Renaissance Capital Limited

Pillar III Disclosures - 2021

It is the policy of Renaissance Capital Limited (herein referred to as "the Company" or "RCL") to maintain high standards of internal governance and a sound system of internal control processes and procedures. This document sets out the control standards and procedures that should exist in relation to this area. It is the responsibility of all departments, including Front Office and Back Office, to achieve the application and objectives of these control standards and procedures.

Contents

1. Basel requirements

The Basel regulatory framework has been implemented in the EU via the Capital Requirements Directive (CRD). The latest iteration of the CRD is CRD IV which came into force on 1 January 2014. The present disclosures are based on the requirements of CRD IV.

The CRD comprises three Pillars:

- **Pillar I** comprises the calculation of minimum regulatory capital requirements which companies are required to hold against risk.
- **Pillar II** aims to enhance the link between an institution’s risk profile, its risk management and risk mitigation systems and its capital planning. Each company is required to undertake an Internal Capital Adequacy Process (ICAAP) designed to assess all of the risks facing it and to establish a level of additional capital to be held under Pillar II. The ICAAP is then subject to a Supervisory Review and Evaluation Process (SREP) by the FCA.
- **Pillar III** complements Pillar I and II and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on a company’s capital, risk exposures, risk management processes, leverage and remuneration.

2. Pillar III disclosure policy

The RCL’s approved Pillar III disclosure policy is as follows.

2.1 Frequency of disclosures

Pillar III disclosures will be made on annual basis using RCL’s year-end date of 31 December. The disclosures will be published in line with the publication of the annual report and financial statements of RCL. More frequent disclosures will be made if there is a material change in the nature of the risk profile of RCL during any particular year.

2.2 Media and location of Pillar III disclosures

These Pillar III disclosures will be published on the corporate website of RCL (www.rencap.com).

Under CRD IV, RCL is required to prepare remuneration code Pillar III disclosures. These disclosures are part of the present document and can be found in the relevant section.

2.3 Basis of Pillar III disclosures

The disclosures in this document are made in respect of Renaissance Capital Limited (RCL) and not its subsidiaries, in accordance with CRD rules. They seek to set out the key risks facing RCL, how it manages those risks, and how it has satisfied itself that it has sufficient capital in respect of those risks.

Article 432 of the CRD states that institutions may omit one or more of the Pillar III disclosures if the information is not regarded as material. Information in disclosures shall be regarded as not material if RCL does not expect that its omission or misstatement would change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

RCL has no securitised assets and as such no further disclosure is included.

The Pillar III was approved for publication by RCL’s Board of Directors in June 2022.

3. Scope of Application

RCL is authorised and regulated by the Financial Conduct Authority ('FCA') to carry out investment activities. The Company is a member of the London Stock Exchange.

RCL is a wholly-owned subsidiary of Renaissance Financial Holdings Limited. RCL's ultimate parent undertaking and controlling party is Onexim Holdings Limited. Renaissance Financial Holdings Limited and its subsidiaries operate under the Renaissance Capital brand and are referred in this document as "the Group".

RCL is one of the key entities within the Group. RCL is involved in a large proportion of the operations of the Group being a sales and trading hub for the cash equities and fixed income business, providing clearing and settlement for a number of different business lines and also having an investment banking and research presence. The majority of RCL's income is generated not by risk taking, but by earning commissions from clients and on transactions on an agency brokerage basis with its own clients and Group entities plus Transfer Pricing support. There are also certain, limited, trading activities conducted by RCL on a principal basis.

RCL's business activities also include equity trading and investment banking and finance ("IBF"). IBF activities cover both Equity and Debt capital raisings for Russian and non-Russian clients. IBF activities are limited to providing advisory services, without the commitment of any capital on behalf of the Company. Any capital required for transactions (and thus the consequent risk-taking function) is provided, through a separate decision-making process, by Renaissance Securities (Cyprus) Limited ("RESEC") which is the Group's Cyprus-based regulated investment services subsidiary supervised by the Cyprus Securities and Exchange Commission.

A subsidiary in Turkey was closed in early 2016 the liquidation is expected to be finalised in the near future.

4. Governance

The ultimate responsibility for the Company's risk management lies with the Board of Directors ("the Board"). The Board assesses the effectiveness of the Company's risk management strategies and policies to ensure the adequate monitoring, management and mitigation of the Company's risks.

The Board considers that the Company has established effective risk management arrangements with regard to the Company's profile and strategy.

The Board consisted of the following members at 31 December 2021:

		Number of directorships held
Anthony Simone	CEO	7
John Lewin	Non-executive director	5
Mark Reed	Director	1

John Lewin was appointed non-executive director in April 2021. Prior to this date he was an executive director.

