Korea Investment & Securities Europe Ltd.

Pillar III

As at 31/December/2017

Contents

1. Introduction

1.1 Background

These disclosures are prepared in accordance with the capital requirements directive(CRD Ⅳ), which is the framework for implementing Basel Ⅲ in European Union. Basel Ⅲ sets out certain capital adequacy standards and disclosure requirements to be implemented by regulated firms.

The CRD Ⅳ comprises three 'Pillars':
Pillar 1 sets minimum capital requirements to meet credit, market and operation risk;
Pillar 2 requires firms and their supervisors to consider whether additional capital should be held to cover risks not covered by Pillar 1 requirements; and
Pillar 3 seeks to improve market discipline by requiring firms to disclose certain information on their risks, capital and risk management.

The Pillar 3 requirements have been implemented in the UK by way of the Prudential Sourcebook for Investment Firms ("IFPRU") in the FCA Handbook.
This document contains the Pillar 3 disclosures required by IFPRU in respect of Korea Investment & Securities Europe Ltd. (KISE)

1.2 Purpose of Pillar 3

The Purpose of Pillar 3 is to produce disclosures which allow market participants to assess the scope of application by banks of the Basel framework and the rules in their jurisdiction, their capital condition, risk exposures and risk assessment processes, and hence their capital adequacy.
Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of the company's risk profile.

This document comprises KISE's Pillar 3 disclosures on capital and risk management at 31 December 2017. It has two principal purposes:

To meet the regulatory disclosure requirements under the rules of the United Kingdom ('UK') Financial Conduct Authority ('FCA').
To provide further information useful to readers of these disclosures on the capital and risk profile of KISE.

1.3 Frequency of disclosure

The disclosures in this document are required to be updated annually and if appropriate, more frequently.

2. Risk management objectives and policies

2.1 Risk management objectives

The risk management objective of Korea Investment & Securities Europe Ltd. is to maintain an effective internal control and risk management framework to prudently manage the risks that arise from Korea Investment & Securities Europe Ltd.'s operations and maintain a sufficient level of regulatory capital in excess of the minimum regulatory capital requirement set by the FCA.

2.2 ICAAP

In accordance with the CRD, Korea Investment & Securities Europe Ltd. is required to produce an ICAAP on an annual basis or more frequently if there is a material change in the nature, trading status or risk profile of Korea Investment & Securities Europe Ltd.

The key output of the ICAAP is a document which:

- Considers the adequacy of Korea Investment & Securities Europe Ltd.'s internal control and risk management framework; and
- Assesses the risks faced by Korea Investment & Securities Europe Ltd. and, in light of the internal control and risk management framework in place, ascertains the level of regulatory capital that should be held to cover those risks.

Although the Korea Investment & Securities Europe Ltd is required to have an ICAAP in place, there is no requirement to submit ICAAP document to the FCA.

Korea Investment & Securities Europe Ltd submitted a questionnaire as part of their electronic annual return. This questionnaire became part of the annual return during 2008 when it will be introduced as part of the new-style Integrated Regulatory Reporting (IRR).

Since adoption of the CRD on 1 January 2008, Korea Investment & Securities Europe Ltd has been monitoring its regulatory capital against ICG (Individual Capital Guidance).

The ICAAP has now been embedded into Firm's risk management framework. In achieving this, Firm's risk registers have been updated to ensure each of Firm's risks is allocated into the FCA risk categories. In addition, estimates are made of the level of regulatory capital, if any, that should be held against each risk and then, after aggregating these amounts, this total is compared to Firm's regulatory capital requirement as set by the FCA and Firm's actual level of regulatory capital. On an annual basis, or more frequently if required, Firm's ICAAP document is updated.

Sections 2.3 and 2.4 of this report set out:

- The key features of Korea Investment & Securities Europe Ltd's internal control and risk management framework that are assessed as part of the ICAAP; and

- The key risks faced by Korea Investment & Securities Europe Ltd. which are considered within the ICAAP to assess the overall level of regulatory capital required to be held by Korea Investment & Securities Europe Ltd. after taking account of the adequacy of Korea Investment & Securities Europe Ltd.'s internal control and risk management framework.

