BrokerCreditService (Cyprus) Limited

RISK MANAGEMENT DISCLOSURES

YEAR ENDED 31 DECEMBER 2014

MAY 2015

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

BrokerCreditService (Cyprus) Limited is an authorised Cypriot Investment Firm, regulated by the Cyprus Securities and Exchange Commission (License Number 048/04)

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1. Introduction

1.1 Corporate Information

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

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

Investment Services
Reception and transmission of orders in relation to one or more financial instruments
Execution of Orders on Behalf of Clients
Dealing on Own Account
Portfolio Management
Investment Advice
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
Placing of financial instruments without a firm commitment basis

1.2 Pillar III Regulatory Framework

1.2.1 Regulatory framework overview

In 2013, the European Union adopted a legislative package to reinforce the regulation of the banking and financial services sector and to implement the Basel III agreement into the European Union's legal framework. The new package replaced the Capital Requirements Directives (2006/48 and 2006/49) with the Capital Requirements Regulation (EU) 575/2013 (CRR) and the Capital Requirements Directive (CRD IV) and is considered as a key step towards creating a sounder and safer financial system. The CRR and CRD IV came into force on 1 January 2014.

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

The current regulatory framework comprises three pillars:

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

1.2.2. Purpose of the Disclosures

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

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

The main differences for the Company are summarised below:

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

1.2.3. Basis and frequency of disclosure

The 2014 Pillar III disclosures report (Report) of the Company sets out both quantitative and qualitative information required in accordance with Part 8 'Disclosures by Institutions' of the CRR. Articles 431 to 455 of the CRR specify the Pillar III framework requirements.

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

1.2.4. Verification

This Report is published by the Company as per the formal disclosure policy approved by the company's Auditors.

1.3 Scope of Application

The management of BrokerCreditService (Cyprus) Limited (hereinafter "BCS" or the "Company"), in accordance with the provisions of 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 (hereinafter the "Regulation") and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (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 2014 and on reports submitted to CySEC for the year under review.

The Company is making the disclosures on an individual basis.

2 Risk Management Objectives and Policies

2.1 Strategies and Processes to Manage Risks

2.1.1 Risk Management Framework and Governance

The Company's activities expose it to a variety of financial risks: market risk (including price risk, currency risk, cash flow interest rate risk and fair value interest rate risk}, credit risk and liquidity risk arising from the financial instruments it holds. The primary objectives of the financial risk management function are to establish risk limits and then to ensure that exposure to risks stays within these limits. The Company's risk management function is designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date administrative and information systems.

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

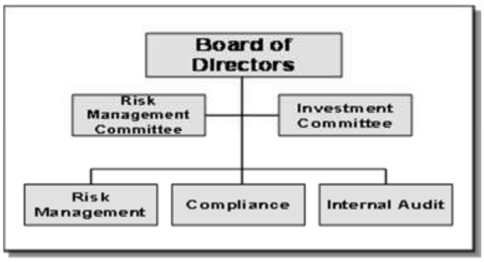
The responsibility for the overall framework of risk governance and management lies with the Board of Directors. Management recognises that the risk is embedded in all of the Company's activities and for this reason it recognises the need for the continuous identification, assessment, examination, and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

2.1.2 Risk Management Function

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

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

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



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

2.1.3 Risk Management Committee

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

The Risk Management Committee provides assistance to the Board of Directors by:

1. Assessing, and providing oversight to management relating to the identification and evaluation of major credit, market, operational, strategic, regulatory information and external risks inherent in the business of the Company (the "Risks") and the control processes with respect to such risks;
2. Overseeing the risk management, risk management compliance and control activities of the Company; and
3. Overseeing the integrity of the Company's systems of operational controls relating to Risk Management control.

The Risk Management Committee is composed by the Risk Manager, the Head of Trading and Sales Department and the Head of Accounting, Financial and Operational Control Department. The members of the Committee are appointed by the Executive Committee or the Senior Management and serve until such members' successors are duly elected and qualified or until such members' earlier resignation or removal.

The Risk Management Committee meets at least two times annually or more frequently as circumstances dictate. Any of the members of the Risk Management Committee may call meetings of the Committee. During 2014 the Risk Management Committee has met twice.

