



BrokerCreditService (Cyprus) Limited

RISK MANAGEMENT DISCLOSURES

YEAR ENDED 31 DECEMBER 2020

JUNE 2021

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 Cypriot 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
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	Investment research and financial analysis or other forms
Placing of financial instruments without a firm commitment basis	Services related to underwriting
	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

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.

The CRR establishes the prudential requirements for capital, liquidity and leverage that financial 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, the CRD IV has been transposed into national laws, allowing national regulators to set their own requirements on a specified set of regulatory provisions. The 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. The Leverage Ratio became a binding Pillar 1 measure on 1 January 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 Process (“ICAAP”) 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.

Recent Developments - Framework

The capital adequacy and overall risk management requirements that currently apply to the Company under the CRR and CRDIV prudential framework, will be replaced by amended prudential rules established by the EU Regulation 2019/2033 (“Investment Firm Regulation” or “IFR”) and the EU Directive 2019/2034 (“Investment Firm Directive” or “IFD”), which shall become applicable on 26th of June 2021.

The new rules introduce changes in the methodologies that EU investment firms are required to apply for calculating their exposures to risk and their capital adequacy ratio and in this respect, the Company is in the process of assessing the impact that these changes are expected to have on its solvency position, in order to take timely action and be in a position to adopt the new rules.

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 risk governance and risk management arrangements of the Company.

These may differ from similar information in the Annual Report and Financial Statements, prepared in accordance with the International Financial Reporting Standards (“IFRS”) and include balance sheet reconciliation information showing all items affecting regulatory own funds as disclosed in the audited financial statements, in accordance with the requirements of 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 specific off Balance Sheet exposures assigned credit conversion factors based on prescribed regulatory values; and
- Regulatory reporting rules require that the Company makes certain adjustments to its own funds; the most material relate to intangible assets and dated Tier 2 capital instruments.

Basis and frequency of disclosure

The 2020 Pillar 3 disclosures report (“Report”) of the Company sets out both quantitative and qualitative information required in accordance with Part Eight “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.bcsyprus.com in accordance with regulatory guidelines.

Verification

The Report is published by the Company as per its formal disclosure policy approved by the Company's Board of Directors (hereinafter "BoD" or "Board"). The Company's Pillar 3 disclosures are subject to independent 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 2020 Pillar 3 Report was approved by the BoD on 30th of June 2021.

Operating environment

On 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the government of the Republic of Cyprus, the Russian authorities, and various governments globally implemented and continue to implement numerous measures including imposing limitations on business activity and closures.

These measures have, among other things, severely restricted economic activity in Russia, Cyprus and globally and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Company, as well as the Cyprus, Russian and global economy for an unknown period of time.

The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results.

Management is taking necessary measures to ensure sustainability of the Company's operations and support its customers and employees.

During the year, there were no exposures subject to measures applied in response to the COVID-19 crisis such as loans and advances to customers.

1.3 Scope of Application

The management of BCS, 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 2020 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 Risk Management Framework and Governance

The Company's activities expose it to a variety of financial risks: Market Risk (including FX Risk, Equities Risk, Commodities Risk and 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 minimize the exposure of the Company and its stakeholders to any event, or set of occurrences able to cause adverse effects, while concurrently maximizing 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.

For BCS, quality management of risk is one of its hallmarks and a priority in its activity. Throughout its operations, the Company combines prudence in risk management with use of well-established risk management techniques, which have proven to be decisive in generating recurrent and balanced earnings and creating shareholder value.

The risk model is based on the principles of:

- Independent function from the business areas.
- The establishment of separate functions between the business areas (risk takers) and the risk areas responsible for measurement, analysis, control and information provide sufficient independence and autonomy to control risks appropriately.
- Involvement of senior management in all decisions taken.
- Collegiate decision-making, which ensures a variety of opinions and does not make results dependent on decisions solely taken by individuals.
- Defining functions.
- Each risk taker unit needs to have clearly defined types of activities, segments and risks which they could incur and decisions they might make in the sphere of risks, in accordance with delegated powers.
- Risk control and management is conducted on an integrated basis through the organizational structure.

Management and control of risk is developed in the following way:

- Formulate the risk appetite.
- The purpose is to identify and evaluate, synthetically and explicitly, the levels and types of risk that the Company is ready to assume in the development of its business.
- Establish risk policies and procedures.
- Establish the basic framework for regulating risk activities and processes.
- Execute a system to monitor and control risks, which verifies every day and with the corresponding reports the extent to which the Company's risks profile is in line with the risk policies approved and the limits set up.

2.2 Board of Directors

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

The responsibility for proper and effective risk governance lies with the Board of Directors, which:

- Provides oversight, direction and input to the establishment of the risk appetite framework.
- Ultimately owns and approves the risk appetite.
- Uses a risk appetite framework and statement as a guide in working with management to assess and set the overall corporate strategy.
- Leverages the risk appetite framework to evaluate individual strategic decisions and establish a consistent and transparent decision-making process.

2.3 Risk Management Function

The primary goal of the Risk Management Department is to ensure that any Company operations, activities, market position-taking and trading, and credit expansion do not expose the Company to any credit, financial, market or operational risks 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 its 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 Risk Management Department responsibilities are:

- Identifying and assessing the Company's risks to ensure that risks are monitored continuously and risk management activities are complete and effective.
- Coordinating information sharing on risk management across the Company's business units and governing bodies under the Risk Management.
- Developing documents based on the international best practices to regulate the guidelines and procedures for routine coordination of the Company's business units within risk management processes.
- Reporting on risk management and submitting reports for review, agreement and approval by the Management, the Board of Directors and their Committees.
- Calculating risk metrics and risk limits using external and internal resources, and monitoring and controlling risks of the Company and client accounts.
- Implementing risk controls in the Company's IT systems.

The Company's BoD has appointed two Risk Managers in order to administer the Risk Management Function and be responsible for the operation of the Company's Risk Management Department. The Risk Managers 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 Risk Manager issues further ad hoc reports on the same matters where he/she decides that this is appropriate.

2.4 Risk Committee

The Risk Committee's purpose is to identify and assess 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 and to external parties where appropriate. The Risk Committee is supported by the Company's Risk Management Function.

The Risk Committee ensures that the Company's activities are consistent with its risk appetite and establishes the limits for the main risk exposures, reviewing them systematically and resolving those operations that exceed the powers delegated to bodies lower down the hierarchy.

The responsibilities of the Risk Committee are to:

- Work with the board to set corporate strategy that is consistent with risk appetite;
- Provide input to the development of the risk appetite statement;
- Establish regular dialogue about risk appetite with the board and with business units, ensuring that risks taken by the business adhere to the overall risk appetite;
- Identify strategic emerging risks and drive implementation of stress testing and scenario planning;
- Articulate and translate risk appetite, making it relevant to the business units;
- Establish appropriate controls, policies, and reporting processes that enable business units and functions to own and manage their risks within risk appetite;
- Maintain periodic reviews with risk management and the business units to identify emerging risk issues and their potential impact on compliance with risk appetite.