2.3 Internal control and risk management framework

Korea Investment & Securities Europe Ltd.'s risk appetite is defined by the policies, controls and approval limits determined within the internal control and risk management framework. This ensures that Korea Investment & Securities Europe Ltd. has an effective system of internal control and risk management to manage Korea Investment & Securities Europe Ltd. prudently within its regulatory capital requirements and to mitigate the potential for material financial loss to the business.

Monthly management accounts

Monthly management accounts are prepared comparing actual trading results.

Capital adequacy is also reported quarterly. Management accounts are distributed to managing Directors and the management team of Korea Investment & Securities co. Ltd. on a monthly basis.

Corporate Policy Manual

Firm has a Corporate Policy Manual setting out authority levels within firm. The Corporate Policy Manual is distributed to staff and each staff is required to confirm compliance with these policies annually and outline any areas of noncompliance during the year.

2.4 Capital adequacy - Pillar 2 assessment

Under Pillar 2 the firm is required to consider whether additional capital should be held against risks not covered in Pillar 1.
In the course of its business, firm is exposed to a wide range of risks. For the purposes of producing the ICAAP, firm's risks are categorised into the FCA's GENPRU 1.2.30 risk classes as follows:

- Credit risk
- Operational risk;
- Market risk.
- Tax risk;
- Liquidity risk;
- Interest rate risk;
- Foreign exchange risk;
- Business risk;
- Regulatory risk;

The definition of these risks and the associated controls and procedures in place to mitigate the risks are as follows:

2.4.1 Credit risk

Credit risk is the risk that Korea Investment & Securities Europe Ltd. will suffer loss in the event of a default by a client. A default occurs when the client fails to honour repayments as they fall due.

Firm's exposure to credit risk is the risk that arranging commission from head office and unbundling commission cannot be collected and therefore credit risk is low. Firm holds all cash with banks assigned high credit ratings. Some of firm's assets are held in foreign currency and, hence, firm is subject to minimal Foreign Exchange Market Risk

2.4.2 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems.

Korea Investment & Securities Europe Ltd. manages operational risk as part of the risk management process. Each staff has the responsibility for putting in place appropriate controls to mitigate operational and other risks. Monitor the controls in place to mitigate those risks and determine the likelihood, value and impact of the risks. Regular reporting of all risks, including operational risk, is presented to managing director and Korea Investment & Securities Co Ltd. weekly basis by means of updated risk registers.

The principal operational risks and the key controls in place to mitigate those risks are as follows:

IT systems -Like any other financial services organisation, Korea Investment & Securities Europe Ltd. rely on the effective and efficient use of IT systems. IT is managed with the use of third party contractors and consultants.

Significant changes to IT systems are managed by third party contractors. This ensures that specialist resource is utilised to plan, test and deliver new systems enabling other resources to continue with business as usual activities.

Firm places a lot of emphasis on outsourced service providers in order to carry out its business activities. And it would be minimal.

Health and safety -The health and safety of employees is a key concern for Korea Investment & Securities Europe Ltd. As a result, the firm provide relevant health insurance to all employees and invests a considerable amount of time ensuring staff are safety conscious.

Fraud - Korea Investment & Securities Europe Ltd. can be the subject of fraud by customers, employees and agents. Korea Investment & Securities Europe Ltd. identify, investigate and report on fraudulent activity. Fraud reports are presented to managing director.

Recruiting and retaining highly skilled management and staff – Korea Investment & Securities Europe Ltd. is dependent on the managing Directors and management team to deliver Korea Investment & Securities Europe Ltd.'s strategy. Korea Investment & Securities Europe Ltd. maintains effective recruitment, retention and succession planning strategies and monitors remuneration and incentive structures to ensure that they are appropriate and competitive. Korea Investment & Securities Europe Ltd. also ensures that there are training and development opportunities and effective staff communication throughout the business.