The responsibilities and duties of the Risk Management Committee include the following:

(a) Review and evaluate the functions of all Departments, and operations in respect of identification of all major risks to the Company's business and their relative weight;
(b) Effect control in respect of the adequacy of the Risk Manager's assessment of risks, his plans for risk control or mitigation, and disclosure;
(c) Where necessary, review and approve the Company's Risk Management Disclosure;
(d) In cooperation with the Risk Managers of the Company review, assess and discuss with the Board of Directors, the Senior Management, the persons or entities responsible for the Compliance and Internal Audit Functions, the Chief Accountant and the Independent Auditor: (i) any significant risks or exposures; (ii) the steps Senior Management has taken to minimize such risks or exposures; and (iii) the Company's underlying policies with respect to risk assessment and risk management;
(e) Recommend specific risk limits for each of the Company's recommended investments, Clients, markets and products;
(f) Recommend specific risk limits for the Company's operational units;
(g) Recommend specific stop loss control limits;
(h) Review and monitor the Company's Capital Adequacy Returns and Statements of Large Exposures;
(i) Review and monitor the Company's balance sheet and financial figures; and
(j) Monitor and review the Company's liquidity management.

Any decisions of the Risk Management Committee are committed in the form of written resolutions. Such resolutions are filed and kept within the records and internal documents of the Company.

2.1.4 *Internal Audit Department*

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

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

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

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

(a) Providing an objective and independent appraisal of all the Company's activities, financial, operational and others;
(b) Giving assurance to the Board of Directors on all control arrangements;
(c) Assisting the Board of Directors of the Company by evaluating and reporting to them on the effectiveness of the controls for which they are responsible and issuing of recommendations and suggestions;
(d) Keeping records and books with regard to the internal audit work performed;
(e) Establishment, implementation and maintenance of an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements;
(f) Submission, at least once a year, and no later than four months after the end of the calendar year under review, of a report to the Senior Management and the Board of Directors with the findings of the Internal Auditor.

2.1.5 *Compliance Function*

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

(a) The Company appoints a Compliance Officer, who is responsible for the compliance function and for any reporting requirement as necessary under paragraph 9(2) of Directive DI144-2007-01.
(b) The Compliance Officer has the necessary authority, resources, expertise and access to all relevant information.

(c) The relevant members of staff involved in the compliance function are not involved in the performance of services or activities they are monitoring.

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

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

2.1.6 Risk Inventory

The Company's activities expose it to a variety of financial risks: market risk (including price risk, currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk arising from the financial instruments it holds:

Credit Risk

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

The management of Credit Risk, including Counterparty Credit Risk, is the primary responsibility of the Risk Management function, with Senior Management assuming a supervisory role in the process. Under the Risk Management Function, the Risk Manager examines and manages credit risk for each counterparty separately. The Risk Manager sets counterparty limits in accordance with internally generated methodologies. Counterparty creditworthiness is reviewed annually by the Risk Management Function on the basis of new information acquired during the year.

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

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

Liquidity risk

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

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

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

Market risk

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

The Company is susceptible to market price risk arising from financial instruments received under Title Transfer Collateral 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. The Company is exposed to market price risk and commodity price risk through the Contracts for Differences ("CFDs") that it offers to its clients. The Company is also exposed to price risk from CDSs.

To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company's Board of Directors.

<u>Currency Risk</u>
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company

is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Russian Rouble and the Euro.

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

Cash flow and fair value interest rate risk

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

The Company's management closely monitors the interest rate fluctuations on a continuous basis, and frequently performs a detailed analysis of the Company's asset and liability structure.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal procedures, human behaviour, fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide range of issues.

For the purpose of managing operational Risk, the following risks are also verified and managed:

- Business Process risk (incorrect orders, lack of control, operating bottlenecks);
- Technological risk (computer failures, software errors, unauthorized access, etc.),
- Personnel risk (misdemeanour, employee’s incompetence, human errors, corporate abuse)
- Risks of unforeseen situations and external events (disasters, partners’ misdemeanour, external technical failures, regulatory risks, legal risks, etc.)

Operational Risk is inherent to all Company operations. The Company’s senior management and its Risk Management Function successfully manages and control Operational Risk by identifying, measuring, monitoring reporting, controlling and mitigating operational risks.

The Risk Manager prepares management reporting information which is sent to the Company’s Senior Management. The Senior Management, in close cooperation with the Risk Manager, review the information reported, taking corrective actions to mitigate risk if and when necessary.

Moreover, to set control over operational risks, the Company has set and formalized all business processes.