In addition, the Risk Committee co-ordinates decision-making and provides oversight in relation to the Risk Management Function. It also 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 of three members, all of them are Non-Executive Directors. Any of the members of the Risk Committee may call meetings if they deem it necessary.

In order to enhance the decision-making process, the Company established a sub-committee for limited questions – Risk Committee Beta – to support the Risk Committee. The sub-committee is composed of four members: the Managing Director, the Head of Risk, the Risk Manager and the Chief Risk Officer on a Group Level (BCS Russia).

During 2020, the Risk Committees held 45 meetings.

2.5 Stress Testing

Stress testing Framework

The Company has put in place a framework for stress testing its risk exposure as well as Stress testing policy. The firm stress test scenarios and conditions are inherited from the Group overall stress testing conditions, but the Company has also separately developed its own stress tests of its capital and liquidity and also performs reverse stress testing.

In order to formalize an anti-crisis management procedure, the Group has specified three macro conditions:

- Basic condition; this corresponds to a normal, non-crisis market situation, with no threat for the financial performance and stability of the Group. No anti-crisis-management measures should be applied.

- Stress condition; this corresponds to an increased degree of threat to the financial performance of the Group but no threat to the overall financial stability. Some elements of anti-crisis management may be introduced.

- Crisis condition; this hereafter referred to as Crisis, corresponds to Russian and global market turmoil and as a result high risks for the financial performance of the Group accompanied by a possible threat to its financial stability. Anti-crisis management measures shall be introduced.

As part of its risk assessment and measurement process, the Company performs a number of stress tests to evaluate the impact of a set of extreme but plausible events on its financial position, performance and capital adequacy.

Company Stress testing performed

As part of the annual ICAAP prepared for Year 2019, the following types of risk were stress tested:

1. Counterparty Credit Risk
2. Country Risk
3. Reputation Risk
4. Market Risk

For each type of risk the Company assesses its impact on liquidity and Capital Adequacy thru P&L. Scenarios for the Stress Test are forward-looking and use projected data.

Stress Analysis

The Company operates in dynamic markets with differing characteristics where risks have to be managed systematically to reduce potential negative financial impact. The goal for the company is to identify, assess and prioritize risks and to react appropriately with suitable actions that mitigate, reduce or control the impact of negative events. The Company views risk management as a tool which adds value by raising awareness of risks and places focus on efficient day-to-day business operation and in line with the company strategy. The company's main revenue streams originate from separate markets with independent market dynamics. To some degree this has the effect of spreading the risk.

The purpose of stress testing is to estimate potential losses in extreme but plausible market scenarios. The following scenarios were applied for year 2020:

- Historical scenario - Year 2008/Year 2014 (the 'worst' effect)
- Historical scenario – COVID-19
- Number of single risk factors custom scenarios for better risk sensitivity explain

The Company portfolio consists primarily of Bonds of Russian Corporate and Sovereign issuers and Equities of both Russian and foreign issuers. Main risk drivers of the portfolio are equity risk, interest rate risk, and credit risk. These portfolios have been stressed.

Reverse stress testing

The Company considers a range of scenarios that could be considered as reverse stress tests for the company, making it unviable as a going concern. These are discussed at the Board and documented in the ICAAP Manual and the Head of Risk Management develops mitigating actions to reduce the potential impact should a reverse stress test scenario arise. This is documented in Recovery plan.

2.6 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:

- 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, as subsequently amended or replaced.
- The Compliance Officer has the necessary authority, resources, expertise and access to all relevant information, and
- 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:

1. 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 87(I)/2017 (“the Law”), as well as the associated risks.
2. Ensure that adequate measures and procedures are in place for minimising compliance risks.
3. 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 the Law and the Directives issued pursuant to the Law (as subsequently amended or replaced).
4. Review the account opening documents kept in files for existing Clients (Agreements).
5. Perform a check of the Company’s work and operations on a continuous basis. The check should include 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.
6. Submit an annual report to the BoD and the Senior Management over the activities of the Compliance Department, with special consideration to the remedial measures that have been taken over the year in the event of the detection of any deficiencies identified within the operations of the Company.

2.7 Internal Audit Function

The Internal Audit Function is outsourced. 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 does it have to report to any of the Heads of the Departments of the Company. The Internal Auditor has the authority to

discuss with the Head 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 constant review and evaluation of the operations and activities of the Company in all aspects, by exploiting its independence and autonomy. 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.

More specifically, the responsibilities of the Internal Auditor include:

- Providing an objective and independent appraisal of all the Company's activities – financial, operational and others.
- Providing assurance to the BoD on all control arrangements.
- Assisting the BoD by evaluating and reporting to its members on the effectiveness of the controls for which they are responsible and by issuing recommendations.
- Keeping records and books with regards to the internal audit work performed.
- 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.
- 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 Audit review.

The Company has also established and maintains an Executive Committee, an Audit Committee, a Nomination Committee, a Remuneration Committee (see more details in Section 10.1 of this Report) a New Product Committee and an Investment Committee, in order to better monitor and manage the risks that it incurs and which result from the performance of its activities.

2.8 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 is defined as the risk to earnings and capital arising from an obligor's failure to meet the terms of a contract or otherwise failure to perform as agreed. In this definition:

- 'Risk' refers to the probability of a financial loss;
- 'Obligor' is any corporation, firm, government organization or person (i.e. a legal entity that has the capacity to make contracts and discharge obligations) for which money is owed or a liability (directly, indirectly, or as a counterparty) has been incurred.

Credit Risk is traditionally broken down into three separate types of risk: Counterparty Risk, Issuer Risk and Lending Risk. The Company faces potential exposure to all three of these risk types. Furthermore, the Company faces some elements of Concentration Risk in its Credit Risk exposures.

The Risk Manager is responsible for the management of Credit Risk within the Company. He/she oversees the day to day adherence to the Credit Risk policy and escalates any material changes in Credit Risk, concerns around breaches of limits or other material Credit Risk issues to the Company's Risk Committee.

The Risk Committee reviews credit exposures, breaches and issues at the regular committee meetings and suggests decisions about risk mitigation.

The Company adopts a conservative attitude to Credit Risk, including Counterparty Risk. The Board has articulated the following statements of its attitude towards Credit and Credit Concentration Risk:

- The Company has no tolerance for unauthorised credit (including counterparty) limit breaches.
- The Company has no appetite for unapproved, unresolved margin calls outside the terms of the business.
- The Company has no appetite for accepting illiquid securities as collateral. The Company will not accept collateral from Prime brokerage clients that is not on the “margin list”, unless approved by the Risk Committee.

