

BCS Prime Brokerage Ltd ("BCS UK") Pillar 3 Disclosures

For the year ended 31 December 2019

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1. Introduction

1.1 Purpose

The purpose of this document is to set out the Pillar 3 Disclosures for BCS Prime Brokerage Limited.

1.2 Background and Regulatory Context

The Basel II Accord, implemented in the European Union ("EU") through the European Capital Requirements Directive ('the Directive', or 'CRD') establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained by credit institutions and investment firms. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("FCA") in its regulations through the General Prudential Sourcebook ("GENPRU"), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and the Prudential Sourcebook for Investment Firms ("IFPRU").

The FCA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the Firm's credit, market and operational risk requirements. These comprise: base capital resources requirements; credit risk and market risk capital requirements; and the fixed overhead requirements;
- Pillar 2 requires that firms undertake an overall assessment of their capital adequacy, taking into account all risks to which the Firm is exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements;
- Pillar 3 complements Pillar 1 and 2 and requires firms to disclose information on their capital resources and requirements, risk management framework and remuneration policy.

This document is designed to meet the Pillar 3 obligations of BCS Prime Brokerage Limited (herein referred to as "BCS UK" or the "Firm" or the "Company").

In October 2018, the Firm applied to the FCA for a variation of permission to deal as principal without limitation. The variation of permission ("Prop VoP") was sought to enhance BCS UK's existing service offering through the expansion of its in-house execution capabilities for equities and fixed income.

The FCA granted the variation of permission in April 2019. This resulted in BCS UK moving from being a BIPRU €50k limited licence firm to becoming a Significant IFPRU €730k full scope firm.

1.3 Disclosure Policy

The FCA's 11 rules and guidance set out the requirements and expectations for Pillar 3 disclosures and permit non-disclosure of information considered by BCS UK's Board of Directors ("the Board") to be immaterial, to the extent that any such non-disclosure would be unlikely to change or otherwise influence decisions made by a reader relying on such non-disclosed information. The FCA's rules additionally permit non-disclosure of information of a proprietary and/or confidential nature. Proprietary and confidential information includes non-public information that is confidential and/or proprietary to the Company and/or to parties with whom the Company transacts business with. Disclosure of information that would prove detrimental to the Company's competitiveness would also constitute confidential information.

Additional disclosures will be made should the Board deem it necessary as a result of any material change to the Firm's scale of operations or range of activities, or where the Board is otherwise of the opinion that the impact of events requires disclosure.

BCS UK maintains a separate Pillar 3 Disclosure Policy.

1.4 Verification

The disclosures have been put together to explain the basis of preparation and disclosure of certain capital requirements and provide information about the management of certain risks and for no other purposes. They do not constitute any form of audited financial statement and have been produced solely for the

purposes of Pillar 3. They have not been subject to external verification, and as such they should not be relied upon in making judgements about the Company.

1.5 Document Approval

The disclosures are reviewed and approved annually by the BCS UK Executive Committee and the BCS UK Audit Committee, as delegated by the Board, which recommends approval of the document to the Board.

1.6 Media and Location of Publication

The disclosures will be published on the [BCS Prime Brokerage Limited website](#) and will also be available on request by writing to the Head of Compliance, BCS Prime Brokerage Limited, 17th Floor, 99 Bishopsgate, London EC2M 3XD, United Kingdom.

2. Corporate Background

BCS UK was established in April 2012 to build on the success of the BCS Financial Group ("Group"). From inception in 1995 until 2011, the Group had predominantly focused on offering financial services to retail clients in Russia. In 2011, the Group took the decision to expand its retail platform and create a global markets investment banking model whose ultimate aim is to provide global investment products and services to international institutional clients. The Firm focuses on providing innovative and customisable high and low touch trading solutions for Russia and core global and emerging markets.

The BCS Group is committed to operating transparent, reputable business models that adhere to the highest standards and regulatory controls. The Group believes strongly that in order to compete effectively internationally in the field of investment banking, the business should be based in the UK and regulated by the Financial Conduct Authority. The Group's decision to make a significant investment in the UK demonstrates its commitment to establishing a business based on best practice within a robust regulatory framework.

In June 2013, BCS UK was approved by the FCA as a Limited Licence Firm. As a regulated entity, BCS UK is able to provide a range of regulatory activities in its own name, including dealing as principle, the provision of investment advice, receipt and transmission of orders and marketing directly to professional investors and financial institutions. The firm also provides a limited number of term loans to external borrowers. In April 2019, the FCA approved BCS UK's application for a proprietary trading licence, and as such BCS UK became a Significant IFPRU €730k firm. As of the date of this document, the licence is yet to be activated.

BCS UK is a member of the London Stock Exchange ("LSE") and Eurex and has access to the Moscow Exchange ("MOEX") and the New York Stock Exchange ("NYSE") via group affiliates. The Firm offers execution services to its international client base, predominantly made up of banks, brokers, proprietary trading firms and fund/ investment managers.

BCS UK's target client base is professional investors and regulated global institutional clients, trading Russian and (increasingly) other, such as US, instruments. BCS may also offer execution services to institutional clients of its affiliate, BrokerCreditService (Cyprus) Ltd ("BCS Cyprus") who are looking to access markets outside of Russia, however, in such instances, BCS UK would face BCS Cyprus directly. All clients will be classified as Eligible Counterparties or Professional Clients. BCS UK does not carry out business with retail clients.