1) The Company has a four-eye structure and a board oversight. This structure ensures the separation of powers regarding vital functions of the Company. The Board further reviews any decisions made by management and monitors their activities;
2) Several detection methods are in place by the accounting department in order to detect incorrect activities;

3) Senior Management ensures the accuracy of any statements. Senior Management also ensures that the information addressed to the client is fair, clear and not misleading;
4) To mitigate the risk of Money Laundering and Terrorist Financing Activities from Clients, the Company has employed on a full time basis an Anti-Money Laundering Compliance Officer;
5) Internal auditor visits to ensure that the Company complies with internal procedures and operations;
6) The Company has prepared a comprehensive business contingency and disaster recovery plan with recovery procedures and actions to be followed in the case of damage to any vital part of the Company's structure;
7) The Company obtains continuous legal advice and suggestions on the preparation of its legal documents and any issues that may arise relating to compliance and Risk Management.

The Company also applies all Risk Management controls with regard to the following:

- compliance with license requirements;
- internal registration of executed transactions in accordance with rules stipulated in regulatory statutes;
- timely release of a financial statement and audit checks;
- business processes automation;
- introduction of new services/new types of business activities;
- compliance with regulatory statutes during margin trading.

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 and 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 caliber professionals who are recognized in the industry for their integrity and ethos; this adds value to the Company.

Strategic Risk

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

Business Risk

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic forecasts are conducted with a view to minimize the Company's exposure to business risk.

These are analyzed at a Group level and taken into consideration when implementing the Company's strategy.

Capital Risk Management

This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. 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. This ultimately ensures the going concern of the Company. Such procedures are explained in detail in the Policies and Procedures Manual ("the PPM") of the Company.

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

Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with the relevant Laws and Directives issued by its supervisory authority the Cyprus Securities and Exchange Commission. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the PPM. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and Compliance Officer and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually.

Legal and Compliance Risk

This could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors and the Compliance Officer. The structure of the Company is such to promote clear coordination of duties and the senior management consists of individuals of suitable professional experience and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by the senior management.

IT Risk

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

2.1.7 Risk Management Arrangement Adequacy

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 regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

2.1.8 Risk Appetite Statement

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

Risk appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk.

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

2.1.9 Internal Capital Adequacy Assessment Process ("ICAAP") and Pillar II

ICAAP overview

In accordance with Directives DI144-2014-14 and DI144-2014-15 of the Cyprus Securities and Exchange Commission ("CySEC"), on the Capital Requirements of Investment Firms ("IFs"):

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

As a result of the above mentioned requirements, BCS has in place an Internal Capital Adequacy Assessment Process ("ICAAP").

The ICAAP is an internal tool which allows BCS to assess its position and determine the amount of internal capital it needs to hold in order to be covered against all the risks it is facing or against the risks to which it may be exposed in the future.

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

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

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

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

The ICAAP is clearly owned and approved by BCS's Board of Directors.

From BCS's perspective, the ICAAP:

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

ICAAP Profile and Methodology

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

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

1) The Pillar 1 minimum capital requirement was used as the foundation, since it reflects the Company's exposure to Pillar 1 risks (i.e. Credit Risk, Operational Risk and Market Risk);
2) The adequacy of the minimum capital required under Pillar 1 was then assessed, in relation to risks arising from the following three categories:
    i. Risks covered in Pillar 1
    ii. Risk not fully covered in Pillar 1 (e.g. Concentration Risk which is part of Credit Risk)
    iii. Risks not covered in Pillar 1 (e.g. Liquidity Risk, Strategic Risk, Reputation Risk)

ICAAP results

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

2.2 Governance Arrangements

2.2.1 Recruitment Policy

Recruitment into the Board 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 Board and must be able to commit the necessary time and effort to fulfil their responsibilities. Recruitment as a member of the Board is subject to the approval by the Board itself.

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

2.2.2 Other Directorships

Name of director	Directorships
Olha Sidleruk	1
Roman Lokhov	2
George Yiallourides	4
Tonia Antoniou	Tonia Antoniou in her capacity as a lawyer is appointed as a director in many companies.

Ratmir Levchuk resigned from the board of directors on 14 of February 2015.

2.2.3 Diversity Policy

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

2.2.4 Reporting and Control

The management body receives: (a) the Company's Annual Report, and (b) Risk information which flows up to the Board through the Risk committee.

