BrokerCreditService (Cyprus) Limited

RISK MANAGEMENT DISCLOSURES

YEAR ENDED 31 DECEMBER 2021

JUNE 2022

Disclosures in accordance with Part Six of Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014

Table of Contents

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 which has a LEI code 5493008C22FNI0QEEF10.

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

The capital adequacy and overall risk management requirements that applied until recently to the Company under the EU Capital Requirements Directive 2013/36/EU ("CRDIV") and EU Regulation No. 575/2013 (the "Regulation" or the "CRR"), have been replaced by amended prudential rules. In particular, the EU Regulation 2019/2033 (the "Investment Firm Regulation" or "IFR") and EU Directive 2019/2034

(the "Investment Firm Directive" or "IFD"), where the latter has been harmonized into Cyprus legislation through the issuance of the Cyprus Law on the Prudential Supervision of CIFs of 2021 (165(I)/2021).
The new rules introduce several changes to the methodologies that investment firms are required to apply for quantifying their exposure to risk and deriving their Capital Adequacy ratio, as well as to their required level of initial capital, their Internal Capital Adequacy Assessment Process ("ICAAP") which is replaced by the Internal Capital Adequacy & Risk Assessment ("ICARA") Process, and a newly introduced Liquidity Requirement according to which they are required to maintain liquidity levels equal to at least one third of their Fixed Overhead Requirement, among others.

The Company is a Class 2 CIF and is required to hold €750k ($849 thousand equivalently) of initial capital, set in accordance with Article 14 of the IFR and Article 9 of the IFD.

The IFR/IFD framework consists of three Pillars that are used to regulate, supervise and improve the risk management of firms in the financial services industry. The three Pillars and their applicability to the Company, are summarised below:

- Pillar I - Minimum Capital Requirements - ensures that the Company maintains at all times a sufficient amount of capital above the minimum requirement in relation to certain key risks, as calculated using prescribed methods.
- Pillar II - ICARA and Supervisory Review and Evaluation Process ("SREP") - ensures that the Company and its supervisor, CySEC, actively assess, control and mitigate the various risks that the Company faces.
- Pillar III - Market Discipline - ensures the promotion of market discipline through the disclosure of the Company's regulatory requirements, risk management and risk governance policies and procedures, allowing market participants to view and compare meaningful information relating to the Company and its peers.

The 2021 Pillar 3 disclosures report ("Report") of the Company sets out both quantitative and qualitative information required in accordance with Part Six of the IFR and relate to the financial year ending on 31st of December 2021. The Company is making these Disclosures on an individual (solo) basis, as it does not fall under the scope of prudential consolidation based on the provisions of Article 7 of the IFR.

The Report is published annually on the Company's website *www.bcscyprus.com* in accordance with regulatory guidelines. It 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 2021 Pillar 3 Report was approved by the BoD on 30th of June 2022.

1.3 Operating environment

Impact of the conflict in Ukraine

The geopolitical situation in Eastern Europe intensified on 24 February 2022 with the commencement of the conflict between Russia and Ukraine. As at the date of issue of these Disclosures, the conflict continues to evolve as military activity proceeds. In addition to the impact of the events on entities that have operations in Russia, Ukraine, or Belarus or that conduct business with their counterparties, the conflict is increasingly affecting economies and financial markets globally and exacerbating ongoing economic challenges.

The United Nations, European Union as well as United States of America, Switzerland, United Kingdom and other countries imposed a series of restrictive measures (sanctions) against the Russian and Belarussian government, various companies, and certain individuals. The sanctions imposed include an asset freeze and a prohibition from making funds available to the sanctioned individuals and entities. In addition, travel bans applicable to the sanctioned individuals prevents them from entering or transiting through the relevant territories. The Republic of Cyprus has adopted the United Nations and European Union measures. The rapid deterioration of the conflict in Ukraine may as well lead to the possibility of further sanctions in the future.

Emerging uncertainty regarding global supply of commodities due to the conflict between Russia and Ukraine conflict may also disrupt certain global trade flows and place significant upwards pressure on commodity prices and input costs as seen through early March 2022. Challenges for companies may include availability of funding to ensure access to raw materials, ability to finance margin payments and heightened risk of contractual non-performance.

The impact on the Company largely depends on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets.

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty at this stage, due to the pace at which the conflict prevails and the high level of uncertainties arising from the inability to reliably predict the outcome.

The event did not exist in the reporting period and is therefore not reflected in the recognition and measurement of the assets and liabilities in the Company’s financial statements as at 31 December 2021 as it is considered as a non-adjusting event.

