoD of the Company.

More specifically, the Remuneration Committee shall be responsible for:

- Ensuring that contractual terms on termination and any payments made are fair to the individual and the Company and that failure is not rewarded and the duty to mitigate loss is fully recognised;
- Ensuring that its decisions are consistent with an assessment of Company's financial condition and future prospects. In particular, practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain should be evaluated carefully and the Committee should work closely with the Company's function in evaluating the incentives created by its remuneration system;
- Overseeing any major changes in employee benefit structures throughout the Company; and
- Agreeing the policy for authorising claims for expenses from the directors.

The members of the Committee shall be appointed by the Board of Directors and they shall consist of Non-Executive directors the majority of which shall be independent. The Board shall also appoint the chairman of the Committee.

As at 31 December 2015, the Remuneration Committee comprised of three Non-Executive Directors.

10.2 Remuneration Policy Principles

The principles of the Company's remuneration policy apply to the following categories of the Company's employees:

- Senior management;
- Risk takers;
- Staff engaged in control functions; and
- Any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on their risk profile.

Independent Control Functions

Staff engaged in control functions are independent from the business units they oversee, have appropriate authority, and are remunerated adequately to attract qualified and experienced staff and in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control. The remuneration of the senior officers in the risk management and compliance functions is directly overseen by the Remuneration Committee.

Combined Assessment

Where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual, the business unit concerned and the overall results of the Company and when assessing individual performance, financial and non-financial criteria are taken into account.

The assessment of the performance is made in a multi-year framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of the Company and its business risks.

Fixed and Variable Components

The fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy, on variable remuneration components, including the possibility to pay no variable remuneration component. The Company sets the appropriate ratios between the fixed and the variable component of the total remuneration.

Variable Remuneration – Profit-based Measurement, Risk Adjustment and Deferral

The measurement of performance used to calculate variable remuneration components or pools of variable remuneration components includes an adjustment for all types of current and future risks and takes into account the cost of the capital and the liquidity required.

10.3 Aggregate Information on Remuneration

The table below provides aggregate quantitative information on remuneration, broken down by senior management and other members of staff whose actions have a material impact on the risk profile of the Company:

Role	31 December 2015			
	No. of Beneficiaries	Fixed Remuneration $'000	Variable Remuneration $'000	Total $'000
Senior Management*	7	804	18	**822**
Members of staff whose actions have a material impact on the risk profile of the institution	10	274	19	**293**
Total	**17**	**1.078**	**37**	**1.115**

*Executive members and heads of significant business lines (i.e. Control functions, Trading & sales, Dealing on Own account).

The following table provides aggregate quantitative information on remuneration, broken down by business line:

Business Line	31 December 2015
	Aggregate quantitative information on remuneration $'000
Control Functions & Legal Department	569
Trading & Sales, Dealing on Own Account	370
Portfolio Management	38
Total	**977**

11 Leverage Ratio

An underlying cause of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the financial system. In many cases, institutions built up excessive leverage while apparently maintaining strong risk-based capital ratios. At the height of the crisis, financial markets forced the banking and financial services sector to reduce its leverage in a manner that amplified downward pressures on asset prices. This deleveraging process exacerbated the feedback loop between losses, falling bank capital and shrinking credit availability.

The Basel III framework introduced a simple, transparent, non-risk based Leverage Ratio to act as a credible supplementary measure to the risk-based capital requirements.

Leverage Ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regards to the Leverage Ratio. It is noted that the final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar 1 minimum capital requirement on 1 January 2018.

The proposed minimum requirement for the purposes of the Leverage Ratio is currently assessed at 3%. The Company's Leverage Ratio as at 31 December 2015 stood at 24,67%.

The table below provides a reconciliation of accounting assets and Leverage Ratio exposures:

Summary reconciliation of accounting assets and leverage ratio exposures		
		Applicable Amounts $'000s
1	Total assets as per published financial statements	514.836
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	14.832
5	Adjustments for securities financing transactions "SFTs"	552
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	-
8	**Total leverage ratio exposure**	**24,67%**

The table below provides a breakdown of the exposure measure by exposure type:

Leverage ratio common disclosure		
		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	504.592
2	(Asset amounts deducted in determining Tier 1 capital)	
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**504.592**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	14.832
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	47.094
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**61.926**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	552
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**552**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	-
18	(Adjustments for conversion to credit equivalent amounts)	-
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	-

Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	**Tier 1 capital**	**139.871**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**567.070**
Leverage ratio		
22	**Leverage ratio**	**24,67%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	-
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

The table below provides a breakdown of total on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by asset class:

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**504.592**
EU-2	**Trading book exposures**	**15.150**
EU-3	**Banking book exposures, of which:**	**489.442**
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	-
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	120
EU-7	Institutions	102.219
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	10.762
EU-10	Corporate	391.333
EU-11	Exposures in default	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	158

Description of the processes used to manage the risk of excessive leverage

The Company adopted the standardized approach for Market risk according to BCS internal methodologies. The Company holds collateral from clients in order to provide leverage to margin trading clients. The general measurement method for the capital requirement for position risk in equities adds together all positions of financial instruments and funds according to predefined models and according to capital requirements. Clients and repo collateral balances are monitored on a real-time basis to ensure that the Company is not at risk to market deterioration.

Furthermore, the Company uses the “haircut”-based framework and defines additional controls (including fat fingers, position, loss and other controls – the list depends on the account strategy) in order to limit the risk exposure of margin trading. The main criteria determining capital requirements are the difference between discounted collateral and discounted marginal requirements.

In addition, the Company has a complex risk control environment for marginal trading, which includes pre-trade and post-trade systems. All new orders are subject for full pre-trade check according to pre-defined limits before being sent for execution. For high-frequency trading the Company uses specialized low-latency system with similar full pre-trade controls. Post-trade system performs online M2M revaluation of portfolio and notifies risk officers in case of any deviations or margin calls.

The Company monitors its Leverage Ratio at least on a quarterly basis.

Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers

The regulatory Leverage Ratio of the Company over the financial year 2015 ranged between 24,67% and 42,96%.