AXICORP LIMITED
PILLAR 3 DISCLOSURES

DECEMBER 2016

OVERVIEW

These disclosures are made in order to comply with the Financial Conduct Authority's (FCA) rules which implement in the UK the European Union (EU) directives that give effect to the revised capital adequacy framework, Basel II agreed by the Basel Committee on Banking Supervision in 2004 and subsequently published in comprehensive form in 2006.

The purpose of these rules is to ensure that regulated firms are managing the risk of inadequate capitalisation in a transparent way to ensure the stability of the markets in which they operate.

Basel II is an international initiative aimed at implementing a more risk sensitive framework for the calculation of regulatory capital and is organised around three "pillars" which the Basel Committee considers to be complementary:

- Pillar 1: minimum capital requirements;
- Pillar 2: supervisory review; and
- Pillar 3: market discipline.

Pillar 3 contains requirements for firms to publish specified information on the application of Basel II, their capital resources, capital requirements, risk exposures and risk management.

FCA's rules for implementing Pillar 3 as incorporated in the EU Capital Requirements Directive are contained in Chapter 11 of The Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). Information is disclosed in accordance with these rules unless it is not applicable to AxiCorp Limited or is considered to be proprietary or confidential information.

Quantitative disclosures under BIPRU 11 are made as at December 2016, within our current risk management framework.

SCOPE AND FREQUENCY OF DISCLOSURES

The disclosures made here are made within the context of the AxiCorp Group Risk Management Framework. However, the specific levels of exposures refer only to AxiCorp Limited ("AxiCorp"), a subsidiary of AxiCorp Financial Services Pty Ltd ("Parent").

Following assessment of FCA's frequency of publication criteria (BIPRU 11.4.4), the Board expect that the Pillar 3 disclosures will be made on an annual basis and published on AxiCorp's website (www.axitrader.co.uk) as soon as practicable after the publication of the Parent's Annual Accounts.

The Pillar 3 disclosures are subject to verification by AxiCorp's auditors.

There are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities to AxiCorp by its Parent except to the extent these items are required to meet regulatory capital requirements of either entity.

Risk Management Objectives and Policies

As set out in the Group Risk Management Policy Statement, AxiCorp's view is that control of risk is critical to the achievement of goals. This risk management strategy documents the governance framework adopted by AxiCorp to manage risk and support the achievement of meeting its goals.

AxiCorp's Board has overall responsibility for ensuring that there is a sound system of risk management and internal compliance and control across the business. Specifically, the Board has the responsibility for establishing policies and the risk appetite of AxiCorp, and ensuring that these are implemented.

The risk management and internal control systems within AxiCorp encompass all company policies, codes and standards, processes and procedures to provide reasonable assurance that:

- only approved corporate and business activities are undertaken
- risks are identified, adequately monitored and managed
- resources are protected and utilised in an effective and efficient manner
- significant financial, managerial and operational information is complete and accurate
- there is adequate oversight to ensure compliance with policies, standards, procedures and applicable laws and regulations.

The risk management framework is the totality of systems, structures, policies, processes and people within an institution that identify, measure, monitor, report and control or mitigate internal and external sources of material risk. Material risks are those that could have a material impact on the company or on the interests of its stakeholders. AxiCorp defines Material Risks by reference to a 'waterline'. That is, a set of impacts of both a financial and non-financial nature.

AxiCorp's Board of Directors has established the following minimum requirements for the company's risk management framework: It must include:

a) a Board-approved risk appetite and risk appetite statement;
b) a risk management strategy;
c) a business plan;
d) policies and procedures supporting clearly defined and documented roles, responsibilities and formal reporting structures for the management of material risks throughout the institution;
e) a designated risk management function that meets the requirements as set out in AxiCorp's Risk Management Policy;
f) a management information system (MIS) that is adequate, both under normal circumstances and in periods of stress, for measuring, assessing and reporting on all material risks across the institution; and
g) a review process to ensure that the risk management framework is effective in identifying, measuring, evaluating, monitoring, reporting, and controlling or mitigating material risks.

