UBK Markets Ltd

“According to Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012”

August 2021

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APPENDIX

“According to Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012”

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1 Introduction

This report comprises the required regulatory disclosures under Capital Requirements Directive IV (‘CRD IV’) and gives further insight into how the Company’s capital management relates to its risk profile, in addition to the disclosures in the Annual Financial Report 2020.

Corporate Information

UBK Markets Limited (the "Company") was incorporated in Cyprus on 15 September 2011 as a private limited liability company under the Cyprus Companies Law, Cap. 113. The principal activities of the Company are the reception and transmission of orders in relation to one or more financial instruments, the execution of orders on behalf of clients, portfolio management services and safekeeping and administration of financial instruments for the account of clients.

On the 14th of December 2012 the Company received authorization from the Cyprus Securities and Exchange Commission (hereafter the “CySEC”) to operate as a Cyprus Investment Firm under CIF license number 186/12 and registration number HE293861.

Specifically, its license includes the provision of the following investment and ancillary services, in the financial instruments specified below:

Investment Services

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients
- Portfolio management
- Provision of investment advice.

Ancillary Services

- Safekeeping and administration of financial instruments, including custodianship and related services
- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- Foreign exchange services where these are connected to the provision of investment services
- Investment research and financial analysis or other forms
- Investment services and activities as well as ancillary services where these are connected to the provision of investment or ancillary services.

Financial Instruments

- Transferable securities
- Money market instruments
- Units in Collective Investment Undertakings (CIUs)

- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash
- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event)
- Options, futures, swaps and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF
- Options, futures, swaps and any other derivative contracts relating to commodities that can be physically settled not otherwise mentioned in paragraph 6 of Pillar III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls
- Derivative instruments, the transfer of credit risk
- Financial contracts for differences
- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures, not otherwise mentioned in this Part, which have the characteristics of other financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognized clearing houses are subject to regular margin calls.

Regulatory framework overview

This report has been prepared in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the "Regulation") and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (the 'CySEC') for the Prudential Supervision of Investment Firms.
The Directive is based on three pillars:

- Pillar I ('minimum capital requirements') defines rules for the calculation of credit, market and operational risk
- Pillar II ('supervisory review') requires investment firms to estimate their own internal capital requirements through an Internal Capital Adequacy Assessment Process ('ICAAP')
- Pillar III ('market discipline') covers transparency and relates to the obligation of investment firms to publicly disclose information with respect to their risks, their capital and the risk management structures, policies and procedures they have in place.

The Company has prepared these disclosures in accordance with the requirements of Part Eight of the Regulation.

The Regulation provides that an investment firm may omit one or more of the disclosures if it believes that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, it has stated this in the document.

The Regulation also permits investment firms to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The European Banking Authority ("EBA") defines proprietary as "…if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an investment firm's investments therein less valuable." Confidential information is defined as: "Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an investment firm to confidentiality." Where the Company has omitted information for either of these two reasons, it has stated this in the relevant section and the reasons for this.

Regulatory Developments

The capital adequacy and overall risk management requirements that currently apply to the Company under the CRR and CRDIV prudential framework, will be replaced by amended prudential rules established by the EU Regulation 2019/2033 ("Investment Firm Regulation" or "IFR") and the EU Directive 2019/2034 ("Investment Firm Directive" or "IFD"), which shall become applicable on 26th of June 2021.
The new rules introduce changes in the methodologies that EU investment firms are required to apply for calculating their exposures to risk and their capital adequacy ratio and in this respect, the Company is in the process of assessing the impact that these changes are expected to have on its solvency position, in order to take timely action and be in a position to adopt the new rules.

Basis and Frequency of disclosure

This document is prepared according to the Company's Pillar III Disclosure Policy. The Company intends to make its Pillar III disclosures annually in a document other than the financial statements.

The disclosures will be uploaded on the website of the Company where they will be publicly available to view and download.

These disclosures are based on the position of the Company after the completion of the audit for the financial statements as at 31 December 2020.

The Company has commissioned independent auditors (KPMG Limited, Cyprus) to review its Pillar III Disclosures. The Company is required officially the Directive DI144-2014-14 to provide a copy of the auditor's verification report to CySEC within five months of each financial year-end.

Scope of application

The Company is making the disclosure on an individual (solo) basis.

Coronavirus Outbreak

On 11 March 2020, the World Health Organization declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain, and in many jurisdictions, now delay, the spread of the virus, including requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and "locking down" cities/regions or even entire countries. These measures will slow down both the broader Cyprus and world economies and the operations of the Company.