Mark Reed resigned as a director on 31 May 2022.

Recruitment to the Board combines an assessment of both technical capability and competency skills and is subject to the approval of the Chairman of the Board. The Company's policy on diversity takes into consideration differences in sex, race, age, nationality, social origins, religious beliefs, or membership of associations. Diversity is an element of the Company's selection process in determining the composition of the Board of Directors.

In order to support effective governance and management of its wide range of responsibilities the Board has established the following committees:

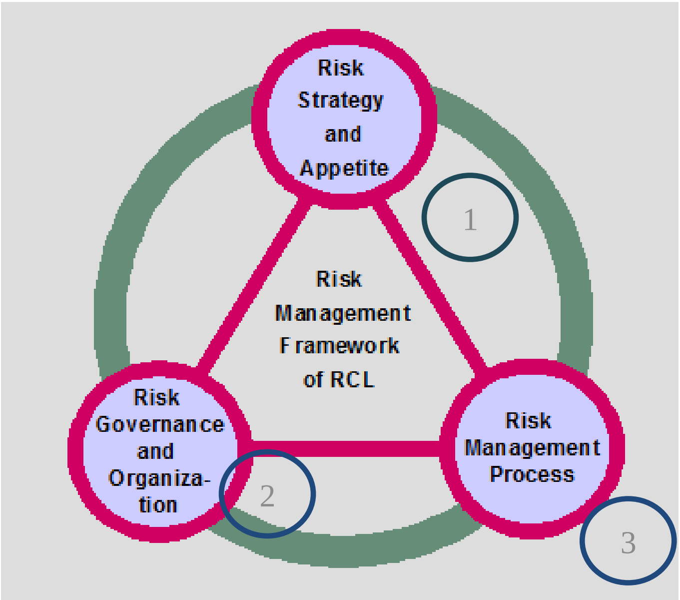
- The Audit & Risk Committee is responsible for risk and audit management within the Company. It meets six times per year.

- The RCL Remuneration Committee meets (at least) annually for the year-end performance evaluation process and compensation review. Certain bonus awards and other non-ordinary course items are subject to a review and sign-off process defined by the Board of Directors. The Group Compensation Committee considers the remuneration of staff above certain thresholds and consists of executive management and Group Human Resources (HR).

5. Risk management objectives and policies

Risk management within the Group as a whole, and RCL in particular, is a continuous, active and systematic process to understand, manage and communicate risk from a Group-wide and individual entity perspective.

The risk management framework provides guidance to adopt a holistic approach to manage risk. The application of the framework helps the Group and the Company to better understand the nature of risk and to manage it systematically. The three elements of the Risk Management Framework are the setting of the Risk Strategy and Risk Appetite, creating a Risk Governance Structure with the necessary Risk Governance Organisation and then the required Risk Management Processes.



The elements of the Risk Management Framework are defined as follows:

1. Risk Strategy and Appetite: Risk Strategy is a part of Business Strategy and it defines the target state of RCL's Risk Management. The Risk Appetite is an overall risk tolerance level set by the RCL Board of Directors.
2. Risk Governance and Organisation: A hierarchical structure that governs decision-making in risk management. It includes the organisational structure of risk management as well as a set of rules, instructions, policies and procedures.
3. Risk Management Process: A reiterative process of defined steps which enable continual improvement in decision making by providing management with a greater insight into risks and their impact. We define the following steps in the Risk Management Process: identification, assessment, treatment and reporting.

RCL distinguishes three lines of defence against risks and their implications:

- The first line is the Front Office as well as the support departments such as Operations, Finance, Information Technology and Human Resources. They are responsible for the core processes and functions of the Company and the resources and tools to operate them. These departments are responsible for developing and maintaining systems and controls in the processes under their primary responsibility, thereby fulfilling their part in the management of operational risks.
- The RCL Risk Management and Compliance departments form the main part of the second line of defence. These departments determine the applicability of external regulations, develop appropriate internal standards and monitor and report upon their adherence by staff. As such they provide tools for senior management to manage risks. The support departments in their controlling function have implemented

additional controls and reporting. For instance, HR performs screening of candidates, in addition to the assessment done by the line manager.

- Internal Audit is the Company's third line of defence. It performs periodic independent reviews of the Company's control framework.