In addition to the above mitigating controls, Korea Investment & Securities Europe Ltd. also maintains a range of insurance policies to cover eventualities such as business interruption, loss of IT systems and crime.
Firm is also dependent on the experience, knowledge and brokers for revenue generation. Whilst no one person is essential, a group of people leaving could have a significant impact on revenue and the growth of the business. However, firm continues to look to recruit additional brokers to achieve critical mass, and the more brokers that join firm, the less the impact on the business one key broker leaving will bring. Also extended notice periods and restrictive covenants are in place for broking staff, and key members of staff. However, by using head-hunters, as well as offering attractive salaries, bonus packages and benefit in kinds, firm believes it has the necessary base to be able to continue to attract the desired level of staff required to meet its business objectives.

The impact of these errors caused by poor broker execution and/or the misunderstanding of a client order could lead to a loss of revenue. All brokers employed by firm have in depth knowledge and experience of the business and product, and each have a full FCA history.

2.4.3 Market risk

Market risk under Pillar I is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.

Investments are comprised of an investment in a Korean fund, which holds listed instruments. The fund is stated at market value and classified as a financial asset, held for trading. Investments are initially recognised at fair value on the date at which they are purchased and are subsequently re-

measured at their fair value. Purchases and sales are recorded on a trade date basis. Changes in the fair value are recognised immediately in the profit and loss account.
The market risk associated with interest rate risk on Korea Investment & Securities Europe Ltd.'s foreign exchange risk within operation is assessed within Pillar II and is discussed further in sections 2.4.6 and 2.4.7 respectively.

2.4.4 Tax risk

Tax risk is the risk of loss arising from changes in tax legislation or practice.

Korea Investment & Securities Europe Ltd's overall tax risks are managed by Ernst & Young. Advice from Ernst & Young is sought for all material transactions and, where possible, tax treatments are agreed in advance with any relevant authorities.

2.4.5 Liquidity risk

Liquidity risk is the risk that Korea Investment & Securities Europe Ltd. will have insufficient liquid resources available to fulfil its operational plans and/or meet it financial obligations as they fall due.

Liquidity risk is managed daily by Korea Investment & Securities Europe Ltd.'s accounting department through monitoring of expected cash flows in accordance with funding and liquidity policy. This process is monitored regularly by the accounting department.

Korea Investment & Securities Europe Ltd's funding and liquidity policy is designed to ensure that company is able to continue to fund the growth of the business.

Redemption of investment

- We can cash our value fund whenever needs arise, so there shouldn't be concerns over cash reduction.

2.4.6 Interest rate risk

Interest rate risk is the risk that a change in external interest rates leads to a decrease in interest on deposit.

Korea Investment & Securities Europe Ltd's interest on deposit is more than double of the interest in the year ended 31 December 2016. It is because of interest rate increased and the recognition of accrued interest applied from 2017. Current trend on the interest rate is positive as most of nations are raising the interest rate.

Firm's exposure to movements in interest rates is monitored by accounting department.

2.4.7 Foreign exchange risk

Foreign exchange risk is the risk that a change in foreign currency exchange rates leads to a reduction in profits or equity.

Korea Investment & Securities Europe Ltd.'s exposure to movements in foreign exchange rates is monitored by accounting department.

Korea Investment & Securities Europe Ltd's exposures to foreign exchange risk arise the arranging commission from headquarters is based on Korean won and the firm uses GBP bank account for the operation of the business.

There is risk to fluctuate the currency rate for USD/KRW and USD/GBP.
Therefore Payment with the various currency minimise the fluctuation of foreign exchange rate.
Firm believes this risk is has a relatively low cost impact, as exchange rates could also move in its favor. Although the residual risk probability of material fluctuations in the major foreign currencies to which firm are exposed to each month is low.

2.4.8 Business risk

Business risk is the risk of loss arising from the failure of Korea Investment & Securities Europe Ltd.'s strategy or management actions over the planning horizon.

Support from headquarters
Korea Investment & Securities' headquarters (Seoul, S. Korea) fostered proactively overseas sales, and therefore the GIS (Global Investment Service) department formed to assist overseas sales financially and systemically.