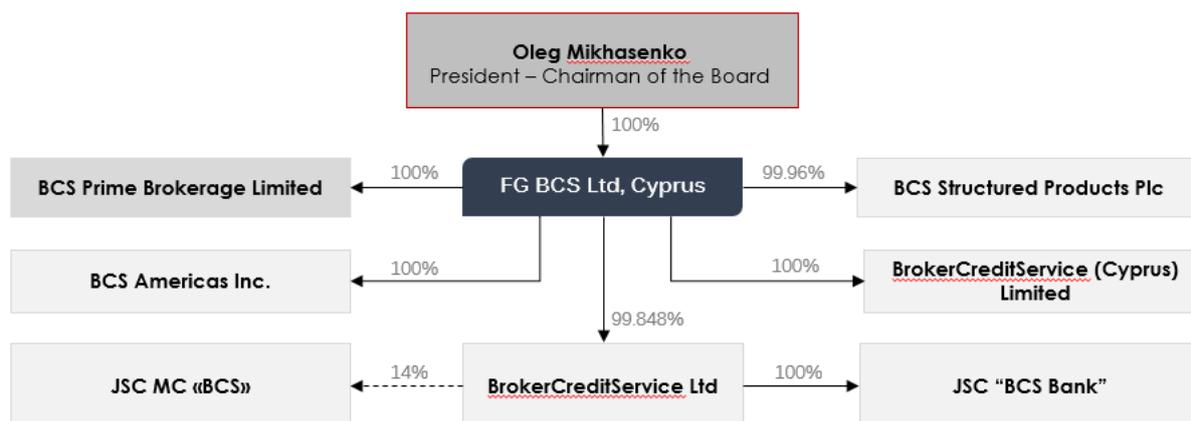
In terms of instruments, BCS UK has historically focused on selling Russian securities (equities and Depository Receipts), FX and derivatives (largely futures and options), however increasingly it also provides access to non-Russian products to Russian and international institutions.

BCS UK derives its revenue from dealing commissions, financing fees and spreads. Dealing commissions are charged in basis points and applied on a transaction by transaction basis at the point of settlement. Financing fees are charged based on stock borrowing services to maintain short positions on behalf of clients, and for funding limits granted to certain specific clients.

Back office services are to a large extent undertaken by its Moscow-based Branch.

In 2017 the Firm for the first time received an external credit rating from Standard & Poor's. The long and short term ratings are B+ and B respectively. The outlook was reaffirmed with a stable outlook in April 2020.

The key relevant companies within the Group's ownership structure are shown below. BCS UK is a wholly owned subsidiary of FG BCS Ltd, a company incorporated in Cyprus. The sole beneficiary and ultimate controlling party of the Group is Mr Oleg Mikhasenko.



2.1 Business Model

BCS UK's approach is based on a hybrid model of capital markets and technology specialists supported by strong financing capabilities.

BCS UK's target client base is professional investors and regulated global institutional clients, trading Russian and (increasingly) other, such as US, instruments. Such clients will include banks/brokers who do not or cannot invest in their own Russian infrastructure, large proprietary trading firms looking to use BCS UK's services and technical solutions to access Russian markets and products, hedge funds looking for financing, asset-keeping and execution services in Russian markets and products and traditional asset/investment managers. BCS UK may also offer execution services to institutional clients of BCS Cyprus who are looking to access markets outside of Russia, however, in such instances, BCS UK would face BCS Cyprus directly. All clients will be classified as Eligible Counterparties or Professional Clients. BCS UK does not carry out business with retail clients.

In terms of instruments, BCS UK has historically focused on transacting in Russian securities (equities and Depository Receipts), FX and derivatives (largely futures and options), however increasingly it also provides access to non-Russian products to Russian and international institutions.

BCS UK derives its revenue from dealing commissions and financing fees. Dealing commissions are charged in basis points and applied on a transaction by transaction basis at the point of settlement. Financing fees are charged based on stock borrowing services to maintain short positions on behalf of clients, for funding limits granted to certain specific clients and for loans.

2.2 Regulated Status

BCS UK, is a Significant IFPRU 730k firm as of the reference date of this document. Accordingly, BCS UK may deal for its own account, although as of the date of this document it has chosen not to activate its proprietary trading licence. The Firm is not subject to consolidated reporting within the EU with other entities. It does not hold or control client money.

By obtaining permission to deal as principal without limitation, BCS UK will also be able to execute client orders in equity instruments where liquidity is limited as such trades can require the executing broker to trade on risk.

Similarly, as part of its fixed income offering BCS UK will be able to provide better coverage when responding to requests for quotes. The ability to take positions onto BCS UK's trading book where there is no market counterparty available to match client requests for quotes is expected to increase the number of trades that the desk can undertake.

The Prop VoP also gives BCS UK the ability to offer trading services in other markets which are currently outside the core trading competence available within the Group.

As a result of the change in scope of the Firm's activities, steps have been taken to enhance the control environment – particularly in relationship to proprietary trading risk.

Any risk positions will be booked onto a trading book and be identified in the trading book statement.

3. Governance

3.1 Board

BCS Prime Brokerage Limited's Board of Directors is the governing body that sets the strategic direction of the Firm. The Board selects the CEO who, along with other senior managers, are responsible for the day-to-day conduct of the Firm's business. The Board provides advice to the CEO and other members of senior management, monitors senior management's performance, oversees the governance of the Firm, and addresses strategic issues affecting the Firm. The Board also sets its risk appetite and is ultimately responsible for the risk management of the Firm. The Board defines its risk appetite as representing the amount and types of risk it is prepared to accept in the course of achieving its business objectives. BCS UK's risk appetite must always be within the risk appetite of the wider BCS Group. It has delegated oversight of the risk management framework to the Board Risk Committee, which is comprised of Non-Executive Directors. On a daily basis the responsibility for overseeing the Firm's adherence with its risk appetite rests with the UK Head of Risk.

The firm's risk appetite is summarised in Section 4.1.2, below.

Board meetings occur on a bi-monthly basis as of the date of this document.

As of 31st December 2019, members of the Board were as follows:

Chief Executive Officer	Tim Bevan
Chairman	Roman Lokhov
Independent Non-Executive Director	Gordon McCulloch
Independent Non-Executive Director	Alex Romer-Lee
Head of Compliance and Corporate Governance	Wendy Langridge
Non-Executive Director	Nikita Ponomarev
Non-Executive Director	Edward Golosov

The Firm also operates a number of other management committees that cover areas of risk. These committees are described below.