Based on the assessment performed by the management, the aforesaid circumstances can affect the ability of the Company to continue as a going concern due to the significant decline in revenue during the first four months of the following year 2021.
The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment.

In addition, the Company mainly relies on shareholder's contributions and he provides to the Company with the ability to continue its operations, therefore there is no going concern issue.

2 Governance - Board and Committees

The Company recognizes that risk-taking is inherent to its business activities and manages risk with the purpose of reducing risks to the level accepted by the Company and reaching an optimal balance between risk and profitability. Risks are governed by the Board of Directors through the Risk management committee which covers risk management issues. The core risk management tasks are carried out by an independent Risk Management function.
The Board of Directors has responsibility for the overall risk management and assessment. To this effect, the Board is responsible for identifying, assessing, monitoring and controlling each type of risk on a continuous basis.

The major duties of the Board of Directors with respect to the management of risks may be summarized as follows:

- Assess on a continuous basis the effectiveness of the policies, arrangements and procedures in place.
- Decide on the Company's risk bearing capability and strategy (i.e. ensuring they are on the same page in terms of appetite for risk in executing the company's strategy and making sure the stakeholders understand the stance of the company);
- Review the Risk Assessment Report prepared by the Risk Manager and take appropriate action where necessary.
- Ensure that the Company has the ability to cover its financial needs and capital requirement at any time.

2.1 Board Recruitment Policy

The selection criteria for Board Members are based on their financial and other industry experience as well as any academic and / or professional qualifications. All board members must be of good repute and possess impeccable integrity. Towards that end UBK Markets Ltd aims to verify the integrity of directors during the selection process.

The above selection criteria apply to both executive and non-executive board members; however, the later are also required to prove their independence from the company's operating activities, in order to safeguard their unbiased opinion.

Because of its small size and nature of operations, the sole shareholder and beneficial owner of UBK Markets Ltd is actively involved in the Board Member selection process.

2.2 Information flow on risk to the management body

The information flow on risk to the management body is achieved, inter alia, through the following reports that are prepared once a year:

Report	Prepared by	Frequency	Report received by
Risk Management	Risk Manager	Annually	Board of Directors
Compliance	Compliance Officer	Annually	Board of Directors
Internal Audit	Internal Auditor	Annually	Board of Directors
AML	AML officer	Annually	Board of Directors
Suitability Report	External Auditor	Annually	Board of Directors

Additionally, the Board of Directors receives all the minutes of the Risk management committee as well as financial reports at regular intervals and has full access on real time accounting data at all times.

2.3 Board Diversity Policy

UBK Markets Limited recognizes and embraces the benefits of having a diverse Board as a means of enhancing and securing the quality of its performance. The Board Diversity Policy aims to set out the approach for achieving diversity of the board of directors of the company, within the reasonable limitations deriving from the small size and nature of operations.

A truly diverse Board will include and make good use of differences in their skills, regional and industry experience, background, race, gender and other distinctions between Directors. These differences are considered when determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires in order to be effective.

The Current Board composition reflects this by including Directors with a diverse skills set.

2.4 Number of directorships held by members of the board

The table below provides the number of directorships a member of the management body of the Company holds at the same time in other entities. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below.

It shall be noted that, the Company is not considered significant in terms of its size, internal organization and the nature, scope and complexity of its activities.

Name	Position with UBK Markets Ltd	Directorships - Executive in other companies	Directorships – Non Executive in other companies
Aleksandr Kazak	Executive Director	-	-
Aleksandr Kud	Executive Director	2	-
*Maksim Saltykov	Non-Executive Director	1	-
George Demetriou	Non-Executive Director	2	-

*Maksim Saltykov was appointed to the Board on 1 June 2020.

Note: The information in this table is based only on representations made by the Company.

2.5 Risk Management Committee

The Risk Management Committee is primarily responsible for managing and accessing the various risks faced by the Company as a result of the operations it performs. It is also responsible for setting out, approving and regularly updating the Company's risk strategy as well as for monitoring all risks on an ongoing basis. The Risk Management Committee's main responsibilities can be summarized as follows:

- Ensure the efficient management of the risks inherent in the provision of the investment services to clients as well as the risks underlying the operation of the Company
- Monitor and control the Risk Manager in the performance of its duties
- Establish, implement and maintain adequate risk management policies and procedures which identify the risks relating to the Company's activities and processes
- Monitor the adequacy and effectiveness of the risk management policies and procedures
- Monitor the investment risks undertaken by the Company and by each client on an individual basis.