Operating in Russia involves some risk of political instability, which may include changes in government, negative policy shifts and civil unrest. Financial and economic sanctions imposed by the global community on certain sectors of the Russian economy as well as businesses and individuals in Russia in the first quarter of 2022, and the counter-measures imposed by Russia on the United States of America, United Kingdom and European Union, may potentially pose a risk to the Company's operations. These factors may have a negative impact on the Company's, capital flows and ability of the Company to secure financing.

The Company actively monitors political developments on an ongoing basis. However, the macroeconomic situation in Russia is out of Management's control. The scope and impact of any new potential sanctions (and any counter-sanctions) is yet unknown, however they might further affect key Russian financial institutions as well as companies operating in the Russian Federation.

Fluctuations in foreign exchange rates may also impact the operations of the Company. From the beginning of the military operation in Ukraine and after the sanctions came into effect, the Russian ruble (RUB) was materially devalued against the United States Dollar and the Euro. On 28 February 2022 the Russian central bank had raised the key rate of interest from 9,5% to 20% as a preventive measure to stop the devaluation of the RUB.

Management has considered the unique circumstances that could have a material impact on the business operations and the risk exposures of the Company and has concluded that the main impacts on the Company's profitability/liquidity position may arise from: disruption in banking systems and capital markets; restriction on cash balances; impairments of financial and non-financial assets; increased volatility in the value of financial instrument; the inability to trade with Russian counterparties in securities inside Russia; inability to serve its clients on the Russian markets.

Management is in the process of reassessing their trading and relevant cash flows using revised assumptions and incorporating downside scenarios in assessing actual and potential financing needs, taking into consideration the main impacts identified above.

Management will continue to monitor the situation closely and assess/seek additional measures/committed facilities as a fall-back plan in case the crisis becomes prolonged.

Management is closely monitoring the capital and liquidity position of the Company and concluded that the Company has sufficient capital and liquidity to meet its short-term obligations for the 12 months after the approval of the Company's financial statements. As a result, Management continues to adopt the going concern basis in preparing these Disclosures..

Covid-19

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.

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, Compliance 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 three Risk Managers in order to administer the Risk Management. Senior Management means a natural person who exercise executive functions within a Company and who are responsible, and accountable to the management body, for the day-to-day management of the entity, including for the implementation of the policies concerning the distribution of services and products to clients by the Company and its personnel. The power to the Senior Management is conferred onto them with and by authority of the Board of Directors.

Senior Management receives on a periodic basis, and at least annually, written reports from the Compliance, Risk Management and Internal Audit departments. These requirements are followed, the reports are submitted and reviewed by the Senior Management and the Board of Directors.

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 Executive Director.

During 2021, the Risk Committees held 43 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 based on historical stress scenario for the year of 2008 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 2020, the following types of risk were stress tested:

- Counterparty Credit Risk
- Country Risk
- Reputation Risk
- 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 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, implemented and maintains adequate policies and procedures designed to detect any risk of failure to comply with the obligations under the relevant Law, as well as the associated risks, and put in place adequate measures and procedures designed to minimize such risk and to enable the Commission to exercise their power effectively under that Law. When elaborating those policies, the Company took into account the nature, scale and complexity of the Company's business and the nature and range of investment services and activities provided in the course of that business..

The Company has established and effectively maintains a permanent Compliance function which operates independently and which has the following responsibilities:

- to monitor on a permanent basis and to assess, on a regular basis, the adequacy and effectiveness of the measures, policies and procedures, mentioned above, and the actions taken to address any deficiencies in the Company's compliance with its obligations;
- to advise and assist the relevant persons responsible for carrying out investment services and activities
- to comply with the Company's obligations under the relevant Laws;

- to report to the Board of Directors, on at least an annual basis, on the implementation and effectiveness
- of the overall control environment for investment services and activities, on the risks that have been
- identified and on the complaints-handling reporting as well as remedies undertaken or to be undertaken;
- to monitor the operations of the complaints-handling process and consider complaints as a source of relevant information in the context of its general monitoring responsibilities;
- to establish a risk-based monitoring program, taking into consideration all areas of the Company's investment services, activities and any relevant ancillary services.
  The Compliance function acts independently and has the necessary authority and expertise, as well as is provide with the access to all relevant information.