3.2 Board Risk Committee

The Board Risk Committee reviews the Firm's risk framework, and recommends the Firm's risk appetite, Internal Capital Adequacy Assessment Process (ICAAP) Manual and Internal Liquidity Adequacy Assessment (ILAA) Manual to the Board.

The Committee meets on a bi-monthly basis and is comprised of non-executive directors. The UK Head of Risk Management acts as secretary to the Board Risk Committee. Other invitees may attend where required. Excesses of risk appetite are escalated to this Committee.

3.3 Audit Committee

The Audit Committee reports to the Board on control environment issues, monitors financial reporting and assesses enterprise-wide risk management. The Committee evaluates the need for in-house independent controls, and may make recommendations to engage external service providers.

Meetings are held at least quarterly and attended by external auditors.

3.4 Executive Committee

The Executive Committee (the "ExCo") reports directly to the Board, and its primary function is to manage the business of the Firm and support the Board in developing, monitoring, managing its clients, products and financial targets. The Committee meets on a weekly basis.

3.5 Risk Committee

Day to day risk management is overseen by the BCS UK Risk Committee. The Committee meets on a monthly basis (or more regularly to discuss urgent matters) and focuses on all financial risks faced by the Firm. Its primary function is to assist the BCS UK Board of Directors and the Board Risk Committee in fulfilling their risk management responsibilities.

3.6 Remuneration Committee

The Board has delegated the implementation of core aspects of the firm's remuneration framework to a Remuneration Committee. This Committee formulates the remuneration policy of the Firm, ensuring that variable remuneration takes into account the profitability, risk and compliance metrics of the Firm. The Committee meets on at least a semi-annual basis, or more frequently as and when required.

BCS UK has also established a separate Nominations Committee.

3.7 Control and Oversight Committee

The Firm must monitor and, on a regular basis, evaluate the adequacy and effectiveness of its systems and controls and take measures to address any deficiencies (SYSC 4.1.10R). In order to fulfil this requirement, BCS UK operates a monthly Control and Oversight Committee. The purpose of the Committee is to review and monitor the Firm's activities from a SYSC point of view, and mandate actions to strengthen the control environment.

4. Risk Management

It is the Firm's objective to structure an operating environment in which threats to the Company's ability to maximise shareholder value and achieve strategic objectives are identified, measured, controlled to an acceptable level and reported.

BCS UK has adopted a three lines of defence model as an approach to seek assurance that internal controls are in place and operating correctly.

- The first line of defence is represented by the business units that take risks and are responsible for the operational control environment on an ongoing basis;
- The second line of defence is comprised the risk management and compliance functions; and
- The third line of defence is provided by internal audit. BCS UK has appointed BDO LLP, an external organisation, as its independent internal audit function.

Active and effective risk management is therefore at the core of the Firm's business and is regarded as a key competence by clients, regulators, ratings agencies and other interested parties. Risk management of the Group, and BCS UK in particular, is a continuous, active and systematic process to understand, manage and communicate risk. The Company's risk function works closely with all areas of the business to ensure adherence to its Risk Management Framework.

4.1 Risk Management Framework

The directors and senior managers of the Firm determine its business strategy and risk appetite and are responsible for implementing a risk management framework which identifies the risks faced by the business and assesses these on the basis of impact and probability. Active and effective risk management is at the core of BCS's business and is regarded as a key competence by clients, consultants, regulators and other interested parties. Risk management of the BCS Group, and BCS UK in particular, is a continuous, active and systematic process to understand, manage and communicate risk.

The Risk Management Framework provides guidance to adopt a holistic approach to managing risk. The application of the Framework helps BCS UK better understand the nature of risk, and to manage it systematically.

All risk types are identified as part of the Internal Capital Adequacy Assessment Process ("ICAAP"). The Board subsequently articulates its risk appetite for each of these risk types, based on its strategic objectives.

4.1.1 ICAAP

BCS UK's ICAAP methodology is designed to capture the key risks faced by the business under Pillar 2. BCS UK reviews its ICAAP methodology at least annually. A combination of senior management workshops, historical analysis of internal and external data and events, and statistical measures are used in deriving the Firm's final ICAAP requirements.

As part of its ICAAP process, BCS UK identifies the key categories of risk that it faces as a result of its business activities and the macro-economic and regulatory environment. The principal risk categories, the circumstances under which they could arise, and their mitigation, are described below.

4.1.1.1 Credit Risk

Credit risk is the risk of suffering financial loss should the Company's clients or counterparties fail to fulfil their contractual obligations to the Company. Specifically BCS UK incurs credit risk when placing cash or securities with custodians or brokers, conducting trades on an execution-only basis with other market participants, borrowing and lending cash or securities as part of repo transactions, providing margin leverage services to clients and lending money to clients.

BCS UK performs credit assessments of its counterparties in order to assign limits and approve credit ratings. Exposures are monitored and reported to Management daily. For margin and repo activities, daily margin call processes are in place.

BCS UK assesses its credit risk depending on the activity being undertaken. Where risk mitigation techniques are used (e.g. DVP settlement, collateral requirements) these are factored into the assessment.

Credit limits are set according to the activities undertaken. These can broadly be set out as follows;

- DVP Limits. Soft limits are set on the notional of unsettled equity or fixed income trades with a particular counterparty;
- Equity Free of Payment (FOP) limits; if BCS UK prepays or pre-delivers to a counterparty, soft limits are set on the notional of unsettled trades with a particular counterparty;
- Lending risk limits; Applies to cash/collateral held with brokers, banks or Exchanges, and loans;
- Repo limits; maximum amount of open trades permissible with a particular counterparty, based on the tenor of the trade and the liquidity of the securities traded;
- Direct Market Access (DMA) DVP limits;
 - o Hard (systematic) limits set on execution-only activity basis on a haircut basis;
 - o Hard (systematic) limits on potential risk exposure where a margin client has a delayed close-out clause according to their terms of business with BCS UK;
- Funding limit; hard (systematic) limit on the amount of margin BCS UK will post at an Exchange on a client's behalf (note; BCS UK controls this margin).