The Risk Management Committee meets at least annually, with additional meetings held where required.

As per 31 December 2020, the Company's Risk Committee included the Company's Risk Manager as well as George Demetriou, Independent Non-Executive Director.

3 Risk Management Objectives and Policies

Risk Management Framework:

The Company's risk management framework aims to establish, implement and maintain adequate policies and procedures designed to manage any type of risks relating to the Company's activities. The current risk management framework sets the process applied in the activities of the Company, designed to identify potential events that may affect its business, to manage risks to be within its risk appetite, and to provide reasonable assurance regarding the achievement of its mission and its objectives.

Within the Company's risk management framework there are structures that provide for the validation role of risk management, compliance and internal audit functions. Even though these are distinct functions in the Company's structure and they perform very specific duties in the overall risk management framework, there is a considerable degree of overlap and intersect present.

Taking into account the nature, scale and complexity of the business of the Company, and the nature and range of investment services and activities undertaken in the course of this business, the integrated objective of these distinct functions is to enhance the accuracy and overall effectiveness of the Company's risk management and monitoring structure.

Internal Control Functions

The Company has the following control mechanisms to ensure its proper functionality:

- Risk Management department
- AML and Compliance function (outsourced)
- Internal Audit (outsourced).

3.1 Risk management department

The Company recognizes that risk-taking is inherent to its business activities and outlines the following main types of risks: credit (counterparty and industry risk), market (FX risk), business (including business continuity and regulatory risk, reputational and operational risks. The main objective of risk management is reaching an optimal balance between the level of risk and profitability. Risk management reduces risks to the level accepted by the Company.

The Company establishes the risk management function which includes monitoring of risk taking activities, upholding relevant policies and procedures and distributing risk related reports.

The Company's Risk Manager, heads the Risk Management department which operates independently.

The Company has formal procedures for changing policies and procedures. As they become outdated over time, they are updated so that they cannot be replaced by informal practices.

Risk identification is a key component of effective risk management and control. Every employee is responsible for identifying external and internal risks to the business in a timely manner. Further risks are assessed to determine their likelihood of being realized, possibility of impact and risk magnitude/risk rating under different scenarios and events.

The risk is continuously monitored and managed.

Risk Manager

The Risk Manager has responsibilities for the management of credit, market and operational risks as well for the comprehensive control of risk and continuing development of methods for risk measurement. In addition is responsible to monitor, analyze and report risk on a comprehensive basis and prepare the following reports:

- In the event of any deficiency, a report to the Board of Directors indicating whether the appropriate remedial measures have been take to remedy the deficiency in question;
- On a frequent basis and at least annually, a report to the Board of Directors indicating whether the appropriate remedial measures have been taken in the event of any previously identified deficiencies.

3.2 AML and compliance function

The company's Money Laundering Compliance Department and Compliance Department are combined. Anti-Money Laundering & Compliance Officer is an independent function that is outsourced and reports directly to the company's Board of Directors. The main responsibilities of the Compliance Officer are the following:

- Prepares the internal procedures manual for the prevention of money laundering and terrorist financing and describes and designates the responsibility borderlines of each department involved
- Develops and prepares the customer acceptance policy and submits it to the Board of Directors for consideration and approval.
- Prepares a risk management procedures manual in relation to preventing money laundering and terrorist financing.
- The Officer obtains and utilizes, the county assessment reports on money laundering issued by the Financial Action Task Force, regional international bodies, Moneyval Committee and the International Monetary Fund and the World Bank.
- Performs Anti-Money Laundering (AML) and Know-Your-Customer (KYC) procedures. The procedures in place are described in the separate document "Manual for the prevention of Money Laundering" (the "AML manual").
- Provides advice and guidance to employees as appropriate on money laundering matters
- Maintains registers relating to money laundering
- In case the officer decides not to notify MOKAS, then he/she explains the reason for such a decision on the "Money Laundering Compliance Officer's Internal Evaluation Report

- Makes recommendations and revise policies to screen transactions for customers or transactions the Company deems to be of significantly high risk.