The Company has set a Counterparty Risk limit framework in order to protect its capital from possible erosion as a result of credit events. Credit limits are set to ensure that exposures are consistent with the Company’s risk appetite, and proportional to the size of its balance sheet. Limits are set when clients / counterparties are first on boarded, and then reviewed at least annually. Limits are set in US Dollars and their size is established taking into consideration the business case put forward and the creditworthiness of the counterparty.

Furthermore, concentration to BCS Financial Group is inherent in the Company’s business model. For that reason, exposure to BCS Financial Group is reported daily and reviewed by the Company’s Risk Committee. BCS looks to prudently reduce Concentration Risk where possible by:

- Diversifying its cash holdings amongst numerous custodians, ensuring at least the amounts required to wind-down the business in an orderly manner are ring-fenced;
- Ensuring, where possible, the prompt settlement of outstanding trading receivables.

The Company’s Risk Committee may approve Credit Risk limits. In cases where Risk Management does not support a limit, or recommend a limit which is deemed insufficient by the business, the case will be brought to the Company’s Risk Committee for a final decision.

Moreover, credit assessments are made on all counterparties with whom the Company has Credit / Counterparty Risk exposure. As a general principle, risk limits are set against the Company’s contractual settlement counterparty. Credit assessments must be completed at the on-boarding stage, and then at least annually for all active accounts.

BCS monitors its credit exposures at least on a daily basis to ensure that they do not exceed the Company’s risk appetite, and to highlight exposures which are approaching approved limits. Responsibility for Credit Risk monitoring lies with the Company’s Risk Management Function.

Liquidity Risk

Liquidity Risk is the risk that arises when the maturity of assets and liabilities does not match and can be divided into two sub-categories:

- Funding Liquidity Risk, which occurs when the Company cannot fulfil its obligations due to an inability to obtain new funding.
- Market Liquidity Risk, which occurs when the Company is unable to sell or realise specific assets without significant losses due to price movements.

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.

BCS differentiates between Market Liquidity Risk and Funding Liquidity Risk. The Company's Market Liquidity Risk arises from the following sources:

- Cash balances held in currencies other than USD (BCS functional currency).
- FX OTC and on-exchange trades.
- Collateral held as part of client margin trading or repo business.
- Error positions held on BCS books. These must be liquidated upon identification.
- Own positions.

The Company's Funding Liquidity Risk arises from the following sources:

- Trading activities, including settlement flows of cash and securities and margin held with counterparties.
- Non-trading expenses/costs incurred and requiring payment.

BCS has two main objectives for the management of liquidity:

- Ensure that it can meet expected and unexpected payment obligations at all times (primary objective).
- Contribute towards the profitability of the Company (secondary objective).

The Company also aims to secure sufficient liquidity by retaining access to funding and by possessing liquid assets.

BCS's appetite for Liquidity Risk has been agreed by the Company's Board of Directors in the form of a Liquidity Risk Appetite Statement, which includes a statement for each of the relevant Liquidity Risk drivers.

The Company's Treasury Department ensures that the Company has sufficient funds to meet its trading obligations as they fall due. A five-day forward-looking assessment is performed using the Treasury system to identify potential future liquidity movements due to the settlement of trades. Forecasts are prepared for both cash and securities and are run intra-day. Any potential problems are escalated to the Risk Manager.

Also, the Company has a process for ensuring sufficient non-trading liquidity which is maintained as follows:

- BCS Treasury Department periodically prepares a forward-looking analysis of expected future payments based on budgeted and expected costs.
- For all scheduled non-trading payments, or any payments that are requested to be made, the BCS Treasury Department will check that the Company has sufficient liquidity to meet the payment and any other payments coming due.
- Regular, periodic payments that are due on a set date and for which the exact amounts due can be determined in advance do not require individual approvals for each payment (i.e. rent and utility bills).

Moreover, the Company operates a set of limits in order to ensure Liquidity Risk is controlled. BCS defines a minimum liquidity buffer which must be ring-fenced in cash or highly liquid securities. Also, BCS operates strict limits on the amount of non-USD currencies it holds in order to minimize FX Market Risk. However, in terms of Liquidity Risk, BCS anticipates that these balances can be converted into USD with

minimal to no Liquidity Risk impact. For the same reason, BCS does not hold thinly traded (exotic) currencies.

The Company defines a procedure for the risk assessment and maintenance of a list of securities which it may accept as collateral to execute transactions on behalf of its clients, or under reverse repo trades. This list, which is referred to as the margin list, includes securities of Russian issuers, including their associated American and Global Depositary Receipts (ADRs, GDRs) based on the calculation of liquidity and volatility metrics for each security. The Company's aim is to ensure that securities accepted as collateral can be liquidated quickly and at no loss to the Company where necessary.

In addition, whilst BCS seeks to maintain a sufficient liquidity buffer to mitigate against crisis scenarios, BCS nonetheless operates a contingency funding plan which consists of several stages with specific communication and key responsibility persons across time.

Furthermore, the Company 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 may request additional collateral or, in certain circumstances, unwind the trades.

Market Risk

Market Risk is defined as the risk of financial loss as a result of adverse movements of market factors such as interest rates, foreign exchange rates, equity prices and commodity prices.

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. The Company is exposed to Market Price Risk as a result of investments held by the Company and classified as financial assets and liabilities 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 Arrangement 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.

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 Risk Committee.

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 Currency Risk arising from various currency exposures primarily with respect to the Russian Rouble, the Euro, the Swiss Franc, Australian dollar and Pound Sterling.

Currency Risk is monitored through various control mechanisms, which include but are not limited to, the setting and controlling of foreign exchange risk limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis. In

addition, the Company's 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 short 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 2020 and 31 December 2019 the Company had significant interest bearing liabilities and assets at variable interest rates, at short maturities which would not have exposed the Company to significant cash flow interest rate risk.

No sensitivity analysis was presented for interest rate risk as the impact of reasonably possible market movements on the interest rates are no significant of the Company's financial performance and position.

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 of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes Legal Risk but excludes Strategic and Reputational Risk.

The Company's Operational Risk management focuses on proactive measures in order to ensure business continuity as well as the accuracy of information used internally and reported externally, a competent and well-informed staff and its adherence to established rules and procedures as well as on security arrangements to protect the physical and IT infrastructure of the Company.

Moreover, the Company employs a decentralised model for the organisation and governance of Operational Risk management. The Risk Management of BCS coordinates and facilitates Operational Risk monitoring and control, but the primary management of Operational Risk takes place 'by sources' of Operational Risks in the respective departments/business lines. The responsibility for Operational Risk events is primarily allocated to the business lines/departments.

BCS mitigates Operational Risks by defining, documenting and updating the relevant business processes and procedures. Furthermore, the Company mitigates Operational Risk by following strict rules for the assignment of duties and responsibilities among and within the functions and a system of internal control and supervision. The main principle for organising workflows is to segregate the business-generating functions from the recording, supporting and monitoring functions. An important factor in Operational Risk mitigation is also the continuous development and upgrading of the Company's strategic plan.