4.1.1.2 Market Risk

BCS UK defines market risk as the risk of financial loss as a result of adverse movements of market factors such as foreign exchange rates and equity prices.

BCS UK's market risk may arise from the following sources;

- Proprietary trading positions in equity and fixed income instruments (albeit note that as of the reference date of this document, BCS UK has not activated its proprietary trading licence);
- Cash balances held in currencies other than USD (BCS UK's functional currency);
- Collateral held as part of client margin trading and repo business (contingent market risk if a client or counterparty defaults);
- Client position concentrations (contingent market risk if a client or counterparty defaults)
- Contingent market risk upon the default of a trading client or counterparty;
- Interest rate risk on the following;
 - o The repo book;
 - o The fixed income book;
 - o Loans provided to clients

The majority of BCS UK's own assets are denominated in USD, its functional currency.

Market risk limits are set to ensure that exposures are consistent with BCS UK's risk appetite, and proportionate to the size of BCS UK's balance sheet. The aim of the market risk limit framework is to protect BCS UK's capital from possible erosion as a result of market events. These include limits on FX and interest rate risk. Exposures versus limits are monitored daily by Risk Management, and excesses are escalated to the UK Risk Committee and ultimately through the Firm's governance committees up to the Board, depending on the size of the excess.

Furthermore BCS maintains a "margin list" of securities which it may accept as collateral to execute transactions. The method for defining whether a security should be on the margin list is based on the calculation of liquidity and volatility metrics for each security.

4.1.1.3 Operational Risk

BCS UK defines operational risk as the risk of a change in value caused by the fact that actual losses (or profits), incurred from inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses (or profits).

BCS UK defines its potential operational risk exposures under the following categories, in line with those used by the Basel Committee;

- Business disruption and system failures;
- Clients, products and business practices;
- Damage to physical assets;
- Employment practices and workplace safety;
- Execution, delivery and process management;
- External fraud;
- Internal fraud.

Whilst the circumstances in which operational risk may arise are very varied, BCS UK broadly considers its major sources of operational risk to be the following;

- Robustness of systems; fully functioning front to back (including risk management) systems that can process large client volumes are fundamental to the Firm's success.
- Cyber crime; given the emergence of this threat in recent years, BCS UK has adopted a Cyber Crime Prevention Policy in line with the UK National Cyber Security Centre's 10 steps to cyber security.
- People risk; BCS UK has a suite of documented procedures in order to ensure core processes can be undertaken systematically and in the absence of particular staff members. Online, external and internal face to face training is provided in order that staff are proficient in performing their roles and are aware of their responsibilities as employees of an FCA regulated firm.

Operational risk is monitored and measured using a variety of techniques. These include annual operational risk and control self-assessments, new product reviews, a monthly key risk indicator (KRI) report, and operational risk issue and incident reporting and resolution. The Firm operates, maintains and tests a Business Continuity Plan. Results of tests, along with any recommended remedial actions, are presented to the UK Control and Oversight Committee.

Staff training on operational risk is conducted regularly, with face to face training being provided to new joiners by the Head of Risk.

BCS UK also has insurance policies in place, primarily to mitigate against fraudulent behaviour.

4.1.1.4 Liquidity Risk

BCS UK defines liquidity risk as the risk arising from cash flow mismatches between assets and liabilities. The Firm conducts an annual ILAA in order to assess its sources and consumers of liquidity, and set appropriate monitoring and ring-fenced buffers to protect against stress events.

Liquidity risk may arise due to a number of reasons within BCS UK, including fluctuations in exchange or clearers' margin requirements, withdrawal of client collateral or failed trade settlements. BCS UK monitors all of these factors and conducts daily stress testing to ensure it is within its liquidity risk appetite. As such any loans or funding facilities provided cannot exceed BCS UK's termed funding sources.

The Firm manages liquidity by maintaining sufficient cash with banks and matching maturities of its receivables and payables to meet its ongoing commitments. Any new arrangements that incorporate an element of term must be within the Firm's liquidity risk appetite, and be approved by the UK Risk Committee.

A daily liquidity report showing the firm's actual liquidity position, and its liquidity position in an extreme scenario is sent to Senior Management. The report contains variables including own capital, funding limits, margin requirements and open conversion trades. The firm's liquidity consumption is measured against pre-defined thresholds. Any excesses are escalated to members of Senior Management, or the Board as appropriate. Summary metrics are included in the Monthly Risk Dashboard, which is discussed by the UK Risk Committee.

4.1.1.5 Business Risk

Business risk is defined as the uncertainty in revenues in the short-run (less than one year) due to unforeseen changes in the competitive environment, generally arising as volatility in revenue.

Business risk may arise for a variety of reasons within BCS UK, including failure to launch new products, or macro-economic or firm-specific drivers which curtail revenue-generating opportunities.

BCS UK operates a comprehensive new business approval process in order for new business lines or products to be launched. BCS UK also incorporates forecast downturns in revenue predictions into its ICAAP scenarios. Revenue diversification metrics are reviewed by the UK Risk Committee. In addition, the actual or potential impact of macro-economic events (for instance Brexit) is analysed and modelled.

4.1.1.6 Reputational Risk

Reputational risk is defined as the potential for damage to the Company's franchise, resulting in a loss of earnings or adverse impact on the value of the Company as a result of a negative view of the Company or its actions being taken by third parties. Reputational risk could arise from the failure of the Company to effectively mitigate the risks in its business including one or more of credit, liquidity, market, regulatory, legal or any other operational risk.

All employees are responsible for the day-to-day identification and management of reputational risk. The Company actively manages its reputational risk exposures, and discusses reputational risk as a standing agenda item at its Risk Committee meetings.

4.1.1.7 Group Risk

Group risk is defined as the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group (e.g. reputational contagion).