3 Own Funds

3.1 Balance sheet reconciliation

Eligible Own funds	
Share Capital	1.640
Share Premium	25.360
Retained Earnings	79.924
Profit & Loss	12.675
Intangible assets/Goodwill	-21
Original Own Funds (Tier 1 Capital)	**119.578**

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

At 31 December 2014	Transitional Definition	Prescribed residual amount of Regulation (EU) No 575/2013	Full - phased in Definition
	$'000	**$'000**	**$'000**
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and the related share premium accounts	27.000		27.000
Retained earnings	92.599		92.599
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**119.599**		**119.599**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets (net of related tax liability)	(21)		(21)
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)	**(21)**		**(21)**
Common Equity Tier 1 (CET1) capital	**119.578**		**119.578**
Additional Tier 1 (AT1) capital	**0**		**0**
Tier 1 capital (T1 = CET1 + AT1)	**119.578**		**119.578**
Tier 2 (T2) capital	**0**		**0**
Total capital (TC = T1 + T2)	**119.578**		**119.578**
Total risk weighted assets	**264.297**		**264.297**
Capital ratios and buffers			
Common Equity Tier 1	45,24%		45,24%
Tier 1	45,24%		45,24%
Total capital	45,24%		45,24%

3.3 Main terms and conditions of capital resources

The Company maintained as of 31st December 2014 Tier 1 as eligible own funds. The Company's Tier 1 Capital comprises share capital and reserves less any intangible assets. Share Capital includes the Company's paid up capital and share premium and Reserves include retained earnings.

As at 31 December 2014, the Company's issued share capital amounted to US$ 1.640.100, divided into 5.467 issued and fully paid shares with a par value of US$300 per share. Share premium amounts to US$ 25.360.400.

4 Minimum required own funds for credit, market and operational risk

4.1 Risk weighted assets and Capital Adequacy Ratio

	Capital requirements $'000	Risk-weighted amounts $'000
Credit	**12.123**	**151.536**
Market	**6.594**	**82.434**
of which FX market risk	6.358	79.478
of which Commodity market risk	15	191
of which Equity market risk	221	2.765
of which Interest rate market risk	0	0
Operational	**2.401**	**30.015**
CVA	25	312
Total Capital Requirement	**21.143**	**264.297**

As at 31st December 2014, the capital adequacy ratio of BrokerCreditService (Cyprus) Limited stood at 44,44%.

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

4.2 Credit Risk

The Company uses the Standardized Approach for measuring Credit Risk. The table below presents the allocation of Credit Risk by exposure class as at 31st December 2014:

Asset Classes	Risk-weighted amounts $'000	Minimum capital requirement $'000
Public sector entities	134	11
Institutions	71.895	5.751
Corporates	72.165	5.773
Retail	7.207	577
Other Items	135	11
Total	**151.536**	**12.123**

4.3 Market Risk

The Company adopted the Standardised approach for Market risk. The standardised measurement method for the capital requirement for position risk in equities adds together all positions of financial instruments and funds according to predefined models and according to capital requirements. The table below shows the Capital Requirements for Market Risk as at 31st December 2014:

Risk Type	Risk-weighted amounts $'000	Minimum capital requirement $'000
Market Risk		
of which FX market risk	79.478	6.358
of which Commodity market risk	191	15
of which Equity market risk	2.765	221
of which Interest rate market risk	0	0
Total	**82.434**	**6.594**

4.4 Operational Risk

The Company adopted the Basic Indicator Approach (BIA) for Operational risk. The Basic Indicator Approach calculates the average of positive income, on a three year basis, of net income to be used in the risk weighted assets calculation. The capital requirement for operational risk is equal to 15% of the relevant indicator. The table below shows the Capital Requirements for Operational Risk as at 31st December 2014:

Description	2012 $'000	2013 $'000	2014 $'000
Commissions and fees from brokerage services	5.127	12.818	12.871
Net gains on derivative financial instruments	11.941	5.014	8.230
Net gains on financial assets at fair value through profit or loss - held for trading	1.579	-1.530	-5.740
Direct costs	-3.028	-14.613	-19.198
Other operating income	2.206	130	2.060
Net foreign exchange gains/losses	2	-9.767	-3.590
Finance income	1.255	38,717	28.919
Finance costs	-492	-17.734	-7.153
Total	**18.590**	**13.035**	**16.399**
Average of 3 years	**16.008**		
Capital Requirement	**2.401**		
Risk Weighted Assets	**30.015**		