  The main responsibilities of the Compliance Officer are the following:
  - Supervision of the staff and company activities with the aim of monitoring the adherence to the legislative framework that governs the company, the identification of possible divergence from the applicable procedures and rules and the undertaking of proper measures for the prevention of relevant errors.
  - Weekly monitoring of the website of the regulatory authority and/or any other transmission mechanism for changes in legislation that should be reflected in the practices of the company. If changes in legislation necessitate the change of the internal operations manual, then the compliance officer is responsible for presenting such proposals to the Board of Directors in a timely manner and informing employees of the changes and their impact.
  - Remains available at any time to all personnel who will be able to discuss any matter arising confidentially
  - Continuously supervises and evaluates the compliance mechanism and presents proposals for the improvement of their effectiveness to the Board of Directors and submits reports with the results of frequent checks to the Board of Directors.
  - Checks the degree of conformity of the company to the indications of every nature of control (internal auditors, external auditors-independent certified auditors, supervising authorities, tax authorities etc.)
  - Communicates changes in the manual to employees in writing.
  - Prepares at least annually and submits the compliance review to CySec.
  - Maintains various registers e.g. reports submitted to CySec

3.3 Internal Audit

The Internal Audit function is outsourced. Internal audit function aim is to ensure compliance of the different units of the company with the manual and its procedures in place and relevant company decisions taken. The internal auditor(s) that the company contracts disposes of adequate knowledge in respect of the capital market and financial issues as well as in connection to the institutional framework governing the company's operation, and the requisite experience.

The Internal auditor is allowed full access to the software and to all manners of documents, files and data of the company and will receive all necessary assistance by the employees and members of staff in the course of the exercise of their duties.

The conclusions of the regular or extraordinary audits are reduced to writing and submitted in the form of a report to the BoD alongside with possible suggestions in respect of any further action to be taken by the company, at least annually.

4 Board declaration – Adequacy of risk management arrangements

The Board of Directors is ultimately responsible for the risk management framework of the Company. The risk management framework is the totality of systems, structures, policies, processes and people within the Company that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the Company's operations.

The Board of Directors provides an annual declaration on the adequacy of the Company's risk management arrangements and provides assurances that the risk management systems in place are adequate in relation to the Company's strategy and risk profile.

5 Internal Capital Adequacy Assessment Process

Capital adequacy is monitored by the Company and quarterly reporting is provided to the Board and to CySEC. In addition, capital planning forms a key element of the Company's budgeting, whereby the Company prepares a forward looking capital plan which is approved by Board. The capital plan ensures that the Company has sufficient Own Funds to support the strategic actions. The Internal Capital Adequacy Assessment Process ("ICAAP") considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against them both currently and in the future.

6 Risk Statement

The Company's Risk Statement is provided in Annex I. This is approved by the Board of Directors and describes the Risk Appetite and its link to the overall strategy.

7 Principal Risks

The principal risks that the company is exposed to areas follows:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

7.1 Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has no significant concentration of credit risk. However, the Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

7.2 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The following are the contractual maturities of financial liabilities, excluding estimated interest payments as at 31 December of 2020:

	Carrying amounts ($'000)	Contractual cash flows ($'000)	12 months or less ($'000)
Other Payables	50	50	50

7.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency.

The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

7.4 Operational Risk

Operational risk is defined as the 'risk of loss resulting from inadequate or failed internal processes, people and systems of from external events'. Major sources of Operational risk include inadequate operational process, human error and dependence on key service providers. As the Company relies on a small number of key employees and on the expertise of the Board of Directors operational risk is high.

8 Capital Base

The Capital Base of the Company as at 31 December 2020 consisted solely of Common Equity Tier 1 (CET1) capital i.e. wholly paid up share capital and retained profits net of dividends. The investor’s compensation fund and the book value of intangible assets are deducted in arriving at Tier 1 capital.

CySec requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8% and any time may impose additional capital requirements for risks not covered by Pillar I. As at 31 December 2020 the capital adequacy ratio of the Company was 13,91%.

The following table shows a breakdown of the Own funds of the company as at 31 December 2020:

Table 7.1: Capital Base	**31 December 2020 ($ ‘000)**
Tier 1 Capital	
Share Capital	2
Share premium	2.476
Retained Earnings	(2.795)
Loss for the audited period	(351)
Other instruments eligible as capital	995
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(74)
Total Common Equity Tier 1 Capital	**253**

Retained Earnings

For the year ended 31 December 2017 an amount of c. $98 thousand, that has been recognized by the Company as trading income/revenue, could not be sufficiently verified by the external auditors due to lack of evidence, as stated in the audit opinion for 31 December 2017. As a result this amount was excluded from the calculation of the Company’s Own Funds stated in this disclosure document (specifically, from retained earnings), although it is included in the retained earnings as per the audited Financial statement for the financial year 2020.