As part of a Group company, BCS UK is exposed to Group risk in terms of the financial exposures it has to other Group entities, as well as adverse reputational events occurring elsewhere in the Group.

Although BCS UK does not require funding from the Group, it is exposed to the Group financially where it places cash and securities with Russian affiliates to facilitate trading on the Moscow Exchange, and as a result of inter-entity trades conducted in order to facilitate client activity.

BCS UK monitors and reports its Group exposure continuously, performing an annual credit assessment to establish exposure limits.

4.1.1.8 Legal and Compliance Risk

This risk is defined as the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards.

Legal and compliance risk is material to BCS UK, especially given its FCA-regulated status. Furthermore, the launch of MiFID II in January 2018 has had far reaching implications across the financial services industry, and as such BCS UK undertook a comprehensive project to ensure that the firm is compliant with all aspects of the new regime.

The management of legal and compliance risk includes but is not limited to:

- Defining the risks and associated responsibilities, compliance culture, corporate governance;
- Standardised client and employee contracts;
- Embedded staff exit procedures;
- Regular internal and external all staff training;
- Compliance monitoring;
- Evaluation of compliance performance.

4.1.2 Risk Appetite

The Board sets its risk appetite, which it defines as the amount and types of risk it is prepared to accept in the course of achieving its business objectives, given the risk types identified during the ICAAP. The Board reviews its risk appetite as part of the ICAAP review, but may make adjustments on an intra-year basis where required.

In general, BCS UK takes a considered approach to risk-taking activities, whilst recognising that it must have appetite for certain risks in order to achieve its business aims, subject to appropriate monitoring and controls.

The Board sets its risk appetite for each of the risk types identified during the ICAAP. Measurement is undertaken using a combination of quantitative and qualitative metrics, with “red”, “amber” and “green” (“RAG”) thresholds. The Firm’s policies, procedures and reports are designed to be aligned with its risk appetite.

The current version of the risk appetite statement was approved by the Board in July 2019 and is summarised below (thresholds may be revised and are excluded for the purpose of this document).

Monitoring adherence to risk appetite is a continuous process, however a formal report demonstrating the Firm’s exposures versus its stated risk appetite is reviewed by the Board at its bi-monthly meetings. Any breaches of “red” thresholds are escalated to the Board as and when they arise.

New business lines undergo a comprehensive new business approval process, including confirmation that the activities are within the risk appetite of the Firm.

Risk Type	Statements
Credit	<ul style="list-style-type: none"> - BCS UK seeks to place its minimum liquidity buffer only with high credit rating, sound and reputable banking organisations. Banks must be at least an A- rated bank per the Fitch Long Term Credit Rating or at least an A3 on the Moody’s long term rating - BCS UK has no tolerance for unauthorised credit (including counterparty) limit breaches - BCS UK has no appetite for unapproved, unresolved margin calls outside the terms of business - BCS UK will not accept collateral for trading from Prime clients that is not on the “margin list”, unless approved by the UK Risk Committee - BCS UK has no appetite for missed interest payments on loans
Market	<ul style="list-style-type: none"> - Overall 99% 10 day VaR must not exceed 5% of regulatory capital - There is no tolerance for unauthorised excesses of market risk limits - BCS UK has limited appetite for FX risk. Unless there is a requirement to meet short term payments, non-USD balances should not exceed \$5m, or \$2m for non-major currencies (including RUB). FX 99% 1 day VaR should not exceed \$250k - BCS UK has limited appetite for interest rate risk. The maximum dollar duration risk (calculated using the DV01 methodology) is \$10,000

Risk Type	Statements
	<ul style="list-style-type: none"> - The maximum term mismatch on a trade by trade basis is 1 month. Any exceptions must be pre-approved by the UK Head of Risk
Operational	<ul style="list-style-type: none"> - BCS UK has no tolerance for successful cyber breaches - BCS UK has no tolerance for operational risk losses arising from negligent or wilfully obstructive behaviour, or fraud (subject to the Head of Risk Management UK's judgment) - BCS UK has limited tolerance to operational risk losses arising from genuine human error, systems breakdowns or process inefficiencies, to the level of 1% of revenue - All support functions and Committees must be adequately resourced in order to maintain the control environment - BCS UK's tolerance for late, incomplete or incorrect management information reports is in line with the thresholds agreed with Branch
Liquidity	<ul style="list-style-type: none"> - BCS UK has no appetite for liquidity consumption in excess of stressed net liquidity, as defined by the Liquidity Adequacy Assessment - BCS UK has limited appetite for excessive balance sheet growth, as measured by its monthly management accounts - Any arrangement involving an element of termed funding must be reviewed and approved by the UK Risk Committee - BCS UK must at all times demonstrate that it will remain solvent and meet all its liabilities as they fall due for a minimum of 90 day stressed period, in line with its ILAA
Concentration	<ul style="list-style-type: none"> - BCS UK has appetite for concentration risk to the BCS Group up to the limits defined by the UK Risk Committee. The financial condition of the BCS Group must be monitored, including the credit rating. - BCS UK has no appetite for Large Exposure excesses which are not notified to the FCA or capitalized for
Business	<ul style="list-style-type: none"> - BCS shall not undertake any activities that have a significant effect on the UK platform that are not approved by the UK New Product Committee - BCS UK has no appetite for unanticipated tax liabilities - BCS UK has no appetite for unanticipated deviations from strategy - BCS has limited appetite for negative deviations from budgeted P&L
Reputational	<ul style="list-style-type: none"> - BCS UK has no appetite for events that if entering the public domain could impact BCS UK's reputation with regulators, clients or other external parties
Residual	<ul style="list-style-type: none"> - BCS UK has no appetite for losses due to credit events affecting its collateralised loans, repo/stock loan or margin business
Legal, Compliance, Prudential and Conduct	<ul style="list-style-type: none"> - BCS has no appetite for regulatory breaches that could result in enforcement action by any regulator - Any proposed hires and redundancies of Code Staff and associated payments must be approved by the UK Nomination or Remuneration Committee. - BCS UK has no appetite for regulated activities being conducted by BCS employees without authorisation or permission - We have no tolerance for staff failing to adhere to BCS UK's policies and procedures.