The responsibilities of different departments and organisational units involved in risk management are defined below:

Organisational unit	Main responsibilities regarding risk management
RCL Board of Directors	The RCL Board of Directors determines: - The risk strategy and risk appetite of RCL. - Key elements of the governance and organisational structure for risk management. - Key elements of the risk management framework. - Oversight of current risk and risk management.
RCL Audit & Risk Committee	The RCL Audit & Risk Committee reports directly to the RCL Board of Directors and its primary function is to assist the RCL Board of Directors in fulfilling its risk management responsibilities by periodically: - Reviewing and assessing the integrity and adequacy of the Company's risk management framework. - Review and development of risk management information (Risk MI). - Setting up and approving market and credit risk limits and pre-approving certain over-limits according to RCL procedures. - Monitoring risk exposures against risk appetite limits. - Evaluating and mandating mitigating actions. - Reporting Committee activities to the RCL Board of Directors as and when necessary and with appropriate recommendations. - Facilitating Board-level risk discussion as appropriate. - Annually performing a self-assessment of Committee performance. - Reviewing and assessing the adequacy of its terms of reference from time-to-time and recommending any proposed changes to the RCL Board of Directors for approval.
RCL Risk Management	RCL Risk Management reports to the RCL Audit & Risk Committee. The main responsibilities of RCL Risk Management are: - Implementation of risk strategy. - Risk control for credit, market and liquidity risks through limit monitoring. - Risk monitoring for operational risk through Key Risk Indicators. - Maintenance of methodology of risk identification instruments (Risk Map) and ICAAP model including all relevant processes. - Risk monitoring for business risk and reputational risk. - Risk assessment of operational risk incidents. - Provision of advisory services to other organisational units regarding risk management issues. - Documentation of relevant processes and policies, including ICAAP. - Risk reporting for credit, market and operational risk.

	- Knowledge transfer to key decision-makers within risk management.
Finance	The main responsibilities of the Finance department within risk management are: - Ownership of capital regulatory reporting. - Working with senior management to provide financial forecasts for the ICAAP.
Compliance	Compliance manages contacts with regulators, keeps abreast of regulatory developments, participates in material regulatory consultations and aims to anticipate regulatory issues by providing advice to the RCL Board of Directors and the business on such matters on an ongoing basis.
Global Risk Management	- General supervision of RCL Risk Management. - Establishment of Group-wide Risk Management Framework. - Developing and enforcing an effective global risk culture. - Establishment of global risk reporting standards. - Oversight of risk profiles of Group entities.

In order to limit risk for the Company, the RCL Board of Directors has established the overall risk tolerance level or risk appetite taking into consideration the risk-taking capability of RCL.

RCL defines its risk appetite as the level of aggregated risks that RCL can undertake and successfully manage on a long-term basis according to its business strategy. RCL aims to incorporate both quantitative and qualitative elements into its risk appetite statement. Each element of the risk appetite statement is measured on a monthly basis and reported to the Audit and Risk Committee.

The current version of the risk appetite statement was approved by the RCL Audit and Risk Committee and the RCL Board of Directors.

Category	Risk Appetite Statement
Regulatory capital	RCL will maintain sufficient capital resources to cover its Risk. If Total Capital Ratio based on Individual Capital Guidance (ICG) falls below 270% the RCL Audit & Risk Committee will convene and recommend immediate restitutive action. (Based on IFPR that became effective 1 January 2022)
Capital adequacy	We will have enough internal capital to cover all relevant risks. If actual financial resources are below the required capital number calculated under ICARA wind-down scenario, the RCL Audit & Risk Committee will convene and recommend immediate restitutive action.
Credit	We will have enough capital to meet our obligations upon the default of RESEC (Group). RCL will limit the exposure to Group (RESEC) to under $25m. Counterparty limits may only be exceeded with sign off from Desk Heads/Risk Management. We have a low appetite for unauthorised accidental non-material limits excesses. We have zero appetite for severe deliberate breaches. Settlement risk is covered by credit risk limits. We express our large exposure tolerance level as 25% of capital for non-institutions and 100% of capital for institutions.
Market	We will not have intraday exposure of more than $25MM for total equity products, or $5MM for an individual position, nor will we have overnight exposure of more than $20MM for total equity products or more than $3MM for an individual position. We will not have FX exposure of more than $16.5MM in trading and non-trading cash. We have a low appetite for unauthorised accidental non-material limit excesses. We have zero appetite for severe deliberate breaches.