Operational Risks are categorised according to the type of Operational Risk incidents/events. BCS uses the following cause categories of Operational Risk:

- Internal Fraud
- External Fraud
- Employment Practices and Workplace Safety
- Clients, Products and Business Practices

- Business disruption and system failures
- Damage to physical assets
- Execution, Delivery and Process Management

The active treatment of Operational Risk is a functional responsibility of the Heads of the relevant business lines/departments. This requires concrete measures for mitigation and minimization of Operational Risks in each business line/department of BCS. Key staff, in conjunction with the Risk Management Function, identify systems and measurement tools which can effectively measure the Operational Risks incurred.

In addition, when outsourcing activities and operations, BCS understands and ensures that the Operational Risk inherent in the services used by the Company should also be subject to adequate assessment procedures. Basically, there should be no distinction between the Operational Risk management responsibilities of in-house managed activities and outsourced activities.

Also, in order for BCS Management to have full oversight of Operational Risk, a number of reports are produced on a periodic and/or ad hoc basis, as necessary, depending on their nature.

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

Strategic Risk 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

Business Risk 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 is conducted with a view to minimize the Company's exposure to Business Risk. This is analysed at a Group level and taken into consideration when implementing the Company's strategy.

Capital Risk

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 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% plus the applicable capital buffers, subject to the transitional implementation arrangements. 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 or adopted 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 the relevant Laws and Directives. 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 Auditor evaluates and tests the effectiveness of the Company's control framework at least annually.

Compliance Risk

Compliance Risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, bylaws, regulations, prescribed practices, internal policies and procedures, or ethical standards. This risk exposes the Company to financial loss, fines, civil penalties, payment of damages and the voiding of contracts.

Compliance Risk can lead to diminished reputation, reduced Company value, limited business opportunities, reduced expansion potential and an inability to enforce contracts. Through its Compliance Function, the Company ensures that all personnel receive the appropriate training and assistance regarding compliance issues.

Money Laundering and Terrorist Financing Risk

Money Laundering and Terrorist Financing Risk mainly refers to the risk of the Company being used as a vehicle to launder money and/or assist/be involved in financing terrorism. The Company has in place and is updating as applicable, certain policies, procedures and controls in order to mitigate Money Laundering and Terrorist Financing Risk. Among others, these policies, procedures and controls include the following:

- Adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing Risks faced by the Company.
- Adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing Risk, setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents from independent and reliable sources, third party information, etc.).
- Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective

management of any increased risk emanating from a particular business relationship or an occasional transaction.

- Monitoring and reviewing the business relationship or an occasional transaction with clients and potential clients of high risk countries.
- Ensuring that the Company's personnel receive the appropriate training and assistance to perform their duties.

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.

2.9 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.

2.10 Risk Appetite Statement

The Company's strategy is pursued within a defined Risk Appetite. The Company defines its Risk Appetite as the amount and type of risks considered reasonable to assume for implementing its business strategy, so that it can maintain its ordinary activity in the event of unexpected events that could have a negative impact on the level of its capital, profitability and/or its share price.

Risk Appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. The Company's Risk Appetite framework includes specific objectives for all the types of risk. Qualitative objectives include a general medium-low and predictable risk profile based on a diversified business model and maintaining an independent risk function and intense involvement by Senior Management that guarantees a strong risk culture centered on protecting and ensuring an adequate return on capital. Quantitative objectives include the maximum losses that the Company has to assume and the minimum capital adequacy position that it wants to maintain.

Such risks include Credit, Market, Operational, Liquidity, Concentration, Business, Reputational, Residual, Legal/Compliance and Conduct Risk. The Board revises at least once a year the Company's Risk Appetite and its management framework, analyzing the impact of unlikely but plausible tension scenarios and adopting the pertinent measures to ensure that the policies set are met.

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.

2.11 Internal Capital Adequacy Assessment Process

ICAAP Overview

Cypriot Investment Firms 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 they consider adequate to cover the nature and level of the risks to which they are or might be exposed. In this respect, BCS adopted the relevant guidelines issued by CySEC.

These strategies and processes are 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. The ICAAP is an internal tool which allows BCS to identify, assess, monitor, manage, and report the short and long term risks which the Company faces or may face and to determine the own funds necessary to ensure that its overall capital needs are met at all times.

The ICAAP falls under the scope of Pillar 2, which can be described as a set of relationships between the CySEC and the investment firm, with the objective 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 requirements approach* for the calculation of the additional capital for Pillar 2.

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

- 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).

- 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 the ICAAP relative to additional capital requirements are included in the ICAAP report and submitted to CySEC upon the latter's request. The present report does not include such information as CySEC has not requested their disclosure.

2.12 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.

The nomination committee's duties include the formulation of succession planning for directors and senior executives.

The Company foresees some changes within the overall composition of the management body. The non-executive Chairman resigned during 2020 and was replaced by a NED currently on the BoD. The Company is in the process of appointing two ED and a NED. The BoD will be comprised of 8 members, 3 Executive Directors and 5 NED.

2.13 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 is considered when determining the optimum composition of the Board of Directors. The Company's Nomination Committee is responsible for promoting diversity and ensuring there is an appropriate balance of skills and experience across the Board.

Regarding gender diversity, the female board representation is more than 40% of the total board of directors' membership.

The Company is in the process of introducing its policy on diversity accordingly, by the end of the year.

2.14 Number of Directorships

The table below provides the number of directorships held by each member of the Company's management body in other entities, excluding the one in BCS. Directorships in companies belonging to the same group are considered as one directorship.

Name of Director	Position in BCS	Other Directorships – Executive	Other Directorships – Non-Executive
Ms. Irina Khrabrova*	Non-Executive	-	-
Mr. Christakis Pavlides**	Executive	-	-
Dr. Roman Lokhov***	Non- Executive	1	-
Mrs. Tonia Antoniou	Non- Executive	1	1
Ms. Edvard Golosov	Non- Executive	-	-
Mr. Stanislav Novikov	Non-Executive	-	-
Mrs. Irina Nesterova	Executive	-	-
Ms. Iryna Theodoulou****	Non- Executive	1	-

* Ms. Irina Khrabrova resigned on November 29th, 2020.

** Mr. Christakis Pavlides resigned on October 23rd, 2020.

*** Dr Roman Lokhov resigned on June 17th, 2020.

**** Ms. Iryna Theodoulou was appointed on October 14th, 2020.

2.15 Reporting and Control

The management body receives:

- The Company's Annual Report, and
- Risk information which flows up to the Board through the Risk Committee.

The following reports are submitted to the BoD for review and approval on a yearly basis:

- Risk Management Report
- Internal Audit Report
- AML Report
- Compliance Report
- Suitability Report
- ICAAP Report

The abovementioned reporting that is regularly made to the management body and the BoD provides concise information on the various risks incurred by the Company, supporting in this way the Company's management to identify and comprehend the key issues arising from the operations and determine the appropriate course of action that should be implemented in order to better manage, mitigate and where possible, eliminate important risks.