5 Counterparty Credit Risk

5.1 Internal capital and credit limits for counterparty credit exposures

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

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

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

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

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

5.2 Policies for securing collateral and establishing credit reserves

The counterparty credit risk mitigation techniques utilised BCS are classified into two broad categories:

- "funded credit protection": Means 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 on 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": Means a technique of credit risk mitigation where the reduction of the credit risk on the exposure of an institution derives from the undertaking of a third party to pay an amount in the event of the default of the borrower or on the occurrence of other specified credit events;

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

- *The use of master netting agreements:* The Company's dealings are based on internationally recognised and acknowledged master netting agreements, like the International Securities Market Association TBMA/ISMA Global Master Repurchase Agreement.
- *Eligibility of Collateral:* In order for funded credit protection to be eligible for recognition, the assets relied upon shall be sufficiently liquid and their value over time sufficiently stable to provide appropriate certainty as to the credit protection achieved. This requirement is applicable to both, the repurchase transactions and/or securities lending or borrowing transactions activity and the margin lending activity of the Company.

5.2.1 Main types of collateral accepted

The Company receives the following types of collateral: collateral received under fiduciary services, collateral received under Title Transfer Collateral Arrangements ("TTCA"), third party collateral (belonging to third party, not being the borrower)

Collateral received under fiduciary services

Cash and non-cash collateral, received under fiduciary services is held by the Company in a fiduciary capacity and is not recognized in 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 are 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 or provide audited financial statements as well as supply 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 will receive 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 capital requirements (refer to section 5.2.3 for more details).

5.2.2 Collateral management/ valuation

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

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

5.2.3 Exposures covered by eligible financial collateral and credit protection

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

Asset Classes	Exposure values before credit risk mitigation $'000	Exposure values after credit risk mitigation $'000	Value of Exposures secured by Financial Collaterals $'000
Public sector entities	134	134	0
Institutions	330.547	328.049	3.034
Corporates	676.802	72.165	631.240
Retail	9.609	9.609	0
Other Items	135	135	0
Total	**1.017.227**	**410.092**	**634.274**

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 means for almost all derivative transactions, with daily settlement of margins that significantly reduce credit risk.

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

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

There were no instance where the company would have to provide additional collateral in the event of a downgrade during the year ending 31 December 2014.

5.5 Derivatives exposure and mark-to-market method

The Company's total exposure in derivatives amounts to $3.409 million which is calculated using the "Mark-To-Market Method" as the sum of the current replacement cost and potential future credit exposure.
The minimum capital requirement calculated for the Company's open derivative positions as at 31/12/2014 is presented in the following table:

	Positive Fair Value $'000	Negative Fair Value $'000	Nominal Value $'000	Exposure Amount before CRM $'000	Exposure Amount After CRM $'000	Risk Weighted Assets $'000	Capital Requirements $'000
Coffee	0	0	0	0	0	0	0
Cotton	0	-1	66	7	7	5	0
Crude oil	0	0	6	1	1	1	0
Equity CFD	4	0	52	7	7	5	0
FX CFD	495	-142	29.715	792	792	594	48
Gold CFD	24	-9	2.019	44	44	33	3
Index Future CFD	16	-3	1.222	89	89	67	5
Natural gas	0	0	0	0	0	0	0
Platinum	0	0	1	0	0	0	0
Silver	8	-2	194	22	22	16	1
Sugar	0	0	10	1	1	1	0
Wheat	1	0	11	2	2	1	0
CDS	215	-1.261	22.293	2.445	0	0	0
Total	**763**	**-1.418**	**55.589**	**3.409**	**965**	**723**	**57**

5.6 Repos and securities lending transactions

The table below outlines the company's exposure to Repos and Securities lending agreements:

Type of exposures	Exposure values before credit risk mitigation $'000	Volatility adjustment $'000	Financial collateral $'000	Exposure values after credit risk mitigation $'000
Repos	5.672	716	4.051	2.337
Securities lending agreements	605.240	27.811	605.240	27.811
Total	**610.912**	**28.527**	**609.291**	**30.148**

6 Company’s exposure to credit risk and impairment risk

6.1 Past due and impaired financial assets

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

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

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

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

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

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

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. As at 31 December 2014, no financial assets are past due or impaired.