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, 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 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. BCS Cyprus has defined limits as "quantitative measures based on forward looking assumptions that allocate the financial institution's aggregate risk appetite statement (e.g. measure of loss or negative events) to business lines, specific risk categories, concentrations, and as appropriate, other levels." A limit system may include hard limits not to be exceeded in accordance with risk policies.

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.

2.9 Internal Capital Adequacy and Risk Assessment Process

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.

The Company is in the process of updating its existing Internal Capital Adequacy and Assessment Process ("ICAAP") in order to prepare its first Internal Capital Adequacy and Risk Assessment ("ICARA") Process, through which it will ensure full alignment with the IFR & IFD framework and the Cyprus Law 165(I)/2021 on the Prudential Supervision of CIFs. This will form the basis of the Company's additional capital requirements that the Company views as the supplementary amount of capital and liquidity it needs to hold against any risks that may potentially harm to clients, market and to the Firm itself that are not covered by prudential capital and liquidity requirements in terms of IFR capital and liquidity ratios.

The ICAAP / ICARA process is embedded in the core risk management approach of the Company and it is also 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 ICARA 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 ICARA 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 ICARA is clearly owned and approved by BCS's BoD.

From BCS's perspective, the ICARA:

- 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.

The results relative to additional capital requirements are included in the latest ICAAP report in respect to the year ended 31 December 2020 and submitted to CySEC. The ICARA report for the year ended 31 December 2021 is in progress.

2.10 Investment Policy

According to paragraph 1 of IFR Article 52, investment firms which do not meet the criteria referred to in point (a) of Article 32 (4) of Directive (EU) 2019/2034 shall disclose the following in accordance with IFR Article 46 of this Regulation:

a) the proportion of voting rights attached to the shares held directly or indirectly by the investment firm, broken down by Member State and sector;
b) a complete description of voting behaviour in the general meetings of companies the shares of which are held in accordance with paragraph 2 of IFR Article 52, an explanation of the votes, and the ratio of proposals put forward by the administrative or management body of the company which the investment firm has approved; and
c) an explanation of the use of proxy advisor firms;
d) the voting guidelines regarding the companies the shares of which are held in accordance with paragraph 2 IFR Article 52.

However, as per paragraph 2 of IFR Article 52, the investment firm shall comply with the above only in respect of each company whose shares are admitted to trading on a regulated market and only in respect of those shares to which voting rights are attached, where the proportion of voting rights that the investment firm directly or indirectly holds exceeds the threshold of 5 % of all voting rights attached to the shares issued by the company. Voting rights shall be calculated on the basis of all shares to which voting rights are attached, even if the exercise of those voting rights is suspended.

As at the reference date the Company did not hold any shares that would meet the criteria stated in Article 52(2) of IFR and therefore no disclosures regarding investment policy were made.

2.11 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 50% of the total board of directors’ membership.

The Company established a Diversity Policy during early 2022.

2.12 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.

Table 1: Number of directorships

Name of Director	Position in BCS	Other Directorships – Executive	Other Directorships – Non-Executive
Ms. Larisa Arshinskaya *	Executive	-	-
Mr. Igor Zatseda **	Executive	-	-
Mr. Oleg Chikhladze ***	Non- Executive	-	-
Mrs. Tonia Antoniou	Non- Executive	1	1
Ms. Edward Golosov	Non- Executive	-	-
Mr. Stanislav Novikov	Non-Executive	-	-
Mrs. Irina Nesterova	Executive	-	-
Mrs. Iryna Theodoulou	Non- Executive	1	-
Ms. Maxim Safonov	Non- Executive	-	-

* Ms. Larisa Arshinskaya was appointed on 05/08/21.
** Mr. Igor Zatseda was appointed on 05/08/21.
*** Mr. Oleg Chikhladze was appointed on 05/08/21.
**** Ms. Maxim Safonov was appointed on 29/11/21.

3. Principal Risks

The Company aims to follow a continuous, active, and systematic Risk Management process of well-defined steps in order to understand, manage and communicate risks from a firm-wide perspective. This is achieved through the effective identification, assessment, treatment and reporting of internal and external risks.

3.1 Risk to Client

Risk to Client ("RtC") captures the risk that may be imposed onto the clients. RtC exists in the activities/services of the firm which are related to the client and are measured as a percentage of Clients Money Held (CMH), Assets Under Management (AUM), Assets Safeguarded & Administered (ASA) and Clients' Orders Handled (COH) that are explained below:

K-AUM (Assets Under Management) – This captures the risk of harm to clients from an incorrect discretionary management of client portfolios or poor execution and provides reassurance and client benefits in terms of the continuity of service of ongoing portfolio management and investment advice.