3. Own Funds

3.1 Components of Own Funds

Own funds as at 31 st December 2020	\$'000
Common Equity Tier 1 (“CET1”) capital	
Share Capital	1.700
Share Premium	76.300
Retained Earnings	96.532
Profit & Loss	26.516
Total CET1 capital before deductions	201.048
Deductions from CET1 capital	
(Intangible assets/Goodwill)	(2)
(Contribution to the Investor Compensation Fund (ICF))	(731)
Additional Cash buffer of Investors Compensation fund	(374)
Additional Valuation Adjustment (“AVA”) deduction from own funds	(472)
Total deductions from CET1 capital	(1.579)
Total CET1 capital after deductions	199.469
Additional Tier 1 capital	-
Tier 2 capital	-
Total Own Funds	199.469

3.2 Own Funds under the Transitional and Fully-Phased in definition

Own Funds as at 31 st December 2020	Transitional Definition	Fully - Phased in Definition
	\$'000	\$'000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	78.000	78.000
Retained earnings	123.048	123.048
Common Equity Tier 1 (CET1) capital before regulatory adjustments	201.048	201.048
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(2)	(2)
Contribution to the ICF	(731)	(731)
Additional Cash buffer of Investors Compensation Fund	(374)	(374)
Additional Valuation Adjustment (“AVA”) deduction from your own funds	(472)	(472)
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)	(1.579)	(1.579)
Common Equity Tier 1 (CET1) capital	199.469	199.469
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	199.469	199.469
Tier 2 (T2) capital	-	-
Total capital (TC = T1 + T2)	199.469	199.469
Total risk weighted assets	535.364	535.364
Capital ratios and buffers		
Common Equity Tier 1 ratio	37,26%	37,26%
Tier 1 ratio	37,26%	37,26%
Total capital ratio	37,26%	37,26%

3.3 Main features of Own Funds items

As at 31st December 2020, the Company's eligible own funds consisted entirely of CET1 capital. The Company's CET1 capital comprises of share capital, share premium and reserves, less intangible assets and contribution to the Investors Compensation Fund. Share Capital includes the Company's paid up capital and share premium and Reserves include retained earnings (including period profits and net of dividends paid during the period).

Share Capital and Share Premium

The total authorized number of shares is 5.667 shares with a par value of US\$300 per share. All issued shares are fully paid.

Dividends

On 3 December 2020, the sole shareholder of the Company approved the payment of dividends of approximately US\$1.714 per share amounting to US\$9.711.000 in relation to the profit for the year ended 31 December 2019.

Adoption of new or revised standards

The company has adopted all the new and revised IFRS that are relevant to its operations and are effective for accounting periods beginning on 1 January 2020.

Deductions

The Company's contribution to Investors Compensation Fund as well as the Company's additional cash buffer of Investors Compensation Fund deducted from the Common Equity Tier 1 capital in accordance with requirements set by CySEC under relevant circulars:

- [C162 - Capital adequacy requirements - Change in the treatment of the Investors Compensation Fund Contribution](#) and
- [C334 - Treatment of the additional cash buffer of Investors Compensation fund \('ICF'\) in the own funds calculation.](#)

Additional Valuation Adjustment ("AVA") deducted from the Common Equity Tier 1 capital due to the requirements for prudent Valuation of the Company's Trading book in accordance with articles 34 and 105 of CRR.

4. Minimum Capital Requirements for Credit, Market and Operational Risk

4.1 Minimum Capital Requirement, Risk Weighted Assets and Capital Adequacy Ratio

Type of Risk	31 December 2020	
	Risk-weighted amounts	Minimum Capital requirement
	\$'000	\$'000
Credit Risk	195.755	15.660
Credit Valuation Adjustment Risk	10.844	867
Market Risk	241.919	19.353
<i>of which FX Market Risk</i>	<i>20.754</i>	<i>1.660</i>
<i>of which Commodity Market Risk</i>	<i>-</i>	<i>-</i>
<i>of which Equity Market Risk</i>	<i>367</i>	<i>29</i>
<i>of which Interest Rate Market Risk</i>	<i>220.798</i>	<i>17.664</i>
LE Excess in TB	-	-
Operational Risk	86.846	6.948
Total	535.364	42.828
Capital Adequacy Ratio	37,26%	

As at 31 December 2020, the Company was subject to a minimum Pillar 1 capital adequacy ratio of 8%, plus a capital conservation buffer of 2,5% as per the transitional application provisions for buffers.

In addition, the Company was subject to the other systemically important institutions (O-SII) buffer with a requirement of US\$5.354 for the 31 December 2020 reference date. The requirement of 1% of the O-SII buffer was applicable from 1 November 2020.

As a result, as at 31 December 2020 the Company was subject to an overall minimum requirement of 11,5% (for Pillar 1 plus buffers).

It should be noted that investment firms that are authorized to provide the investment services of dealing on own account and/or underwriting are subject, in addition to the capital conservation buffer, to a countercyclical capital buffer. For the year under review the Company is obliged to maintain an institution specific countercyclical capital buffer as the Macropudential Authority after its latest assessment has decided not to exempt small and medium sized CIFs.

As evidenced by the information presented in the table above, as at 31st December 2020, the capital adequacy ratio of BCS stood at 37,26%.

4.2 Credit Risk

The Company uses the Standardized Approach for measuring Credit Risk. The table below presents the allocation of RWAs and Credit Risk by exposure class as at 31st December 2020:

Asset Class	31 December 2020	
	Risk-weighted amounts	Minimum capital requirement
	\$'000	\$'000
Institutions	68.237	5.459
Corporates	127.192	10.175
Retail	270	22
Other Items	56	4
Central Government/Bank	-	-
Total	195.755	15.660

4.3 Market Risk

The Company adopts the Standardised approach for Market Risk. The table below shows the Capital Requirements for Market Risk as at 31st December 2020:

Risk Type	31 December 2020	
	Risk-weighted amounts	Minimum capital requirement
	\$'000	\$'000
Market Risk		
<i>of which FX Market Risk</i>	20.754	1.660
<i>of which Commodity Market Risk</i>	-	-
<i>of which Equity Market Risk</i>	367	29
<i>of which Interest Rate Market Risk</i>	220.798	17.664
Total	241.919	19.353

Market risk under the standardised approach

The table below outlines the Company's Market risk under the standardised approach as at 31st December 2020, as per requirement for O-SII as per EBA/GL/2016/11, version 2* par. 127.