6.2 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by exposure class

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

Asset Classes	Original exposure amount, net of specific provisions $'000	Average exposure $'000
Public sector entities	134	67
Institutions	330.547	347.681
Corporates	676.802	667.889
Retail	9.609	6.972
Other Items	135	120
Total	**1.017.227**	**1.022.729**

6.3 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) 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:

Exposures per Asset Class per Country of incorporation of Counterparty as at 31 December 2014	Cyprus $'000	Seychelles $'000	Russia $'000	Netherlands $'000	Other $'000	Total $'000
Public sector entities	134	0	0	0	0	134
Institutions	103	0	125.457	134.807	70.180	330.547
Corporates	456.934	176.783	116.951	0	26.134	676.802
Retail	0	0	9.609	0	0	9.609
Other Items	135	0	0	0	0	135
Total	**457.306**	**176.783**	**152.017**	**134.807**	**96.314**	**1.017.227**

6.4 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) 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:

Exposures by Asset Class by Industry Segment	Banking/Financial services $'000	Private Individuals $'000	Other $'000	Total $'000
Public sector entities	0	0	134	134
Institutions	330.547	0	0	330.547
Corporates	607.314	14.286	55.202	676.802
Retail	0	9.609	0	9.609
Other Items	0	0	135	135
Total	**937.861**	**23.895**	**55.471**	**1.017.227**

6.5 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) 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:

Allocation of exposures by residual maturity at 31 December 2014	Up to 3 months $'000	> 3 months $'000	Total $'000
Public sector entities	0	134	134
Institutions	327.513	3.034	330.547
Corporates	652.876	23.926	676.802
Retail	9.609	0	9.767
Other Items	135	0	135
Total	**990.133**	**27.094**	**1.017.227**

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

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

7.1 Application of External Ratings from Recognised ECAIs

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

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

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

Asset Classes	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6	unrated/N/A	Total
Public sector entities	0	0	0	0	0	0	134	134
Institutions	0	168.581	781	0	0	103	161.082	330.547
Corporates	0	0	0	0	0	0	676.802	676.802
Retail	0	0	0	0	0	0	9.609	9.609
Other Items	0	0	0	0	0	0	135	135
Total	**0**	**168.581**	**781**	**0**	**0**	**103**	**847.762**	**1.017.227**

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

For exposures to regional governments or local authorities, public sector entities and institutions, the ECAIs are applied in the following priority:

1) Issue/Exposure;
2) Issuer/Counterparty;
3) Sovereign.

For exposures to central governments or central banks, multilateral development banks, corporates, and CIUs, the ECAIs are applied in the following priority:

1) Issue/Exposure;
2) Issuer/Counterparty.

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

7.3 Exposures before and after Credit Risk Mitigation

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

Credit Quality Step	Exposure values before credit risk mitigation $'000	Exposure values after credit risk mitigation $'000
CQS 1	0	0
CQS 2	168.581	168.581
CQS 3	781	781
CQS 4	0	0
CQS 5	0	0
CQS 6	103	103
unrated/N/A	847.762	240.627
Total	**1.017.227**	**410.092**

8 Exposures in Equities not included in the Trading Book

During 2014 the company did not have any exposures in equities which were not included in the trading book.

9 Exposure 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 2014 the Company does not have significant interest-bearing assets and borrowings at variable rates thus any small fluctuation of interest rates would not have a material impact on the profit or loss for the year either in 2014.

10 Remuneration Policy and Practices

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

The Board of Directors of the Company is responsible for:

i. Exercising competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity;
ii. Being responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the Company;
iii. When preparing such decisions, take into account the long-term interests of shareholders, clients and other stakeholders in the Company;
iv. The implementation of the Remuneration Policy and periodically review its general principles;
v. Ensuring that the implementation of the Remuneration Policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the Board of Directors.

10.1 Remuneration policy principles

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

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

Independent Control Functions

Staff engaged in control functions are independent from the business units they oversee, have appropriate authority, and are remunerated 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 Board of Directors.

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 and of the business unit concerned and of 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 Balanced

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

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

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

10.2 Aggregate information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the Company

	Number of beneficiaries	Amounts of remuneration for the financial year 2014		Total Remuneration
		Fixed Remuneration $‘000	Variable Remuneration $‘000	$‘000
Senior Management*	5	401	41	**442**
Members of staff whose actions have a material impact on the risk profile of the institution	2	176	46	**222**
Total	**7**	**577**	**87**	**664**

*Executive members and heads of significant business lines (Trading & sales, Dealing on Own account, Portfolio Management)