K-CMH (Client Money Held) – Captures the amount of client money that an investment firm holds, taking into account the legal arrangements in relation to asset segregation and irrespective of the national accounting regime applicable to client money held by the investment firm.

K-ASA (Assets Safeguarded and Administered) – Captures the risk of safeguarding and administering client assets and ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on their own balance sheet or in third-party accounts.

K-COH (Client Orders Handled) – Captures the potential risk to clients of an investment firm which executes orders (in the name of the client, and not in the name of the investment firm itself), for example as part of execution-only services to clients or when an investment firm is part of a chain for client orders.

3.1.1 K-AUM

As the Company provides portfolio management services it is subject to the risk relating to this K-factor. During the year ending 31 December 2021 the Company was not materially exposed to K-AUM.

Portfolio management means managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments.

The company manages client portfolios in a manner that serves, in the best possible way, client interests. The company carries out the service of Portfolio Management, with all due professional care acting in compliance with the rules of the relevant legislation. The company, when providing the investment service of portfolio management, obtains the necessary information regarding the client's knowledge and experience in the investment field relevant to the specific type of product or service, and the client's financial situation and investment objectives as to be able to recommend investment services and financial instruments that are suitable to client.

3.1.2 K-CMH

As part of its business, the Company receives from its customers cash deposits to enable them to perform transactions in financial instruments and to this end, it is subject to the risk captured by K-CMH factor.

The Company holds money on behalf of clients in accordance with the client money rules set out in the CySEC's Directive DI87-01 for the Safeguarding of Client Assets, Product Governance Obligations and Inducements. Such monies are classified as "segregated client funds" in accordance with the CySEC regulatory requirements. Segregated client money accounts hold statutory trust status, according to regulatory requirements, restricting the Company's ability to control the monies and accordingly such amounts are not presented on the Company's statement of financial position.

Furthermore, the Finance Department is responsible for monitoring and supervising the reconciliation of the client balances to any table entries used and to the corresponding General Ledger Account balances, in order to ensure that client money is properly and adequately safeguarded.

3.1.3 K-ASA

The company offers safeguarding services in relation to the financial instruments and is therefore subject to the risk relating to K-ASA for these client trades.

In 2021 the Company provided custody services for the securities and financial instruments of its clients, which were traded through its trading platforms, and was therefore subject to K-ASA. For the purposes of safeguarding client's rights in relation to assets belonging to them, the Company:

- Keeps records and accounts in its systems as are necessary to enable it at any time and without delay to distinguish assets held for one client from assets held for any other client, and from its own assets.
- Maintains its records and accounts in a way that ensures their accuracy, and in particular their correspondence to the assets held for clients. The relevant departments are responsible for ensuring the maintenance of the records and accounts.
- Conducts, on a regular basis, reconciliations between its internal accounts and records and those of any third parties by whom those assets are held, such as between client bank accounts and the custodian's balances (debit side) and clients' credit balances and financial instrument balances (credit side).

3.1.4 K-COH

The company executes its clients' orders by acting as agent to their trades, therefore the risk reflected by this K-factor was applied for the year ending 31st of December 2021.The Company calculates its K-COH based on the provisions of Articles 15 and 20 of the IFR.

3.2 Risk to Market

Risk-to-Market (RtM) K-factors only apply to firms with a trading book that deals on their own account or on behalf of their clients, i.e. they deal on a matched principal basis or as a market maker. There are two K-factors for RtM.

K-NPR (Net Position Risk) – This k-factor is based on the rules for Market Risk for positions in equities, interest rate financial instruments, foreign exchange and commodities in accordance with CRR. Therefore, K-NPR captures the Market Risk, which is defined as the risk that the Company's income or the value of its holdings of financial instruments will change due to the change in market risk factors (market prices, non-trading book foreign exchange rates). Exposure to market risk at any point in time depends primarily on short term market conditions and the levels of client activity.

K-CMG (Clearing Margin Given) – means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. This is an alternative to K-NPR to provide for market risk for trades that are subject to clearing or on a portfolio basis, where the whole portfolio is subject to clearing or margining as set out in Article 23 of IFR. K-CMG means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. Based on the reference year, this K-factor was not applicable to the Company due to the nature of its operations.

3.2.1 K-NPR

Based on the year ending 31st of December 2021, K-NPR was applicable to the Company.