Template 34: EU MR1 – Market risk under the standardised approach

Market Risk Capital requirements and RWAs	31 December 2020	
	RWAs	Capital requirements
	\$'000	\$'000
Outright products		
<i>Interest rate risk (general and specific)</i>	220.798	17.664
<i>Equity risk (general and specific)</i>	367	29
<i>Foreign exchange risk</i>	20.754	1.660
<i>Commodity risk</i>	-	0
Options		
<i>Simplified approach</i>	-	-
<i>Delta-plus method</i>	-	-
<i>Scenario approach</i>	-	-
<i>Securitisation (specific risk)</i>	-	-
Total	241.919	19.353

4.4 Operational Risk

The Company applies the Basic Indicator Approach (“BIA”) for calculating its minimum capital requirement for Operational Risk. Under the BIA, the capital requirement is calculated as the 15% of the average of positive net income, on a three-year basis.

The table below shows the Capital Requirements for Operational Risk as at 31st December 2020:

Income Item Description	2018	2019	2020
	\$'000	\$'000	\$'000
Commissions and fees from brokerage services	36.179	36.007	30.130
Net gains on derivative financial instruments	(10.834)	(16.240)	6.121
Net gains on financial assets at fair value through profit or loss - held for trading	11.085	11.319	8.201
Direct costs	(19.748)	(20.804)	(29.945)
Other operating income	7.800	5.652	1.587
Net foreign exchange gains/losses	(1.443)	(2.211)	23.257
Finance income	70.122	116.473	115.418
Finance costs	(44.553)	(87.294)	(107.323)
Total	48.608	42.902	47.446
Average of 3 years	46.319		
Capital Requirement	6.948		
Risk Weighted Assets	86.846		

4.5 Counterparty Credit Risk

4.5.1 Internal capital and credit limits for Counterparty Credit Risk 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 Counterparty Credit 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 widely recognized External Rating Agencies (Moody's Investors Service, Standard & Poor's Financial Services LLC and Fitch Ratings Inc.) 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.

4.5.2 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.

The Company makes use of the Financial Collateral Comprehensive Method for Credit Risk Mitigation.

Main types of collateral accepted

The Company receives the following types of collateral:

- Collateral received under fiduciary services, and
- Collateral received under Title Transfer Collateral Arrangements (“TTCA”).

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.

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.
- Continuous monitoring of sufficiency of funds placed on different market venues, custodians, clearing partners and external brokers for covering Company obligations.

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 2020		
	Exposure values before Credit Risk mitigation	Exposure values after Credit Risk mitigation	Value of Exposures secured by Financial Collaterals
	\$'000	\$'000	\$'000
Institutions	771.175	242.486	574.259
Corporates	1.250.779	126.648	1.129.993
Retail	2.747	360	2.387
Other Items	158	56	103
Central Government/Bank	1.179	-	1.179
Total	2.026.038	369.550	1.707.921

4.5.3 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.

4.5.4 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 2020.

4.5.5 Derivative exposures and Mark-to-Market method

The Company's total exposure to derivatives as at 31 December 2020, after the recognition of collaterals, amounted to \$119 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 December 2020 is presented in the following table:

Derivative Description	31 December 2020						
	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
Foreign Exchange	18.159	-	1.876.201	40.121	40.121	29.022	2.322
Interest Rate	333	-	96.000	813	813	412	33
Credit Default	195	-	6.872	1.019	191	96	8
Other	78.545	-	1.210.789	84.787	78.149	77.864	6.229
Total	97.232	-	3.189.862	126.740	119.274	107.394	8.592

4.5.6 Repos and securities lending transactions

The table below outlines the Company's exposure to Repos and Securities Lending agreements:

Type of exposure	31 December 2020			
	Exposure values before Credit Risk mitigation	Volatility adjustment to the exposure	Financial collateral: adjusted value (Cvam)	Exposure values after Credit Risk mitigation
	\$'000	\$'000	\$'000	\$'000
Repos and Securities lending agreements	726.134	51.431	(647.496)	130.069
Total	726.134	51.431	(647.496)	130.069

4.5.7 Impact of netting and collateral held on exposure values

The table below outlines the Company's Impact of netting and collateral held on exposure values as at 31st December 2020, as per requirement for O-SII as per EBA/GL/2016/11, version 2* par. 120.

Template 31: EU CCR5-A – Impact of netting and collateral held on exposure values

Impact of netting and collateral held on exposure values as at 31st December 2020	31 December 2020				
	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
	\$'000	\$'000	\$'000	\$'000	\$'000
Derivatives	126.741	-	-	7.466	119.275
SFTs	726.134	-	-	596.065	130.069
Cross-product netting	NA	-	-	NA	NA
Total	852.875	-	-	603.531	249.344

4.5.8 Composition of collateral for exposures to CCR

The table below outlines the Company's I Composition of collateral for exposures to CCR as at 31st December 2020, as per requirement for O-SII as per EBA/GL/2016/11, version 2* par. 121 ar. 122.

Template 32: EU CCR5-B – Composition of collateral for exposures to CCR

Composition of collateral for exposures to CCR as at 31 st December 2020	31 December 2020					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total	-	7.466	-	-	596.065	-

4.5.9 Analysis of CCR exposure by approach

The table below outlines an analysis of the Company's CCR exposure by approach as at 31st December 2020, as per requirement for O-SII as per EBA/GL/2016/11, version 2* par 114, par 121 and 122.

Template 25: EU CCR1 – Analysis of CCR exposure by approach

Analysis of CCR exposure by approach as at 31 st December 2020	31 December 2020						
	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mark to market		97.232	33.318			119.275	107.394
Financial collateral comprehensive method (for SFTs)						130.069	38.639
Total	-	97.232	33.318	-	-	119.275	107.394

4.5.10 Analysis of Exposures to CCPs

The table below outlines an analysis of the Company's Exposures to CCPs as at 31st December 2020, as per requirement for O-SII as per EBA/GL/2016/11, version 2* par 116.

Template 27: EU CCR8 – Exposures to CCPs

Exposures to CCPs as at 31 st December 2020	EAD post CRM	RWAs
	\$'000	\$'000
Exposures to QCCPs (total)		
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	-	-
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Alternative calculation of own funds requirements for exposures		-
Exposures to non-QCCPs (total)		-
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	1.225	1.225
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-

4.5.11 Analysis of Credit derivatives exposures

The table below outlines an analysis of the Company's Credit derivatives exposures as at 31st December 2020, as per requirement for O-SII as per EBA/GL/2016/11, version 2* par 123

Template 33: EU CCR6 – Credit derivatives exposures

Credit derivatives exposures as at 31 st December 2020	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
	\$'000	\$'000	\$'000
Notionals			
Credit default swaps and other credit Derivatives	380.748	279.255	-
Total notionals	380.748	279.255	-
Fair values			
Positive fair value (asset)	66.604	-	-
Negative fair value (liability)	-	96.460	65.878

4.6 Exposure to Credit Risk and Impairment Risk

4.6.1 Past due and impaired financial assets

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Company defines default as a situation when the debtor is more than 90 days past due on its contractual payments.

In relation to impairment, the Company has revised its impairment methodology for each class of assets subject to the new impairment requirements, as a result of the adoption of IFRS 9. From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and cash and bank balances. The impairment methodology applied depends on whether there has been a significant increase in credit risk and whether the debt instruments qualify as low credit risk.