Risk Type	Statements
	<ul style="list-style-type: none"> - BCS UK seeks to maintain a well capitalised business such that capital remains above 110% of its Pillar 2 calculation - BCS UK seeks to maintain a well capitalised business such that its capital to risk weighted assets ratio remains above 14%. Escalation to Board should be made if red threshold is breached on successive days. - BCS UK has limited tolerance for conduct risk that could harm clients, cause reputational damage or undermine the integrity of financial markets - BCS UK has limited tolerance for information leakage that could result in a breach of client confidentiality or data protection - BCS UK has limited appetite for identified policies/procedures gaps lasting more than 3 months - BCS UK has limited tolerance for conflicts of interest that cannot be prevented or managed - BCS UK has no tolerance for clients/counterparties domiciled in Non-Cooperative Countries and Territories, as defined by FATF - BCS UK has zero tolerance for trading instruments on the EU sanctions list or with counterparties subject to EU asset freeze sanctions - BCS UK has a limited appetite for dealing with clients based in countries that it considers represent a high level of financial crime according to its High Risk List - BCS UK has a limited appetite for dealing with clients classified as priority risk (PEPs)

4.1.3 Risk Reporting

BCS UK maintains a risk reporting policy which stipulates the minimum criteria and frequency of risk reporting. The Senior Management Team and the Risk Committee actively monitor and manage the risks of the Firm using daily and monthly metrics provided by the Risk Department on credit, market, liquidity, operational and business risk.

5. Own Funds, Capital Requirements and Leverage

From January 2014, the Basel III accord, which has been implemented by the European Union via the Capital Requirements Directive IV (CRD IV), came into force. BCS UK calculates and reports its capital resources and capital requirements for the UK regulated entity to the FCA in accordance with these regulations. The following tables present a summary of both capital resources and the capital requirements for BCS UK as at 31 December 2019 and are based on the audited financials of the Firm.

The Firm's capital resources comprise only Tier 1 Capital (Common Equity Tier 1 Capital). At the end of 2019 the Firm's capital base was \$99.3m. Net income in 2019 was \$5.6m. The results are in line with the Board's expectations given the continued challenging market conditions in Russia and the overall investment programme. The Firm did not deviate from its stated risk appetite in achieving these results.

5.1 Own Funds

Regulatory Capital as at 31 December 2019:

<i>in thousands of US Dollars</i>	
Total Tier 1 capital (all Common Equity Tier 1)	99,276
Total Capital resources	99,276
Total Risk Exposure per FCA guidelines	145,996
Common Equity Tier 1 ratio	68%
Total capital ratio (%)	68%
Surplus of capital under CRR requirement (8%)	87,596

BCS UK has no additional Tier 1 and Tier 2 capital and as such there is no difference between the Common Equity Tier 1, the Tier 1 and the Tier 2 ratio.

Tier 1 Capital Composition as at 31 December 2019:

<i>in thousands of US Dollars</i>	
Permanent share capital	90,696
Brought forward retained earnings	8,754
Other reserves	21
(-) Other intangible assets	(36)
(-) CET1 instruments of financial sector entities where the institution has a significant investment	(159)
Total Tier 1 Capital	99,276

Share capital is the permanent, allotted, called up and fully paid ordinary share capital of BCS UK. Retained earnings are the audited profit and loss reserves retained by the business. Other reserves consist of fair value revaluation reserve arising from the revaluation of FVOCI securities.

BCS UK considers that it has sufficient capital to cover all relevant risks.

5.2 Capital Requirements

Pillar I capital adequacy is monitored daily. Pillar 2 required capital is formally reviewed as part of the ICAAP Manual annual refresh, alongside a mid-year review. However capital and risk monitoring is an ongoing process throughout the year, based on the Firm's risk appetite and approved limit framework.

In calculating the Pillar I minimum capital requirements the Firm has adopted the standardised approach to credit and market risk and the basic indicator approach to operational risk. The Company does not use the IRB approach, nor does it make use of any internal market risk models.

An analysis of the Pillar I minimum capital requirements and risk weighted exposures as at 31 December 2019 is as follows:

<i>in thousands of US Dollars</i>	Risk weighted exposure	Minimum capital required at 8%
Credit Risk	94,859	7,589
Market Risk	1,950	156
Operational Risk	49,121	3,930
Credit Valuation Adjustment	66	5
Total RWA / Minimum Capital Requirement	145,996	11,680

Credit Risk

<i>in thousands of US Dollars</i>	Risk weighted exposure	Minimum capital required at 8%
Credit Risk		
Exposures to institutions	35,529	2,842
Exposures to corporates	55,978	4,478
Equity exposures	198	16
Other exposures	3,154	252
Total Credit Risk	94,859	7,589

Credit Risk by Residual Maturity

<i>in thousands of US Dollars</i>	Risk weighted exposure					Total
	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Undefined maturity	
Credit Risk						
Exposures to institutions	30,202	504	4,000	824	-	35,530
Exposures to corporates	12,558	779	42,640	-	-	55,977
Equity exposures	-	-	-	-	198	198
Other exposures	1,192	-	-	-	1,962	3,154
Total Credit Risk	43,952	1,283	46,640	824	2,160	94,859

For the purposes of applying the Standardised Approach, institutions are required to use risk assessments prepared by External Credit Assessment Institutions ("ECAI") to determine the risk weightings to be applied. The Firm's nominated ECAI is Moody's Corporation ("Moody's"). ECAI risk assessments are used for risk weighting the Firm's exposures to central governments and central banks, institutions and corporates.

For accounting purposes, exposures which are 'past due' are exposures that are unsettled after the contractual date. BCS UK has no exposures which are past due.