This K-factor includes: changes in Financial instruments prices and changes in Currency exchange rates. Presently, the Company is exposed to market risk coming from changes in financial instrument prices due to its business model, that of a market maker. The Company is authorized to Deal on Own Account, thus, it acts as counterparty to its clients' trading. Limits of maximum risk tolerated are set and honoured. Any excess risk above tolerance levels is hedged with the Company's Liquidity providers. The Company places greater emphasis on diversifying its exposure to more than one institution than dealing with the potential effects of interest rate fluctuations. The Company is exposed to currency risk, the risk of loss resulting from changes in exchange rates. The Company is exposed to the financial impact arising from changes in the exchange rates of various currencies in two ways. Firstly, the Company may receive income in a currency other than USD, which is the reporting currency of the Company. Secondly, the Company maintains deposit balances in currencies other than USD. The Company continues to regularly monitor the impact of exchange rate risks and if deemed necessary corrective actions will be taken to minimize the effect.

BCS has robust policies and procedures to identify, monitor and control market risk incurred as part of its trading and non-trading activities

- In particular, the Company employs a wide range of quantitative methods to manage market risk which include measures using Value-at-Risk methodology, based on historical valuation or

MonteCarlo simulation methods. These methodologies are used not only for assessing market risk in proprietary trading portfolios but also for calculating margin requirements for assets used as collateral
- The Company calculated metrics are systematically lower than regulatory capital charges so no add-ons are applied. Overall, the exposure of BCS to Market Risk is considered significant and arises primarily from interest risk.

Foreign Exchange Risk / Currency Risk

Foreign Exchange risk arises primarily in two instances, namely from any asset and any liability that is denominated in a currency other than USD which is the reporting currency of the Company (where such exposure is deemed immaterial by the Company), as well as from the notionals of the Company's open FX on the reporting date. The Foreign Exchange risk in the Group is effectively managed by setting, monitoring and controlling 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.

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, the Euro, the Swiss Franc, Australian dollar and the Pound Sterling. Monetary assets and liabilities denominated in US dollar do not expose the Company to any currency risk.

Moreover, the management monitors the exchange rate fluctuations on a continuous basis and acts accordingly. The foreign exchange risk is managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of exposure

Market Price Risk

This is the risk that the fair value of a financial instrument fluctuates as a result of changes in market prices other than due to the effect of transactional foreign currency exposures or interest rate risks. The Company incurs Market Price risk as a result of its trading activities in equities, indices, ETFs, etc, and in respect to its investments in equity and bond securities for which it trades for own trading purposes.

The Company employs risk management policies to manage these risks:
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 because 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.

Market Equity Risk

Market Equity risk may arise should the Company's equity investments fail to achieve expected returns and/or where changes in market prices of shares result from a stock market downfall. The Company is exposed to Market Equity risk through its equities with respect to its deliverable securities services. The Company mitigates its exposure to Market Equity risk by partially hedging its equity positions.

Market Interest Rate Risk

Interest Rate Risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to Interest Rate Risk in relation to deposits with banks, however bank balances are held in current accounts, bearing insignificant interest. The Company's management nevertheless monitors the interest rate fluctuations on a continuous basis and acts accordingly.

The Company's interest rate risk arises from interest-bearing assets and long-term borrowings. Interest-bearing assets and borrowings at variable rates expose the Company to cash flow interest rate risk. Interest bearing assets and borrowings issued at fixed rates expose the Company to fair value interest rate risk. At 31 December 2021 and 31 December 2020 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. 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.

3.3 Risk to Firm

Risk to Firm ("RtF") captures an investment firm's exposure to the Risk of Default of its Trading Counterparties (K-TCD), the Concentration Risk arising from its exposures to counterparties and their connected persons (K-CON) and Operational Risks from its Daily Trading Flow of transactions (K-DTF).

K-TCD (Trading Counterparty Default) – K-TCD captures the risk to an investment firm by counterparties to over-the-counter (OTC) derivatives, repurchase transactions, securities and commodities lending or borrowing transactions, long settlement transactions, margin lending transactions, or any other securities financing transactions, as well as by recipients of loans granted by the investment firm on an ancillary basis as part of an investment service that fail to fulfil their obligations, by multiplying the value of the exposures, based on replacement cost and an add-on for potential future exposure, by risk factors.

K-DTF (Daily Trading Flow) – K-DTF captures the operational risks to an investment firm in large volumes of trades concluded for its own account or for clients in its own name in one day which could result from inadequate or failed internal processes, people and systems or from external events, based on the notional value of daily trades, adjusted for the time to maturity of interest rate derivatives in order to limit increases in own funds requirements, in particular for short-term contracts where perceived operational risks are lower. DTF aims to capture the operational risks from an CIF's daily trading flow.