Operational/ Legal	We have zero appetite for internal fraud, collusion and theft. We have a low appetite for risks arising from inadequately trained staff or failed internal processes, to the level of $50k in operational risk losses per annum. We have a medium appetite in terms of the operational risk associated with the implementation of systems changes and key strategic plans, to the level of $50k in operational risk losses per annum.
Reputational	We have a low appetite for reputational losses to the level of $100K per annum.
Regulatory/ Compliance	We have a low tolerance for inadvertent regulatory breaches and zero tolerance for regulatory breaches due to ignorance, negligence or recklessness.
Business	New business opportunities will be assessed in respect of risk/return attractiveness. New initiatives will only be entered into where the capital impact on the Group is managed. We have no appetite for new initiatives that have a significant effect on RCL's capital and liquidity that are not first approved by the RCL Audit & Risk Committee.
Conduct	We adopt a zero-tolerance approach to conduct risk as it relates to misconduct, namely an intentional or reckless violation by an employee of the Company's policies and procedures or of applicable laws and regulations. In relation to other risks, relating to the conduct of the Company's business, which may impact on aspects of market integrity or our clients, employees operate within agreed limits and frameworks of rules designed to appropriately minimise adverse outcomes to the extent reasonably practicable.

The ongoing process for the definition of risk appetite is a three-step process:

- RCL Risk Management, following discussions with the relevant Front Office and BSG (Business Support Group) Heads, proposes the long-term risk appetite for RCL and breakdowns for the different risk types according to current risk-taking capability.
- The RCL Audit & Risk Committee considers the proposals from RCL Risk Management and makes a proposal for the RCL Board of Directors.
- The RCL Board of Directors defines the risk appetite of RCL after consideration of the proposal of the RCL Audit & Risk Committee.

6. 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. RCL calculates and reports its capital resources and capital requirements for the UK regulated entity to the FCA in accordance with these regulations. The following table presents a summary of both capital resources and the capital requirements for RCL as at 31 December 2021 and is based on the audited financials of RCL.

6.1 Own Funds

Regulatory Capital as at 31 December 2021

(USD '000)	
Total Tier 1 capital (all Common Equity Tier 1)	32,532
Total Tier 2 capital	10,400
Total Capital resources	42,932
Total Risk Exposure per FCA guidelines	104,044
Common Equity Tier 1 ratio	31%
Total capital ratio (%)	41%
Surplus of capital under Individual Capital Guidance requirement (8% x 182%)	27,783

RCL has no additional Tier 1 capital and as such there is no difference between the Common Equity Tier 1 ratio and the Tier 1 ratio.

Tier 1 Capital composition as at 31 December 2021

(USD '000)	
Permanent share capital	47,000
Brought forward retained earnings	(14,989)
Deductions from Tier 1 Capital	(32)
Other reserves	552
Total Tier 1 capital	32,532

Total Tier 1 capital reconciles to the shareholders' equity per the financial statements. Permanent share capital represents 47,000,000 ordinary shares (authorised, called up and fully paid) of $1 each.

Other reserves consist of a capital redemption reserve arising from the repurchase of shares in 2001.

Tier 2 Capital composition

A subordinated loan of $10,400,000 from Renaissance Financial Holdings Limited (the direct holding company) is included within Tier 2 Capital.

Interest is payable semi-annually at an interest rate of 2.5% and the loan is stated at its carrying value, which is considered to approximate its fair value.

6.2 Capital Requirements

RCL defines capital as the resources necessary to cover all relevant risks. The Board of Directors examines the Company's risk profile and sets a risk appetite to ensure the level of capital indicates that the Company's capital base:

- Remains sufficient to support the Company's risk profile and outstanding commitments.
- Exceeds the Company's minimum regulatory capital requirements communicated to the FCA.
- Remains consistent with the Company's strategic and operational goals.

Pillar I and Individual Capital Guidance (ICG) capital adequacy are monitored daily. RCL also implements an Internal Capital Adequacy Assessment Process ('ICAAP').

In calculating the Pillar I minimum capital requirements the Company has adopted the standardised approach to credit and market risk, the mark-to-market approach for counterparty credit 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 2021 is as follows:

(USD '000)	Risk weighted exposure	Minimum capital required at 8%
Credit Risk	24,211	1,937
Market risk	22,563	1,805
Operational Risk	57,269	4,582
Total minimum capital requirement	**104,044**	**8,324**

Credit risk *(USD '000)*	Risk weighted exposure	Minimum capital required at 8%
Credit Risk		
Exposures to central governments	155	12
Exposures to institutions	7,287	583
Exposures to corporates	8,892	711
Equity exposures	535	43
Other Exposures	7,342	586
Total credit risk	**24,211**	**1,937**

Credit risk by residual maturity	Risk weighted exposure					
(USD '000)	On demand	Less than 1 year	1 year to 5 years	Over 5 years	No stated maturity	Total
Credit Risk						
Exposures to central governments		155				155
Exposures to institutions	3,246	3,638			403	7,287
Exposures to corporates		4,195	2,148		2,549	8,892
Equity exposures		535				535
Other Exposures		53	5,177		2,112	7,342
Total credit risk	**3,246**	**8,576**	**7,325**	**0**	**5,064**	**24,211**

The subsidiary in Turkey is recorded in the Financial Statements at fair value as “Investments in Subsidiaries” of $214k. This gives a risk weighted equity exposure included in credit risk of $535k ($214k multiplied by 250%).