To deliver the strategy firm aims to grow its existing businesses in a controlled manner to meet the changing needs of clients and enhancing business processes to ensure that the firm remains efficient and competitive.

The business risk associated with failure to deliver firm strategy is mitigated by a number of actions:

There is a dedicated Director of Corporate Strategy whose role is to develop corporate strategy, identify strategic opportunities and monitor the strategy and performance of direct, indirect and potential competitors.

There is wide ranging monitoring of competitor offers, strategic and operational actions.

There is a robust programme management function and process that oversees and controls major change efforts in the business to ensure that they align with strategic priorities.

2.4.9 Regulatory risk

Regulatory risk is the risk of loss arising from a breach of existing regulation or regulatory changes in the markets within which Korea Investment & Securities Europe Ltd. operates.

Korea Investment & Securities Europe Ltd.'s operations are subject to various forms of regulation in the UK. These regulations are subject to continual modification which could adversely affect Korea Investment & Securities Europe Ltd.'s operations if they are not effectively anticipated and responded to.

In order to effectively manage the risk associated with changing regulation, Korea Investment & Securities Co. Ltd. has a central in-house compliance team which ensures that Korea Investment & Securities Europe Ltd.'s operations are compliant with current legislation and effectively manages the implementation of future changes to legislation. Expert third party legal advice is taken where necessary. In addition, managing director and senior level management maintain a constructive level of dialogue with the regulators to ensure that the Korea Investment & Securities Europe Ltd.'s business is fully understood.

Also Korea Investment & Securities Europe Ltd.'s compliance department/operation department work closely with external advisors.

As a result of this, the Executive Group of Korea Investment & Securities Europe Ltd. has concluded that it does not need the further regulatory capital to meet its requirements under Pillar 2.

3. Regulatory capital & Ratio

3.1 Capital metrics under the Basel framework

Regulatory capital is calculated and managed according to Basel regulations and used to determine BIS Ratios, BIS Ratios compare eligible CET1 capital, tier1 Capital and total capital with BIS risk weighted assets.

Risk weighted asset(standardised approach)	Risk weighted exposrue	Risk weighted asset category		Adjusted RWA
Property & Equipment	4,699	100%		4,699
Intangible assets	727	100%		727
Debtor	62,995	100%		62,995
Prepayment	50,671	100%		50,671
Bank	2,084,990	20%		416,998
VAT	13,631	100%		13,631
Total risk weighted asset				549,721
Operation risk(average gross income of previous 3 years)	668,867	15%	12.5	1,254,125
Total adjusted RWA (A)				1,803,846
Eligible capital(USD)	Capital held	Capital adequacy ratio	Requirement	Excess
Total CET1	2,153,241	119.37%	4.5%	114.87%
Tier 1	2,153,241	119.37%	6%	113.37%
Total capital	2,153,241	119.37%	8%	111.37%

BIS eligible capital-Basel Ⅲ

Under BaselⅢ, the capital adequacy requirement is 8% of risk weighted assets.
As at 31 December 2017, Korea Investment & Securities Europe Ltd held 119.37% of the minimum required regulatory capital ratios (excess 111.37%).

4. Remuneration disclosures

The aim of the remuneration code is to ensure that firms have risk focused remuneration policies which are consistent with and promote sound and effective risk management and do not expose the firm to excessive risk.

The board of the parent company, Korea investment & Securities Co Ltd. is responsible for determining the company's remuneration policy and framework.

- All policies and procedures are kept under regular review and as such will be reviewed at least annually by the board of the parent company.

- The implementation of these policies and procedures of the remuneration policy is considered to be fully consistent with and to promote effective risk management and not to expose the company to risks.

In the year to 31 December 2017, Korea Investment & Securities Europe Ltd classified all employees and directors as "Code Staff".

Code staff received a total remuneration of $407,251 of which $394,870 was fixed and the remainder variable. Korea Investment & Securities Europe Ltd. considers that it operates as one business area. All remuneration was paid in the form of cash. During the period there were $12,381 sign-on payment but no severance payments made to employees.