K-CON (Concentration Risk) – K-CON means the exposures in the trading book of an investment firm to a client or a group of connected clients the value of which exceeds the limits specified in IFR. The concentration risk regime applies to all investment firms with exposure limits applicable to all investment firms that deal as principal, even where this is for clients. It is closely based on the CRR's large exposures regime (Large Exposures in the Trading Book Risk), with derogations for non-trading book exposures. As at 31st of December 2021, the Company had no significant concentration of TCD risk to any single client or hedging counterparty, or of Issuer risk to issuers of its Trading Book bonds or equities, and to this end it had a K-CON of zero.

The Company was subject to K-TCD and K-DTF which are monitored and controlled on an ongoing basis for all its Trading Book positions.

3.3.1 K-TCD

The Company, throughout the year under review, was exposed to TCD due to its over-the-counter ("OTC") derivative transactions, FX swap, equity and currency options, FX forward as well as REPOS and reverse REPOS positions. Counterparty Credit Risk arises primarily as a result of the Company's repos positions maintained with clients. With regards to K-TCD, the Company mitigates its exposure towards TCD risk by applying negative balance protection, recognising the margin used to secure clients positions as cash collaterals and carefully selecting its hedging counterparties.

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 statement of financial position date. 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. The Risk Management department together with Senior Management are responsible for establishing policies and procedures which identify, analyse, evaluate, treat and monitor risks during the course of business.

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.

3.3.2 K-DTF

The Company was exposed to DTF due to the fact that it executes its trades on a principal basis (i.e. dealing on own account and or execution of client orders in its own name).

Operational Risk (other than daily trading flow) is defined by the Basel Committee for Banking Supervision as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". The main Operational Risk events include 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.

Managing and monitoring operational risk

The Company's systems and controls are evaluated, maintained and upgraded continuously. Furthermore, the Company has a "four-eye" structure and Board oversight ensuring the separation of power and authority regarding vital functions of the Company. The Company has in place policies and processes whose implementation supports the evaluation and management of almost any exposures to Operational Risk. The Company has implemented an Operational Risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner.

The company conducts an annual operational risk and control self-assessment in accordance to the company's Operational risk and control self-assessment procedure, the aim of which is to capture the key operational risks facing by the company. As part of this process, which is coordinated by the Operational Risk Management, each business line reviews the operational risks it faces and determines to what extent they are mitigated. The process is repeated annually in order to take into account the evolving business environment, changes to the business model and operational risk events and issues that have occurred during the year and in case of significant environmental changes an unplanned assessment may be executed. Key controls and estimation of effectiveness for each identified risk are also described as a result of the assessment. Company staff consider the operational risk implications to all tasks performed during day to day activities and any identified operational risk issue is raised with the relevant line managers and with the Head of Operational Risk Management.

Organization and Governance
The Company employs a decentralized model for the organization and governance of operational risk management whereby each business line or department has an employee, acting as an operational risk manager who is typically the Line manager of the department or business line. Operational Risk Management 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. In addition to the Line Managers and the Operational Risk Management, the split of responsibilities also includes the Board of Directors who approve the operational risk management framework and the risk appetite statement of the company, the Risk Committee, All officers and employees, Group Board of Directors, Group Risk Management.

3.4 Other Risks

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 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.

In addition to the Own Funds Requirements, a Liquidity Requirement was introduced by the IFR (Article 43) according to which the Company is required to maintain liquid assets equal to at least one third of its Fixed Overhead Requirement based on Article 13(1) of the IFR. As at 31 of December 2021 the Company satisfied the Liquidity Requirement. The Company monitors the level of its liquid assets on a monthly basis.

Reputation Risk

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

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

Strategic Risk

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.

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.

4. Own Funds

The new prudential framework for investment firms set out in the IFR and the IFD is designed to reflect better the nature, size, and complexity of investment firms' activities compared to the CRR/CRD framework. One key aspect of the new framework is that it provides for simpler and more bespoke capital requirements for investment firms.

As per the new rules set by the IFR, investment firms are required to maintain Own Funds consisting of the sum of their Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, and shall at all times meet all of the following conditions:

a) Common Equity Tier 1 Capital of at least 56% of Own Funds Requirements.
b) Common Equity Tier 1 Capital and Additional Tier 1 Capital of at least 75% of Own Funds Requirements.
c) Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital of at least 100% of Own Funds Requirements.