In summary, the five basic elements of AxiCorp's Risk Management Framework are:

1. A governance structure which promotes management oversight and ethical conduct;
2. Risk awareness and assessment;
3. Control activities and segregation of duties;
4. Information and communication; and
5. Monitoring activities and correcting deficiencies.

Risk Appetite Statement

AxiCorp is to develop and document a clear and concise risk appetite statement that addresses its material risks. The Board must approve the risk appetite statement.

The risk appetite statement must, at a minimum, convey:

a. the degree of risk that the institution is prepared to accept in pursuit of its strategic objectives and business plan, giving consideration to the interests of clients and other stakeholders (**risk appetite**);
b. for each material risk, the maximum level of risk that the institution is willing to operate within, expressed as a risk limit and based on its risk appetite, risk profile and capital strength (**risk tolerance**);

c. the process for ensuring that risk tolerances are set at an appropriate level, based on an estimate of the impact in the event that a risk tolerance is breached, and the likelihood that each material risk is realised;
d. the process for monitoring compliance with each risk tolerance and for taking appropriate action in the event that it is breached; and
e. the timing and process for review of the risk appetite and risk tolerances.

The Board acknowledges that with the exception of compliance, risk-taking is inherent to any commercial undertaking. In adopting the risk management strategy AxiCorp acknowledges its limitations and recognises that it is an imperfect organisation relying on the knowledge and diligence of its human resources. As such, the company cannot ever eliminate all risks and nor should it seek to, however, through an iterative approach we seek to understand our business better, inform ourselves of the inherent and residual risks and in that way be better placed to make judgements about the types and magnitude of risks we wish to take.

The formulation of the risk appetite is typically closely aligned to the strategic planning process and as such is something that is assessed by the Board annually. AxiCorp's risk appetite represents the amount of risk the Company is willing to accept as it seeks to achieve its business objectives.

RISK GOVERNANCE

Through the Risk Management Policy and others, AxiCorp applies the principle of accountability and responsibility for risk management at all levels of the organisation. Every employee must be engaged in managing risk and be made aware of their individual and collective responsibilities within the risk management process so that they can assist in identifying and mitigating risk.

The Risk Management Framework assigns accountability for risk management using the three-lines of defense methodology. This method distinguishes among three broadly defined groups (or lines) within the organisation:

- Functions that own and manage risks
- Functions that oversee risks
- Functions that provide independent assurance.

ROLE OF THE BOARD & SENIOR MANAGEMENT

Although not considered to be among the three lines in this model, no risk management system could be complete without first considering the essential role of the Board. The Directors are accountable for setting the organisation's objectives and establishing governance structures to best manage the risks in accomplishing those objectives.

The Directors, collectively and individually, have statutory obligations and the Board is ultimately accountable for company's risk management framework.

In particular, the Board must ensure that:

- It defines the company's risk appetite;
- A sound risk management culture is established and maintained throughout the company;
- Senior management take the steps necessary to monitor and manage all material risks consistent with the strategic objectives, risk appetite statement and policies approved by the Board;
- The operational structure of the institution facilitates effective risk management;
- Policies and procedures are developed for risk-taking that are consistent with the risk management strategy and the established risk appetite;
- Sufficient resources are dedicated to risk management; and
- Appropriate controls are established that are consistent with the company's risk appetite, risk profile and capital strength, and are understood by, and regularly communicated to, relevant staff.

The Board has formally delegated oversight of risk management to the Risk & Audit Committee (a Board Sub-Committee). The Risk & Audit Committee reports directly to the Board.

Role of the Risk & Audit Committee

The responsibilities of the Risk and Audit Committee are contained in the Committee's charter. In broad terms it is responsible for the effective oversight of all key risk and control issues. The Committee reviews the effectiveness of the risk management process and advises the Board on AxiCorp's risk management policies and frameworks.

The members of the Risk and Audit Committee are set out in the Charter and reviewed by the Board periodically.