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 Company’s nominated ECAI is Standard and Poor's Rating Services (S&P). ECAI risk assessments are used for risk weighting the Company’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. Exposures which are impaired are exposures where the carrying amount is higher than the recoverable amount and which result in a write-down of the asset value to the recoverable amount. RCL has no exposures which are past due. The subsidiary in Turkey is considered impaired and has been written down to the recoverable amount.

Credit risk by geography

(USD ‘000)	Risk weighted exposure	Minimum capital required at 8%
Credit Risk		
Austria	8	1
Belgium	2,329	186
Cyprus	6,402	512
Nigeria	5	0
Russia	418	33
South Africa	713	57
Turkey	535	43
United Kingdom	13,645	1,093
United States	156	12
Total credit risk	**24,211**	**1,937**

Credit risk mitigation

RCL uses credit risk mitigation techniques to mitigate credit risks to which it is exposed, principally collateral and netting.

RCL 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 Company rise or should the value of the collateral itself fall. The Company uses the financial collateral comprehensive method to calculate the effects of this credit risk mitigation on these contracts per Group policies. There was one REPO held on 31 December 2021.

RCL also has master netting agreements with its main Group counterparties. These agreements allow credit risk exposures to be reduced by applying netting to RCL’s receivable and payable balances with certain Group companies. Under IFRS, netting is permitted only if the entity has a legally enforceable right to set-off and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Market risk

The details of market risk are set out below.

(USD '000)	Risk weighted exposure	Minimum capital required at 8%
Market Risk		
Equity PRR	11,025	882
Bond PRR	1,594	128
FX PRR	9,944	795
Total market risk	**22,563**	**1,805**

The Bond PRR relates to $8.2m of US Treasury Bonds and $2.0m UK Gilts held as a buffer.

6.3 Leverage

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

The leverage ratio for RCL at 31 December 2021 is as follows:

(USD '000)	31 Dec 2021
Total assets per audited financial statements	85,014
Adjustments from accounting assets to leverage exposures	-
Total leverage ratio exposure	84,014
Tier 1 capital	32,532
Leverage ratio	39%

The Company's leverage ratio is well above the minimum requirement of 3%. The leverage ratio is monitored by management and if it were to decrease materially action will be taken to restore the ratio to a suitable level, including securing further capital from the parent of RCL.

7 Risk Exposures

7.1 Counterparty Credit Risk

RCL defines *credit risk* as the risk of loss stemming from a counterparty's failure to repay a loan or otherwise meet a contractual financial obligation.

Counterparty risk arises when one party of a contract fails to meet the terms of the contract and defaults before the contract settlement date or at the time of settlement.

RCL incurs counterparty risk whenever it acts as principal in a transaction with a counterparty (clients and Group entities). The majority of RCL transactions are conducted on a DVP basis with institutions rated B and above (according to internal ratings, see below), however RCL may on occasion pre-pay or pre-deliver securities to clients. There have been no losses for a number of years. Additionally, RCL engages in short term securities borrowing and lending activities with clients and Group entities, typically in Turkish securities.

RCL Risk Management uses an internal IT application "Credit Risk Online" for the identification of counterparty risk with external counterparties.

RCL uses the following approaches for the quantification of counterparty risk:

- Standardised approach for quantification of required capital according to Pillar I, CRD IV requirements.
- Scenario analysis for quantification of required capital according to Pillar II ICAAP requirements.
- Daily measurement and reporting of trading/credit limit utilisation to control and report largest exposures and investigate any breaches.
- Quantification of probability of default for counterparties according to internal ratings, which are derived from external ratings.

RCL analyses the probability of the default of counterparties (clients and Group entities):

- Default on client side is covered by the system of internal counterparty limits, ratings and a monitoring procedure.
- Default of Group is covered by estimation of required Pillar II capital and stress-tests for counterparty risks with consideration of contingent market risk.

As a part of the Group, RCL operates within the global credit risk limit framework. Global credit risk limits are based on the rating of the counterparty. All counterparties for which limits have been approved are assigned a rating.

At the same time, RCL has a counterparty risk limit framework for external counterparties which is consistent with the global risk limit framework. This framework consists of limits for individual counterparties and/or legal counterparty groups with the following characteristics:

- Equity DVP and non-DVP limits. Counterparties may have a 'DVP' limit, a 'non-DVP' limit or both depending on the products they trade with RCL.
- Soft limits. Limit excesses may be approved by risk management or senior management.