Table 2 presents the composition of the Company's Own Funds as at 31 December 2021, while Table 3 indicates how these Own Funds reconcile with the Company's audited Balance Sheet as of this date, and they have been prepared using the format set out in the Final Report on the Draft Implementing Standards issued by the EBA on reporting and disclosure requirements of investment firms under the IFR (EBA/ITS/2021/02).

As at 31 of December 2021, the Company's Own Funds comprised of Common Equity Tier 1 capital. As shown below, the Company's Own Funds as at 31 December 2021 amounted to $181.952K.

Table 2: Template EU IF CC1.01 - Composition of Regulatory Own Funds

		(a) 31 Dec 2021 ($'000)	(b) Source based on reference numbers/letters of the balance sheet in the audited financial statements (Cross Reference to EU IF CC2)
Ref.	**Common Equity Tier 1 (CET1) capital: instruments and reserves**		
1	**OWN FUNDS**	**181.952**	
2	**TIER 1 CAPITAL**	**181.952**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**181.952**	
4	Fully paid up capital instruments	1.700	Ref. 1 (Shareholders' Equity)
5	Share premium	76.300	Ref. 2 (Shareholders' Equity)
6	Retained earnings	105.413	Ref. 3 (Shareholders' Equity)
8	Other reserves	-	
7	Adjustments to CET1 due to prudential filters	(448)	
10	(-) Losses for the current financial year	-	
19	(-) Other intangible assets	(1)	Ref. 5 (Assets)
27	CET1: Other capital elements, deductions and adjustments	(1.012)	Ref. 3 & 7 (Assets)
28	**ADDITIONAL TIER 1 CAPITAL**	-	
40	**TIER 2 CAPITAL**	-	

Table 3: Template EU IFCC2: Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements

		a Balance sheet as in published/audited financial statements As at 31 Dec 2021 ($'000)	c Cross reference to EU IF CC1
Ref.	**Assets -** *Breakdown by asset classes according to the balance sheet in the published/audited financial statements*		
1	Financial assets at fair value through profit or loss	260.981	
2	Derivative financial assets	21.098	
3	Contribution to Investors' Compensation Fund	669	
4	Deferred tax assets	0	
5	Intangible assets	1	
6	Non-current assets (other)	29.168	
7	Current assets (other)	1.608.260	
	Total Assets	**1.920.177**	
Ref.	**Liabilities** - *Breakdown by liability classes according to the balance sheet in the published/audited financial statements*		
1	Financial liabilities at fair value through profit or loss	148.064	
2	Derivative financial liabilities	17.807	
3	Current liabilities (other)	1.570.893	
	Total Liabilities	**1.736.764**	
Ref.	**Shareholders' Equity**		
1	Share capital	1.700	
2	Share premium	76.300	
3	Retained earnings	105.413	
	Total Shareholders' equity	**183.413**	

Dividend

On 15 May 2021, the sole shareholder of the Company approved the payment of dividends of approximately US$4.877 per share amounting to US$27.640.000 in relation to the profit for the year ended 31 December 2020. On 12 December 2021, the sole shareholder of the Company approved the payment of interim dividends of approximately US$2.647 per share amounting to US$15.000.000 in relation to the profit for the 9 months of the year ended 31 December 2021.

On 6th May 2022 the Board of Directors recommended the payment of dividend in amount of US$50.000.000 in relation to the profit for the year ended 31 December 2021 and prior periods.

5. Minimum Capital Requirements

Capital Requirements

The new IFR & IFD framework introduces a different approach for calculating the Minimum Capital Requirements, which for Class 2 investment firms dictates that they are derived by taking the highest of the Fixed Overhead Requirement (“FOR”), the Permanent Minimum Capital Requirement ("PMCR") and the K-factors that apply to each investment firm.

5.1 Fixed Overheads Requirement (“FOR”)

The Company’s policy is to monitor its FOR at least on a quarterly basis. The Company calculates its FOR by taking the one quarter of the fixed overhead expenses of the preceding year in accordance with the provisions of Article 13 of the IFR. The Fixed Overheads Requirement as at 31 December 2021 amounted to $34.647K.

5.2 Permanent Minimum Capital Requirement (“PMCR”)

The Company monitors its Own Funds on a continuous basis and ensures that they remain above the Permanent Minimum Capital Requirement of €750K, which translates to $849K, which corresponds to the initial capital that applies to the Company in accordance with Article 9 of the IFD.