Capital Resources

This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company.

The Company is further required to report on its capital adequacy monthly and has to maintain at all times a minimum capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets.

AxiCorp Limited complies with the capital requirements set out by the FCA.

The Company commenced trading in December 2011 and accepted client deposits from that point but ceased trading actively with clients prior to being acquired by AxiCorp Financial Services Limited on 1 July 2013. The Company changed its name to Axicorp Limited on 5 November 2013 and recommenced trading with clients in September 2014.

The following table provides a breakdown of the capital resources and capital resource requirements. Following a review of 30 June as part of the financial year end audit, the parent injected £500k of additional capital into Axicorp Limited.

AxiCorp Limited Capital Requirements	***30 June 2016 £'000s***	***30 Sept 2016 £'000s***
Core tier 1 capital	333	917
Deductions from tier 1 capital	49	42
Total capital resources (CR)	**283**	**875**
Credit risk capital requirement (CRCR)	176	366
Or higher of: Fixed Overhead Requirements (FOR)	315	408
Total Pillar 1 Capital Resources Requirement (CRR)	**315**	**408**
Surplus/ (Deficit) CR over CRR	**(32)**	**467**
Market risk capital requirement (MRCR)	-	-
Operational risk capital requirement (ORCR)	38	38
Liquidity risk capital requirement (LRCR)	17	49
Total Pillar 1 & 2 Capital Resources Requirement (CRR)	**370**	**495**
Surplus/ (Deficit) CR over CRR	**(86)**	**380**

Pillar I – Minimum Capital Requirements

The Company adopted the Standardised approach for Credit and Market risk and the Basic Indicator approach for Operational risk.

Counterparty Risk

Counterparty risk is broadly defined as the possible loss due to debtors' non-payment of loans, services or good supplied. A breakdown of credit exposures at each financial year end is as follows:

AxiCorp Limited Credit Exposures	*30 June 2016 £'000s*	*30 Sept 2016 £'000s*
Financial institutions	-	-
Amounts due from Group undertakings	338	1,503
Trade and other debtors	751	374
Total credit risk exposures	**1,089**	**1,878**

Market Risk

Market risk is defined as the risk that the value of positions held with clients and market counterparties are not perfectly hedged. The Company hedges all client positions on a trade by trade basis with its parent entity, AxiCorp Financial Services Pty Ltd ("AFSPL") which is registered in Australia and regulated by the Australian Securities and Investment Commission ("ASIC"). AFSPL manages market risk for the Group and as a result of this hedging the Company's exposures to market risk are negligible. The following table illustrates the Company's market risk capital requirements ("MRCR") at each financial year end:

AxiCorp Limited Market Exposures	*30 June 2016 £'000s*	*30 Sept 2016 £'000s*
Interest rate	-	-
Equity	-	-
Commodities	-	-
Foreign currency	-	-
Total market risk exposures	**-**	**-**

Operational Risk

The principal risks and uncertainties facing the company and the mitigation measures put in place to reduce the Company's exposures to these risks are as follows:

Regulatory and compliance risk

The financial services sector is heavily regulated and breaches lead to fines or disciplinary action both for the Company and for individual staff. In addition, regulatory change can impact the profitability of the Company or Group.

Management monitors closely actual and planned changes in regulation and assess the risk of change.

Technology risk

The Company is dependent upon technology provided by its parent entity, AxiCorp Financial Services Pty Limited which manages these risks for the Group. Risks arise where trading and back office systems are integrated with real time data feeds from trading exchanges and other third parties. Any disruption to systems may impact client trade execution.

The Group monitors this risk closely and has in place a number of redundancies and mitigating processes to ensure consistent order flow and minimal disruption to clients in the event of a third party break in service.

Business continuity risk

Business continuity risks include the unavailability of employees, premises or services due to a variety of possible events, some of which are outside the Group's control.

Information risk

Information risk is the threat to the confidentiality, integrity and availability of information held by the Group. Protection of personal information provided by clients and employees is also a key concern.