Financial assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst other, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 180 days past due. Where loans or receivables have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Company has the following types of assets that are subject to the expected credit loss model: trade receivables, financial assets at amortised cost (including loans receivable and other receivables) and cash and bank balances including restricted cash.

The Company has adopted the simplified expected credit loss model for its trade receivables, as required by IFRS 9, and the general expected credit loss model for financial assets at amortised cost (including loans receivable and other receivables) and cash and bank balances.

During the year, losses of \$630.797 were recognised in relation to impaired financial assets including ECL on cash at banks balances, ECL on financial assets at amortized cost and ECL on trade receivables. Financial assets at amortised cost and trade receivables mostly represent exposures to individuals in Russia.

Analysis of balance of provisions:

Trade receivables	\$
Opening balance, 1 Jan 2020	50.021
Decrease in loan loss allowance recognised in profit or loss during the year	(436)
Closing Balance, 31 Dec 2020	49.585
Financial assets at amortised cost	\$
Opening balance, 1 Jan 2020	498.031
Recoveries	(15.017)
New financial assets originated or purchased	603.689
Closing Balance, 31 Dec 2020	1.086.703
Cash and bank balances	\$
Opening balance, 1 Jan 2020	1.966
Impairment charge for the year	42.555
Closing Balance, 31 Dec 2020	44.521

The Company assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at AC. The Company measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "net impairment losses on financial assets". Debt instruments measured at AC are presented in the balance sheet net of the allowance for ECL.

4.6.2 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 2020	
	Original exposure amount, net of specific provisions	Average exposure
	\$'000	\$'000
Institutions	771.175	774.969
Corporates	1.250.779	1.968.739
Retail	2.747	5.682
Other Items	158	116
Central Government/Bank	1.179	326
Total	2.026.038	2.749.832

4.6.3 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 2020)						
	Cyprus	Great Britain	Russia	Netherlands	United States of America	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Institutions	10.074	635.934	-	-	70.282	54.885	771.175
Corporates	1.080.264	13.747	122.339	-	200	34.229	1.250.779
Retail	7	-	534	-	2.205	1	2.747
Other Items	158	-	-	-	-	-	158
Central Government /Bank	1.179	-	-	-	-	-	1.179
Total	1.091.682	649.681	122.873	-	72.687	89.115	2.026.038

4.6.4 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 2020)			
	Banking/Financial services	Private Individuals	Other	Total
	\$'000	\$'000	\$'000	\$'000
Institutions	771.175	-	-	771.175
Corporates	94.574	-	1.156.205	1.250.779
Retail	-	2.747	-	2.747
Other Items	-	-	158	158
Central Government/Bank	-	-	1.179	1.179
Total	865.749	2.747	1.157.542	2.026.038

4.6.5 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 2020)		
	Up to 3 months	More than 3 months	Total
	\$'000	\$'000	\$'000
Institutions	756.290	14.885	771.175
Corporates	1.167.232	83.547	1.250.779
Retail	2.747	-	2.747
Other Items	103	55	158
Central Government/Bank	1.179	-	1.179
Total	1.927.551	98.487	2.026.038

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

The Company uses Moody's, Fitch and S&Ps as their External Credit Assessment Institutions ("ECAIs").

Application of External Ratings from Recognised ECAIs

The Company has used the Credit Quality Step ("CQS") mapping table below to map the credit assessment to credit quality steps:

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

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

For exposures to regional governments or local authorities, public sector entities, institutions and corporates, 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 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.

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 2020	
	Exposure values before Credit Risk mitigation	Exposure values after Credit Risk mitigation
	\$'000	\$'000
CQS 1	153.001	80.171
CQS 2	107.288	63.273
CQS 3	25.689	3.604
CQS 4	448.367	50.564
CQS 5	259.174	4.340
CQS 6	0	0
Unrated/N/A	1.032.519	167.598
Total	2.026.038	369.550

4.8 Breakdown of exposures post conversion factor and post risk mitigation techniques per Asset Class and RW% under Standardised approach

The table below outlines a breakdown of exposures post conversion factor and post risk mitigation techniques per Asset Class and RW% under Standardised approach as at 31st December 2020, as per requirement for O-SII as per EBA/GL/2016/11, version 2* par 100

Template 20: EU CR5 – Standardised approach

Exposure after CRM	31 December 2020							
	Risk Weight							
	0%	20%	50%	75%	100%	150%	Total	of which unrated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Exposure classes								
Institutions	-	179.117	61.912	-	1.457	-	242.486	51.728
Corporates	-	0	3.250	-	119.058	4.340	126.648	115.454
Retail	-	-	-	360	-	-	360	360
Other Items	-	-	-	-	56	-	56	56
Central Government /Bank	-	-	-	-	-	-	-	-
Total	-	179.117	65.162	360	120.571	4.340	369.550	167.598

4.9 Breakdown of CCR exposures post conversion factor and post risk mitigation techniques per Asset Class and RW% under Standardised approach

The table below outlines a breakdown of CCR exposures post conversion factor and post risk mitigation techniques per Asset Class and RW% under Standardised approach as at 31st December 2020, as per requirement for O-SII as per EBA/GL/2016/11, version 2* par 117

Template 28: EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

CCR Exposure (after CRM) per asset class and risk weight	31 December 2020							
	Risk Weight							of which unrated
	0%	20%	50%	75%	100%	150%	Total	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Exposure classes								
Institutions	-	103.369	45.571	-	1.457	-	150.397	45.138
Corporates	-	-	-	-	94.551	4.340	98.891	90.996
Retail	-	-	-	-	-	-	-	-
Other Items	-	-	-	-	56	-	56	56
Central Government/ Bank	-	-	-	-	-	-	-	-
Total	-	103.369	45.571	-	96.065	4.340	249.344	136.190

4.10 Exposure Value and RWAs subject to CVA

The table below illustrates the Requirement for O-SII as per EBA/GL/2016/11, version 2* par 115. The company as year end exposure value in CVA was \$318 million and RWAs \$96 million

Template 26: EU CCR2 – CVA capital charge

Exposure Value and RWAs subject to CVA as at 31 st December 2020	Exposure value	RWAs
	\$'000	\$'000
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3× multiplier)	-	-
(ii) SVaR component (including the 3× multiplier)	-	-
All portfolios subject to the standardised method	515.499	10.844
Based on the original exposure method	-	-
Total subject to the CVA capital charge	515.499	10.844

4.11 Exposures in Equities not included in the Trading Book

As at 31 December 2020, the Company did not have any exposures in equities which were not included in the Trading Book.

4.12 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 2020 and 31 December 2019 the Company had significant interest-bearing liabilities and assets at variable interest rates, at short maturities which would not have exposed the Company to significant cash flow interest rate risk.

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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 liabilities structure.