5.3 “K-factor” Capital Requirement

The Company calculates its overall “K-factor” capital requirement on a continuous basis which is the sum of “K-factor requirements” grouped in three categories: Risk-to-Client (RtC), Risk-to-Market (RtM), Risk-to-Firm (RtF), in accordance with Articles 16 through to 33 of the IFR (and as described in further detail in Section 3). The total K-Factors as at 31st December 2021 amounted to $53.779K.

Table 4 breaks down the Pillar I minimum capital requirement that the Company was required to hold as of 31st of December 2021.

Table 4: Minimum Capital Requirements

Minimum Capital Requirements		
K-Factor Requirement		**31 December 2021 ($’000)**
Risk-to-Client (RtC)	k-AUM	4
	k-CMH	493
	k-ASA	685
	k-COH	867
Risk-to-Market (RtM)	k-NPR	27.563
	k-CMG	-
Risk-to-Firm (RtF)	k-TCD	22.595
	k-DTF	1.572
	k-CON	-
Total K-Factor Requirement		**53.779**
Fixed Overhead Requirement – FOR		**34.647**
Permanent Minimum Capital Requirement – PMCR		**849**

With the new IFR & IFD requirements, the Company's Own Funds Requirement as at 31st December 2021 should have been at least the Total K-Factor Requirement of $53.779K.

As indicated in Table 5 below, as at 31 December the Capital ratio of the Company as at 31 December 2021 amounted to 338% which far exceeded the minimum required threshold of 100%, and a capital surplus of $128.173K.

Table 5: Capital Excess/Ratio

(USD)	31 Dec 2021 ($'000)	Reference
Capital		
Common Equity Tier 1	181.952	
Additional Tier 1	-	
Tier 2	-	
Total Own Funds	**181.952**	***a***
Own Funds Requirement		
K-factor Requirement	53.779	*b*
Fixed Overhead Requirement	34.647	*c*
Permanent Minimum Capital Requirement	849	*d*
Minimum Own Funds Requirement	**53.779**	***e = (higher of b, c, d)***
Capital Excess/Ratio		
Capital Excess	**128.173**	***a-e***
Capital Ratio	**338%**	***a/e***

6. 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.

6.1 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:

- Determine and agree with the board the framework of broad policy for the remuneration of the executive directors including compensation payments;
- Recommend and monitor the level and structure of remuneration for Senior Management;
- Approve the design of, and determine targets for, any performance related pay schemes operated by the company and approve the total annual payments made under such schemes;
- Determine the total remuneration package including bonuses and incentive payments of each executive director and senior manager 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;
- Determine and review the remuneration policy.

The members of the Committee are appointed by the Board of Directors and consist of Non-Executive directors the majority of whom are independent. The Board also appoints the chairman of the Committee. As of 31 December 2021, the Remuneration Committee comprised of three Non-Executive Directors.

6.2 Remuneration Policy Principles and Structure

The principles of the remuneration policy apply to 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.

Basic fixed remuneration primarily reflects an employee’s professional experience and organisational responsibility as set out in the employee’s job description and terms of employment. Variable remuneration reflects performance in excess of that required to fulfil the employee’s job description and terms of employment and is 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.

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.

6.3 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 2021			
	No. of Beneficiaries	Fixed Remuneration $'000	Variable Remuneration[2] $'000	Total $'000
Senior Management[1]	19	2.021	455	**2.476**
Other staff whose actions have a material impact on the risk profile of the Company	28	1.462	213	**1.675**
Total	**47**	**3.483**	**668**	**4.151**

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

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

During 2021, 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 $31 thousand was paid during the year to one beneficiary.

The Company paid $771 thousand in total as deferred remuneration for bonus earned prior to 2021 and there is a total outstanding deferred remuneration of $560 thousand relevant to the current year.

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

7. Appendix Own Funds

Template EU IF CCA: Own funds: main features of own instruments issued by the firm

		a
		Common Equity Tier 1 Capital
1	Issuer	BrokerCreditService (Cyprus) Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Public or private placement	Private
4	Governing law(s) of the instrument	Cyprus Law
5	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	1.700.100
7	Nominal amount of instrument	5.667
8	Issue price	USD 300 each
9	Redemption price	N/A
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
22	Existence of step up or other incentive to redeem	No
23	Noncumulative or cumulative	Non-cumulative
24	Convertible or non-convertible	Non-convertible
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	No

32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A
34	If write-down, permanent or temporary	N/A
35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the instrument (signposting)	N/A
(1) Insert 'N/A' if the question is not applicable		