Credit Risk by Geography

<i>in thousands of US Dollars</i>	Risk weighted exposure	Minimum capital required at 8%
Cyprus	31,408	2,513
Russian Federation	31,309	2,505
United Kingdom	17,099	1,368
United States of America	8,878	710
Ireland	2,031	162
Netherlands	1,231	98
Belgium	1,200	96
Other	1,703	136
Total Credit Risk	94,859	7,589

Credit Risk Mitigation

BCK UK uses credit risk mitigation techniques to mitigate credit risks to which it is exposed, principally collateral and guarantees received.

The Firm typically holds collateral on its securities financing transactions (REPOs). Collateral may consist of either cash or securities. Additional collateral may be called should the net value of the obligations to the Firm rise or should the value of the collateral itself fall. BCS UK uses the financial collateral comprehensive method to calculate the effects of this credit risk mitigation on these contracts.

Market Risk

As at 31 December 2019, BCS UK's market risk arose purely from foreign exchange. The details of market risk are shown below:

<i>in thousands of US Dollars</i>	Risk weighted exposure	Minimum capital required at 8%
Foreign Exchange	1,950	156
Total Market risk	1,950	156

5.3 Pillar 2 Capital Requirements

BCS UK adopts a scenario-based approach to assessing its minimum Pillar 2A capital requirements, based on the risks identified during the ICAAP. Stress factors are applied using a combination of internal and external observed operational risk events, historical market movements relevant to BCS UK's core markets and externally-sourced default probabilities. BCS UK uses the worst case scenario as its Pillar 2 requirement.

The minimum required capital as per its 2019 ICAAP was \$67.2m.

	<i>Jun-19</i>		
	<i>Pillar 2A</i>		
	Base Case	Stressed case	Extreme case
Credit risk	12.2	16.9	35.3
Market risk	4.8	5.6	9.3
Operational risk	1.9	5.1	8.9
Concentration risk	-	-	0.3
Business risk	- 6.8	- 4.2	- 1.4
Reputational risk	0.7	1.3	3.1
Residual risk	0.7	1.7	8.3
Group risk	-	-	-
Legal and Compliance risk	0.1	1.3	3.4
Required capital	13.6	27.7	67.2
Available capital	93.8	93.8	93.8
Capital surplus/gap	80.2	66.2	26.6

BCS UK also considers its Pillar 2B capital requirements over a three year time horizon, assuming a marked downturn in revenues and an increase in regulatory capital requirements. Analysis showed that BCS UK expects to maintain a capital surplus over the longer-term, even in an extreme scenario.

	Base		Stressed		Extreme	
	2020	2021	2020	2021	2020	2021
Forecast Capital	102.5	109.8	99.7	100.6	89.1	82.0
Forecast Pillar 1 Requirement	62.4	68.6	62.4	68.6	62.4	68.6
Forecast Pillar 2A Requirement	15.0	16.5	30.4	33.5	74.0	81.4
Regulatory Capital Requirement (Pillar 1 Plus)	62.4	68.6	62.4	68.6	74.0	81.4
Capital surplus/gap	40.1	41.2	37.3	32.0	15.1	0.6

5.4 Leverage

CRD IV requires the disclosure of the Firm's leverage ratio, which measures the level of Tier 1 capital against on and off-balance sheet exposures.

The leverage ratio for BCS UK at 31 December 2019 is as follows:

<i>in thousands of US Dollars</i>	
Total assets per audited financial statements	405,794
Adjustments from accounting assets to leverage exposures	74,772
Total leverage ratio exposure	480,566
Tier 1 capital	99,276
Leverage ratio	21%

The Firm's leverage ratio is above the minimum requirement of 3%. The leverage ratio is monitored by management and if it was to decrease materially action will be taken to restore the ratio to a suitable level.

6. Remuneration Disclosures

According to FCA guidance, BCS UK falls under Proportionality Level 3.

The following principles have been adopted by BCS in relation to establishing the Remuneration Policy:

- Risk Tolerance;
- Transparency;
- Fairness;
- Simplicity;
- Alignment with BCS values and long-term interests.

The purpose of the Policy is to ensure that:

- Remuneration offers sound and effective risk management while risk taking remains within the level of the risk appetite determined by the Board of Directors;
- BCS is able to attract, develop and retain talent in a competitive market;
- Employees are offered a competitive remuneration package;
- Employees are encouraged to create sustainable long term results;
- There is a link between shareholder and employees' interests;
- Corporate values, mission and culture are supported;
- Leadership, accountability, teamwork and innovation are supported and reinforced;
- The contribution and performance of the businesses, teams and individuals are aligned to promote a culture of 'openness and shared success'.

The Policy focuses on ensuring sound and effective risk management through:

- Setting and communicating objectives to employees, in line with the business strategy, objectives, values and long-term interests of BCS UK;
- Recording both financial and non-financial goals in performance and result assessments;
- Making the fixed part of the remuneration package the main remuneration component.

6.1 Risk & Governance

The main application of the Policy is to promote sound and effective risk management to support the purpose of the Remuneration Policy and the culture within BCS UK, with the following over-riding expectations:

- The total variable remuneration to be paid by BCS UK does not limit its ability to strengthen its capital base;
- Total variable remuneration is significantly reduced when BCS UK produces a subdued or negative financial performance.

BCS UK has established a Remuneration Committee, composed entirely of Non-Executive Directors providing independent oversight and control of compensation pay practices, chaired by an Independent Non-Executive Director. The Remuneration Committee is responsible for the application and enforcement of the Policy.

Notwithstanding the role of the Committee, the Board retains ultimate responsibility for ensuring the ongoing compliance with the Remuneration Policy, identification of Code Staff, and to ensure that the payment of variable part of the remuneration is not made through vehicles or methods that could result in non-compliance with FCA Remuneration Code.

The Remuneration Committee has responsibility for:

- Approving the Remuneration Policy;
- Approving the Remuneration package for Code Staff;
- Determining and approving the bonus pool;
- Providing recommendations on staff remuneration.