5. 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, do not expose the Company to excessive risk, avoid conflicts of interest and do not encourage inappropriate risk taking, attract, motivate and retain high calibre directors, officers and employees, operate a fair and consistent policy that rewards individual contributions to the Company's overall performance, and are competitive with industry standards.

The BoD is responsible for determining the Remuneration Policy, taking into account the Company's risk management, best market practices and any applicable regulatory guidelines. The BoD has the responsibility for ensuring the implementation of the Remuneration Policy and ongoing compliance by Company staff.

5.1 Remuneration Committee

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

More specifically, the Remuneration Committee is 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, while the duty to mitigate loss is properly recognised.
- Ensuring that its decisions are consistent with the assessment of the 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 functions 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 are appointed by the Board of Directors and consist of Non-Executive directors the majority of which are independent. The Board also appoints the chairman of the Committee.

As at 31 December 2020, the Remuneration Committee comprised of three Non-Executive Directors. The Remuneration Committee has met fivetimes during 2020.

5.2 Remuneration Policy Principles and Structure

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

- Employees and appointees of the Company whose professional activities have a material impact on the Company's risk profile, and
- Any employee who is deemed to have a material impact on the Company's risk profile in accordance with Regulation (EU) 604/2014 of 4 March 2014 (material risk takers), where the key positions that are within the Company's definition of staff who are risk takers are members of the Board of Directors, deputy managing directors, heads of significant business lines and of support and control functions.

The remuneration of the Company's Executive Directors is set and approved by the shareholder(s), following approval by the Remuneration Committee and the BoD. The remuneration of Non-Executive

Directors is set and approved by the shareholder(s), following approval by the BoD. Finally, the remuneration of Policy staff and other employees is set by the relevant line manager and approved by the Remuneration Committee.

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

Variable remuneration shall reflect performance in excess of that required to fulfil the employee's job description and terms of employment and shall be subject to performance adjustment in accordance with the Remuneration Policy.

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.

During 2020 the variable component of the remuneration for those employees that were awarded variable remuneration, was lower than the 100% of the fixed component of the total remuneration of each such employee.

When awarding, paying or providing variable remuneration, unless if such variable remuneration does not exceed the maximum threshold of one sixth (1/6) of annual fixed remuneration and EUR 20,000, the Company shall defer 40% of that amount over a period of three years at that maximum amount paid during the first consecutive year shall not exceed 75%. For variable remuneration amounts over a specified threshold awarded to an executive director, 60% of the amount awarded must be deferred. Variable remuneration shall vest no faster than on a pro-rata basis.

The BoD shall oversee the payment of variable remuneration to ensure that no payment is made through vehicles or methods that facilitate the avoidance of applicable statutory and regulatory requirements.

The appraisal process measures the previous year's performance against officers' and employees' agreed goals and targets and the results are taken into account in determining the final variable remuneration payments.

5.3 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 2020			
	No. of Beneficiaries	Fixed Remuneration \$'000	Variable Remuneration ² \$'000	Total \$'000
Senior Management ¹	30	3.198	336	3.534
Other staff whose actions have a material impact on the risk profile of the Company	19	1.028	151	1.179
Total	49	4.226	487	4.713

Notes:

1. Executive & Non-Executive Directors and heads of significant business lines

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

Business Line	31 December 2020
	Aggregate quantitative information on remuneration \$'000
Executive and Non-Executive Directors	898
Control Functions & Legal Department	1.519
Trading & Sales, Dealing on Own Account	1.285
Portfolio Management, Investment Advice	113
Underwriting, Capital Structure & Financing, Operations, Clients & Counterparties, HR & Administration	898
Total	4.713

Variable remuneration awarded during the year was in the form of cash.

During 2020, the company made no sign on payments to recruit senior management or other members of staff whose actions have a material impact on the risk profile of the Company. A severance payment of \$40 thousand was paid during the year to one beneficiary.

The Company paid \$328 thousand in total as deferred remuneration for bonus earned prior to 2020 and there is a total outstanding deferred remuneration of \$477 thousand relevant to the current year.

No beneficiary has been remunerated with an amount greater than \$1 million during the year.

Note: Two payments accrued in 2019 of a total amount of \$1,128 took place during 2020. One beneficiary received an amount as deferred sign on payment and another beneficiary received an amount as guaranteed variable remuneration

6. 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.

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 2020 stood at 9,02%.

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

Summary reconciliation of accounting assets and leverage ratio exposures		
As at 31 st December 2020		Applicable Amounts \$'000s
1	Total assets as per published financial statements	1.727.243
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	33.318
5	Adjustments for securities financing transactions "SFTs"	76.969
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	372.676
8	Total leverage ratio exposure	2.210.206

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

Leverage Ratio common disclosure		CRR Leverage Ratio exposures \$'000s
As at 31st December 2020		
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1.281.941
2	(Asset amounts deducted in determining Tier 1 capital)	(1.579)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	1.280.362
Derivative exposures		
4	Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)	97.232
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	33.318
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)	(3.809)
11	Total derivative exposures (sum of lines 4 to 10)	126.741
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	726.134
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty Credit Risk exposure for SFT assets	76.969
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)	803.103
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	199.469
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	2.210.206
Leverage ratio		
22	Leverage ratio	9,02%
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)		
As at 31st December 2020		CRR leverage ratio exposures \$'000s
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1.280.362
EU-2	Trading book exposures	107.197
EU-3	Banking book exposures, of which:	1.173.165
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	-
EU-7	Institutions	152.267
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	544
EU-10	Corporate	1.014.072
EU-11	Exposures in default	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1.282

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

The Company holds collateral from clients in order to provide leverage to margin trading clients. 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 to 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 2020 ranged between 4,75% and 9,02%. The most important reason for this fluctuation in the Leverage ratio during the year was the increase in Tier 1 capital and decrease in leverage exposure.

Furthermore, the main contributors to the exposure measure (denominator) of the Leverage Ratio for 31st December 2020 were the Company’s assets excluding derivatives and securities financing transactions with 53% as well as the Company’s SFTs (essentially repos and reverse repos) which contributed 36% to the exposure measure, followed by other Trading Book items (Equities and Bonds in the Trading Book) with 5% and derivative transactions with 6%. In terms of the Tier 1 capital (numerator) of the ratio, audited profits for the year have been recognized that led to an increase in Tier 1 capital, and therefore have resulted to an increase in the capital and the ratio.

The Company through its operations has a significant exposure to the economy and the financial markets of the Russian Federation and Cyprus. Despite the existing challenges in these key markets, the Company has sound risk management function, substantial capital buffer, adequate liquidity reserves and solid profitability that should ensure further sustainable development in 2021-2022.

The Risk Committee is mandated to oversee and control integrated planning and to monitor the risk profile and capital capacity. The limits are actively managed:

- To support business achievement of strategic performance plans.
- To provide a firm basis for achieving the target Leverage Ratio.
- To maintain risk discipline.