RCL's credit risk exposure is reported to management on a daily basis via the Risk Dashboard, which breaks down the credit risk of RCL by counterparty rating and exposure type and lists the five largest counterparty exposures. On a bi-monthly basis the Risk Dashboard is presented to the Audit & Risk Committee. This report shows the average credit risk exposure by exposure type and also breaks credit risk exposure down by rating and counterparty type. The report also details the five counterparties with the largest exposures on any one day during the month and the five counterparties with the largest average exposures during the month.

As described above, RCL incurs counterparty risk with external counterparties. In the event of a counterparty default, losses would in some instances be mitigated by the transfer pricing mechanism per the terms of the Service Level Agreement (SLA) between RESEC and RCL. This agreement states that RCL, as the Service Provider, introduces transactional business to RESEC, the Service Recipient, and provides clearing and settlement services for the transactions. In return, the SLA states that RCL will be remunerated on an arm's length monthly basis via a cost-plus methodology. This guarantees RCL a 10% return on total costs (excluding the investment banking business whose costs and revenues for RCL-based staff are booked in the Company and the resulting profit or loss is unadjusted by any Group transfer pricing mechanism).

RCL loans excess cash to Group entities. These loans are Board-approved, typically of short duration (though still callable with one day notice) and unsecured. RCL ensures that even after these loans operational cash and the liquidity buffer allow it to have sufficient cash for continuing operations, stressed situations and even a controlled wind-down. As a net lender, RCL does not consider itself at risk from higher interest rates.

7.2 Market Risk

RCL defines *market risk* as the risk that the value of a portfolio will decline due to movements in market prices. Market risks include equity risk, FX risk, interest rate risk and commodity risk. Only equity (and bond) market risk and FX risk are relevant for RCL.

Equity (and bond) market risk is defined as the risk of equity (bond) investments declining in value due to market dynamics.

FX risk is defined as the risk associated with transacting in different currencies.

RCL quantifies its market risk as the full fair value of the positions in its books, using a live price feed to obtain up to date valuations of the positions. The limits in place on RCL's trading books are based on this quantification of market risk.

RCL also uses the following approaches for the quantification of market risk:

- Standardised approach for quantification of required capital according to Pillar I, CRD IV requirements.
- Scenario analysis for quantification of required capital according to Pillar II ICAAP requirements.
- Daily stress tests on RCL's trading books, using historical movements from the preceding decade in the appropriate index to model potential losses.
- FX exposure assessments are conducted daily and non-USD cash balances are subject to strict limits. If RCL does not have sufficient foreign currency Group Treasury can also provide FX facilities.

Strict limits are in place on RCL's trading books. These are detailed in the RCL Market Risk Policy. The book owner is responsible for observing the limits. If necessary, the book owner requests a limit space by forwarding a market risk limit request to RCL Risk Management, which will formulate a proposal to the RCL Audit & Risk Committee.

RCL also maintains FX limits, with any excess non-USD cash being moved to a USD account on a daily basis.

7.3 Operational Risk

RCL defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems or from external events. The term "loss" in its broadest sense is any impact from an operational risk incident on the Company that impairs the realisation of its objectives. This ranges from direct financial losses to dissatisfied customers, unmotivated staff, and unfavourable media attention.

Because of the current business model of RCL, operational risk is deemed to be the most material risk for RCL. The Company uses the following instruments for the identification of operational risks:

- Operational Risk Self-Assessment (ORSA) and Operational Risk Map.
- KRIs.
- Operational Risk Incidents and Issues Portal.

RCL also uses the following approaches for the quantification of operational risk:

- Basic Indicator Approach for quantification of required capital according to Pillar I, CRD IV requirements.
- Scenario analysis for quantification of required capital according to Pillar II ICAAP requirements

Key Risk Indicators (KRIs) are agreed with the respective department heads and tracked via red/amber/green (RAG) thresholds to monitor the effectiveness of internal controls and identify the negative tendencies in operational risks at an early stage. KRIs are reported on a monthly basis and distributed to the Audit & Risk Committee and Board of Directors. Various critical controls are monitored on a daily to weekly basis, with the focus on timely escalation and resolution of items. The KRI report provides early warning signals of key control and control environment deterioration in operational performance to senior management.

The Pillar I operational risk capital charge calculation is based on the average of the last three year's net income in RCL's audited financial statements. For Pillar II it is further adjusted by a factor, based on the internally devised KRI Index. This KRI Index assigns a weighting to each KRI based on its perceived importance from the risk mapping exercise. This weighting is then multiplied by the Red/Amber/Green (RAG) status of the indicator.