The Remuneration Committee acts independently when approving the Remuneration Policy by considering the following factors:

- Short term objectives and long-term strategy of BCS UK;
- BCS UK structure and financial situation;
- BCS UK future plans and prospects;
- Shareholder's expectations;
- Components of the total remuneration packages;
- Approach and methodology applied in remunerating employees;
- Market conditions.

The Remuneration Committee may deviate from the Policy in individual cases if justified by extraordinary circumstances after consultation with the Shareholder.

6.2 Performance and Remuneration

Various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the relevant business or support unit, the employee's corporate rank within BCS UK, professional activity as well as market practice.

The five main remuneration components are:

- Fixed remuneration (the salary);
- Variable performance-based remuneration (the bonus);
- Pension scheme;
- Other benefits;
- Other remuneration arrangements.

The fixed remuneration is determined on the basis of the role of the individual employee, including responsibilities and job complexity, professional experience and local market conditions.

BCS UK seeks to achieve the correct balance between fixed and variable remuneration in a way which supports its risk management objectives. BCS UK adjusts fixed remuneration to take into account prevailing market rates and to accommodate the possibility that no bonus will be paid during periods of financial difficulty.

The variable performance-based remuneration component (bonus) reflects performance in excess of that required to fulfil the duties set out in the employee's job description. It serves to motivate and reward high performers who strengthen long-term customer relations, and generate income and shareholder value.

BCS UK must ensure that total variable remuneration does not limit its ability to strengthen its capital. On an annual basis the Remuneration Committee will determine the percentage of performance-based remuneration and the percentage of deferred bonus component in relation to the fixed remuneration in line with the established bonus methodology.

BCS UK will apply both a quantitative approach and exercise discretion when awarding bonuses, ensuring that both financial and non-financial risks are covered. When allocating the bonus pool to individual employees, the CEO of BCS UK and the Remuneration Committee, with the input and recommendations from HR, Compliance and Risk management, consider non-financial factors and conduct issues.

Performance-based pay is granted to reflect the employee's performance within the team and individually, as well as BCS UK's overall results, taking into account financial and non-financial criteria, including but not limited to disciplinary records, any breach records held by Compliance, non-compliance with training requirements, etc. A discretionary assessment is always made to ensure that other factors - also factors which are not directly measurable - are considered.

All bonuses are discretionary, there is the possibility that no bonus will be awarded. When discretion is applied BCS UK will ensure that there is clear quantifiable explanation for discretionary adjustment.

Bonuses are awarded in a manner that promotes sound risk management and does not induce excessive risk-taking, by ensuring that:

- An appropriate balance exists between fixed, performance-based components and deferred bonus components:
 - a) the fixed component represents a sufficiently high proportion of the total remuneration to make non-payment of the performance-based component appropriate;
 - b) the performance-based component reflects the risk underlying the achieved result, and any breaches of trading limits, mandatory training, policies and procedures, disciplinary records are to be reflected in the performance-based component;
 - c) the deferred bonus component focuses on risk and sustainability, as well as aids the retention of staff;
- Awarded performance-based pay may be forfeited in full or in part if granted on the basis of unsatisfactory results of the appraisal, and the bonus may be adjusted retrospectively to reflect subsequent performance;
- Employees with less than 1 year of service are not entitled to a bonus, unless approved by the Remuneration Committee.

Performance-based remuneration pools must be based on an assessment of BCS UK's budget performance. The Remuneration Committee has the responsibility to decide on funds to be allocated to the performance-based remuneration pools.

The Remuneration Committee has discretion (in consultation with CEO and the Board) on the allocation of the pool to the relevant areas of Business/Support. The proportion of the bonus pool allocated to each Business/Support unit is not based on the pure financial performance of that particular unit, but should take into account the risk adjusted return on capital.

The Head of each Business/Support unit has discretion on allocating bonus payments to individuals in their department taking into account appraisal results, and can make any adjustments considered necessary before the bonus pool is finally presented for approval to the Remuneration Committee prior to the bonus being paid.

All employees must receive at a minimum an annual formal performance appraisal. More frequent appraisals may be conducted at the discretion of an employee's line manager. At the annual performance review, individual employees and their managers evaluate and document the employee's performance and set new, documented KPIs/goals through the internal appraisal system. Any decisions on adjustment of the employee's fixed salary or on performance based pay (the discretionary bonus) are made on the basis of the Remuneration Policy.

Due to the small size of BCS UK, and nature of the business, the bonuses awarded are relatively low in value by market standards, it is not appropriate for BCS UK to spread the payment of the variable part of remuneration over a five year framework.

6.3 Code Staff

The Remuneration Committee will request HR annually to confirm that all Code Staff have been identified. Code Staff remuneration is subject to annual review by the Remuneration Committee. The Committee may request HR or independent external advice to benchmark BCS UK remuneration against market, and if required, consider adjustments proposed by the CEO to address discrepancies. Staff captured by the criteria include the following:

1. Executive and Non-Executive Directors sitting on the Board;
2. Persons with significant influence functions (SIFs) regardless of where they are based (and any individuals or groups within their control who have a material impact on BCS UK's risk profile);
3. Risk takers, particularly with responsibility for dealing in financial instruments;
4. Key control functions performing independent oversight and objectivity of BCS UK's activities (and any individuals within their control who have a material impact on BCS UK's risk profile), particularly where such staff have responsibility for approving dealing in financial instruments;
5. Senior managers in non-controlled functions;
6. Staff whose remuneration takes them into the same remuneration bracket as Senior Management.

The overall number and remuneration of Code Staff in 2019 are shown below (using average FX rates for 2019).

Total number of code staff during the year 2019	20
Number of new sign-on payments	0
Total fixed remuneration	\$3,738,869
Total new sign-on remuneration	0
Total variable remuneration	\$1,704,746
Total Remuneration	<u>\$5,443,616</u>