	Technical and procedural controls are in place to minimise the occurrence of information security and data protection breaches.
Financial crime	As a provider of financial services to retail markets, the Company is exposed to the threat of abuse of its services to commit financial crime including, but not limited to, fraud bribery, market abuse and money laundering.
People risk	People risk includes the loss of key skills, the impact of business restructuring on employees, the risk of loss of key individuals and inadequate development, succession or resource planning.
	The risk that people do not follow the organisation's procedures, practices and/or rules is also identified.
Other operational risks	Other operational risks include the Group's exposure to legal and litigation risks, the failure of counterparties, manual errors and any other action or occurrence over which it has little or no control but which may have financial impact or affect its reputation with clients and the business community. They also include the strategic risks related to peer group competition and business growth.

Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet its obligations arising from its financial liabilities as they fall due. The Company is dependent on the financial support of its parent company, AxiCorp Financial Services Pty Ltd ("AFSPL"). Group policy is to maintain sufficient liquidity resources to meet financial requirements in both normal and stressed business conditions and is monitored closely by the Group Board. Liquidity risk may arise in the following core areas:

Counterparty margin	Axicorp hedge client positions in full with the parent. In the event of deteriorating or volatile market conditions, the parent's brokers may choose to increase their margin requirements.
	This risk is mitigated by the parent using multiple market counterparties and by maintaining a buffer of own funds. The parent also has the option of increasing margin requirements for clients.
Counterparty failure	The creditworthiness of all intergroup counterparties are regularly reviewed.
Low volatility	A prolonged period of low volatility could result in reduced revenue and diminish the Group's capital and its ability to support the Company.

Pillar II Supervisory Review Process

Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

REMUNERATION DISCLOSURES

AxiCorp must establish and maintain a documented Remuneration Policy. The Remuneration Policy must outline the remuneration objectives and the structure of the remuneration arrangements, including but not limited to the performance-based remuneration components.

The Remuneration Policy must be approved by the Board or the Risk & Audit Committee and set out who is covered by the Policy and, specifically:

- The Responsible Manager(s) or Controlled Positions under applicable regulatory frameworks;
- Personnel whose primary role is risk management, compliance, internal audit or financial control; and
- All other personnel for whom a significant portion of total remuneration is based on performance and whose activities may have a material impact on the financial soundness of the company.

The Board should approve the remuneration structure of Executive Directors and approve their remuneration payments.

The Policy must ensure that the structure of the remuneration of risk, compliance and financial control personnel, including performance-based components if any, is balanced, transparent and does not compromise the independence of these personnel in performing their duties.

Remuneration arrangements include measures of performance, the mix of forms of remuneration and cash and equity-related benefits and the timing of eligibility to receive payments.

Performance-based components of remuneration must be designed:

- to encourage behaviour that supports AxiCorp's long-term financial soundness and its risk management framework;
- to manage conflicts of interest;
- to reduce incentives for excessive risk-taking; and
- to reflect the time necessary for the outcomes of decisions to be fully understood and reliably measured.

The Remuneration Policy must make provision for downward adjustments to performance-based components of remuneration if such adjustments are necessary to:

- protect the financial soundness of AxiCorp; or
- respond to significant unexpected or unintended consequences or business conditions.

The Remuneration Policy must have provisions to amend, change, defer and even to withhold performance-based remuneration elements

The FCA Remuneration Code requires the Company to identify individuals whose professional activities have a material impact on its risk profile (known as "Code Staff") and the Code requirements and disclosures (applicable to tier 3 firms) apply to those individuals.
The following groups of employees have been identified as meeting the FCA's criteria for Code Staff:

- Company directors
- Other Company employees in any Controlled Function
- Group employees performing Significant Influence Functions

Remuneration of Code Staff Year ended 30 June 2016	***Company Directors £'000s***	***Other Company Staff £'000s***	***Group Staff £'000s***	***Total £'000s***
Fixed remuneration	120	106	116	342
Variable remuneration	-	-	-	-
Number of staff	1	1	1	2