The Group has implemented an Operational Risk Portal, which allows employees of the Company to log risk incidents and issues online. Any material operational risk incidents that occur are logged by RCL staff on the Operational Risk Portal. Similarly, risk issues (i.e. emerging risks that have not yet resulted in a crystallised event) are logged. Risk incidents and issues are investigated by Group Operational Risk Management, in conjunction with RCL Risk Management wherever these incidents and issues affect RCL. The analyses may result in recommendations for system and control improvements, whose implementation status is monitored and reported upon.

RCL operates a platform with a high level of control, allowing for a 'no surprise environment'. RCL recognises that it cannot contain (i.e. manage away) risks in their entirety, which is why it has set aside capital. It has a certain, limited tolerance for normal fall-out incidents. In addition, it has mitigated particular risk elements by means of insurance coverage.

In its intention to maintain a 'no surprise environment', RCL manages operational risk by maintaining a strong control framework, which allows risk prevention, swift detection and risk mitigation on different levels. The guiding principle is that line management is responsible for managing operational risks. Each manager has specific tools to manage their operational risks.

Risk Management is responsible for supporting line management in managing their operational risks. RCL Risk Management measures and monitors operational risks and helps to ensure operational risks are mitigated adequately.

Where a new project (for instance a new market or product) is being launched that may materially affect RCL, this must first pass through the Group New Business Committee before being brought to the RCL Audit & Risk Committee where potential operational risks are discussed. This is a structured approach to manage changes to the operational risk profile of the Company such as new products and activities and new processes and systems.

8. Remuneration policy

Under the FCA's Remuneration Code (the "Code"), RCL is classified as a Proportionality Level 3 Firm per FCA General Guidance on Proportionality dated 1 May 2017, which allows it to proportionately apply the Code's rules and principles. The Code requires RCL to consider its processes and procedures for those senior staff that operate within companies that are covered by the Code and whose professional activities have a material impact on the Company's risk profile (Material Risk Takers or MRTs). Those meeting the criteria are known as Code Staff.

RCL is satisfied that the policies in place are appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

8.1 Code Staff Criteria

Code staff has been determined in accordance with technical standards issued by the European Banking Authority with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk.

MRTs are defined as those individuals who have a material impact on the risk profile of the Company. An employee is identified as an MRT if they meet at least one of 15 qualitative criteria as set out by the EBA. These include:

- The employee is a member of the management body in its management function.
- The employee is a member of senior management.
  - The employee is responsible and accountable to the management body for the activities of the independent risk management function, compliance function or internal audit function.
  - The employee heads a material business unit
  - The employee heads a function responsible for legal affairs, finance including taxation and budgeting, human resources, remuneration policy, information technology, or economic analysis.
- The employee is a member of certain committees.

An employee can also be considered to be an MRT under certain quantitative criteria such as:

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- Their total remuneration exceeds €500,000 per year.
- Their remuneration is higher than the lowest paid MRT identified under certain qualitative criteria.

The number of Code Staff, whose professional activities have a material impact on the Company's profile, has remained 16 through 2021 performance year. This excludes Non-Executive Directors as they carry out a supervisory oversight role and do not carry out day-to-day management of the business.

The Company maintains a list of Code staff employees.

8.2 Remuneration Governance and Decision Making

For the sake of good governance, the Group has a Compensation Committee which meets regularly to consider human resource issues relating to terms and conditions of employment, remuneration and retirement benefits. The Group Compensation Committee does not retain external consultants although external consultants are used from time to time to advise on specific issues. The Group Compensation Committee also seeks advice from the Risk and Compliance departments and Managing Directors/Senior Managers in the Group, who may provide relevant information and advice to the Group Compensation Committee.

The remuneration arrangements of the Company represent a combination of salary, annual discretionary bonuses and long-term incentive schemes that are designed to align the interest of the Company and Group and its employees with those of its clients and other stakeholders to ensure the Company and Group has continued long term profitability. The Board has delegated authority to a Remuneration Committee to oversee the remuneration policies, practices and awards of employees of the Company. The Company's Remuneration Committee meets (at least) annually to review the proposed annual bonus awards of Code Staff and others with a high variable remuneration component, to ensure overall compensation is in accordance with the Company's risk appetite and applicable regulatory requirements.

It is acknowledged that the reputation and success of both the Company and Group is due to the service provided to clients by highly qualified and committed staff. Staff are therefore one of the key assets of the organisation and it is its policy to attract and retain the best people.

In light of the above, when fixing the remuneration policies and packages for current and future periods the Company and Group ensures:

- The need to attract, retain and motivate staff of the quality required.
- Practices of similar companies (in terms of the nature of business and size).
- Remuneration and employment conditions across the Group.

By paying due regard to the above three factors, the Company and Group considers that it can attract and retain the best quality staff, thereby ensuring that its long-term interests are safeguarded.

Annual bonus awards paid to Code Staff are subject to deferral.

The key features of the bonus deferral arrangement are:

- A percentage deferral depending on the level of annual bonus.
- Deferral awards are made in cash with a fixed rate of return.
- Employees receive a competitive compensation and benefits package, which is reviewed annually and benchmarked by reference to the external market. It allows the Company to attract and retain the best talent, who know that good performance will be rewarded.
- Awards are designed to encourage retention. Deferred variable compensation does not give rise to any immediate entitlement. Awards normally require the participant to be employed continuously by the Company/Group until at least the third anniversary of grant in order for the award to vest in full.

8.3 Information on the link between pay and performance

RCL recognises the responsibility of Code staff to drive its future success and deliver value for shareholders and that remuneration is one of the key components in motivating and rewarding those staff.

Code staff remuneration is based on competitive market-based salaries that fairly compensate employees in view of skills provided, work performed and responsibility undertaken. Overall remuneration includes an annual variable incentive compensation reflecting individual performance and responsibility, both short-term and long-term, as well as RCL's overall performance.

Pay increases are based on merit. The level of the pay increase is influenced by Group affordability and market influences. Salary increases outside the annual pay review cycle are subject to a strict process of justification, control and approval.

The variable pay element is differentiated by performance. The Compensation Committee believes the remuneration for code staff provides an appropriate balance between fixed and variable pay elements.

8.4 Information on the performance criteria

RCL does not currently use a pre-set formulaic matrix to determine either basic remuneration or variable remuneration. The determination of remuneration is a fully discretionary process informed by various performance metrics including individual performance measured against standard Firm competencies and qualitative annual goal attainment, industry peer group remuneration levels and affordability. The Board has responsibility to decide on the funds to be allocated to the performance-based remuneration pools. The Board is involved to ensure that risk, capital and liquidity limits are not exceeded.

The allocation of the bonus pool is based on the contribution of each business unit within the Company as demonstrated by the management accounts and of each individual's contribution to the Company's results as assessed during the performance process. All members of staff are subject to mid-year and annual performance reviews. Individual objectives are set for each staff member (including code staff members) relevant to their specific role. Performance against non-financial metrics has a significant influence on the overall performance rating and poor performance against non-financial metrics will result in a reduction of an employee's annual award.

RCL has historically opted for discretionary bonus scheme (variable remuneration) and the Company intends to continue this practice.

Fixed pay is principally comprised of salaries or fees. All Code Staff receive a salary that reflects their responsibilities and the level of experience and expertise needed to undertake their roles.

Variable performance-related pay is principally comprised of annual bonus awards.

The rationale for incorporating a variable component as part of total remuneration is associated with the desire of the Company to attract personnel of the highest caliber. Since it is common practice for the financial services sector to pay bonuses to those employees who have excelled in the performance of the duties assigned to them, the Company would find itself at a competitive disadvantage in attracting high caliber employees if it didn't follow the industry standard.

8.5 Aggregate quantitative information on remuneration for Code Staff

The table below analyses the remuneration of Code staff:

Breakdown of remuneration of staff in respect of whom disclosure is required by business area	
	Total Remuneration
Front Office ($)	**13,261,545**
Business Support Group ($)	**1,129,733**

Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the Company			
	Senior Management	Other Code Staff (MRTs & Heads of Department)	Total
Fixed Remuneration ($)	**717,080**	**3,477,199**	**4,194,279**
Variable Remuneration ($)	**5,400,000**	**4,797,000**	**10,197,000**
Total number of staff (maximum during the year)	**See below**	**See below**	**16**

Cash paid out and deferred remuneration awarded in 2022			
	Cash paid out in March 2022	**Total Deferred 2023**	**Total Deferred 2024**
Variable Remuneration ($)	**5,656,000**	**2,708,400**	**1,805,600**
Total number of staff	**16**	**14**	**14**

The remuneration disclosed above includes:

- Annual base salaries as at 31 December 2021.
- Cash bonus awards for the 2021 performance year.
- Deferred awards (LTIP) for 2021 based on the value at award date. LTIP awards are subject to performance conditions, which can result in the portion of the award that is ultimately released ranging from 0 to 100 percent.

In accordance with Article 450 (1) (v) CRR, no new sign-on payments were made to Code Staff during the year.

In accordance with Article 450 (1) (v) CRR, one severance payment was made to a Code Staff leaver during 2021.

Confidential information exemptions: We have not disclosed the number of senior managers and other code staff (though have given the total of 16), have also not disclosed the highest paid amount and have also not disclosed the value of the severance payment due to confidentiality (were these published certain employees could work out the pay of other employees).