9 Capital Requirements

The Company assesses its needs under Pillar I for credit, market and operational risk. The CET1 ratio is the CET1 capital of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks. The Tier 1 ratio is the T1 capital of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks and the total capital ratio is the own funds of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The total capital requirements of UBK Markets Limited, which are calculated based on the maximum of the operational risk exposure using the Fixed Overhead method and the total of credit and market risk exposures as at 31 December 2020, amounted to 146 USD thousand and resulted to the following capital adequacy ratios:

Capital Ratios	
CET1 ratio	13,91%
T1 capital ratio	13,91%
Total Capital ratio	13,91%

Table 8.1: **Capital Requirements**		**31 December 2020 ($ '000)**	
Risk Category	**Approach**	**Pillar 1 Capital Requirement**	**Pillar 1 Risk Weighted Assets**
Credit Risk (CR)	Standardized Approach	19	239
Market Risk (MR)	Standardized Approach	17	206
Operational Risk (OPR)	Fixed Overheads	146	1.819
Total Capital Requirement MAX((CR+MR);OPR)		**146**	**1.819**

Credit Risk Capital Requirements

The Company follows the Standardized Approach for the calculation of the minimum capital requirements for credit risk.

Table 8.1.1 below presents the allocation of credit risk by exposure class as at 31 December 2020:

Table 8.1.1: **Exposure Classes and Minimum Capital Requirements**		
	Risk Weighted Assets ($000)	**Minimum Capital Requirements** ($000)
Institutions	68	5
Corporates	30	2
Other Items	141	12
Total	**239**	**19**

Table 8.1.2 below outlines the Company's original exposure amount and average exposure by exposure class, for the year ended 31 December 2020. The Company did not make use of any credit risk mitigation techniques:

Table 8.1.2: **Exposure by Asset Class**		
	Original exposure amount, net of specific provisions ($000)	**Average exposure** ($000)
Institutions	233	138
Corporates	26	12
Other Items	142	186
Total	**401**	**336**

Table 8.1.3: below analyses the Company's credit risk exposures by residual maturity as at 31 December 2020:

Table 8.1.3: **Exposure Classes and Residual Maturity**				
	Maturity ≤ 3 months	**Maturity > 3 months**	**Unidentified Residual Maturity**	**Total**
<u>Exposure Class</u>				
Institutions	233	-	-	233
Corporates	26	-	-	26
Other Items	142	-	-	142
Total	**401**	**-**	**-**	**401**

Table 8.1.4 presents the geographic distribution of the Company's exposures, by exposure class as at 31 December 2020:

Table 8.1.4: Exposure classes by Country				
<u>**Exposure Class**</u>	**Cyprus** **($ '000)**	**UK** **($ '000)**	**Other** **($ '000)**	**Total** **($ '000)**
Institutions	226	7	-	233
Corporates	17	-	9	**26**
Other Items	142	-	-	142
Total	**385**	**7**	**9**	**401**

Table 8.1.5 presents the breakdown of the Company's exposures into industry sectors, analysed by exposure class as at 31 December 2020:

Table 8.1.5: Breakdown of Exposures into Industry			
<u>**Exposure Class**</u>	**Financial & Insurance** **($ '000)**	**Other** **($ '000)**	**Total** **($ '000)**
Institutions	233	-	233
Corporates	9	17	26
Other Items	-	142	142
Total	**242**	**159**	**401**

***Use of External Credit Assessments Institutions' (ECAI) Credit Assessments for the determination of Risk Weights*.**

For rating its credit risk exposures, the Company uses the credit ratings of Standard & Poor's.

Exposures to rated institutions are risk weighted based on the credit assessment of the institution itself and the residual maturity of the exposure as per Article 120 of CRR. Exposures to unrated institutions are assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned, as specified in Article 121 of CRR. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favorable risk weights of 20% if specific conditions are met.

Exposures to corporate clients were risk weighted by 100% risk factor.

The Other Items category includes mainly plant and equipment and VAT refundable. A risk weight of 100% was applied to the above items and 0% risk weight for petty cash.

Table 8.1.6: General ECAI association with each credit quality step

Credit Quality Step	S&P's Rating	Institutions Risk Weight		Sovereigns Risk Weight	Corporate Risk Weight
		Residual Maturity up to 3 months	Residual Maturity more than 3 months		
1	AAA to AA-	20%	20%	0%	20%
2	A+ to A-	20%	50%	20%	50%
3	BBB+ to BBB-	20%	50%	50%	100%
4	BB+ to BB-	50%	100%	100%	100%
5	B+ to B-	50%	100%	100%	150%
6	CCC+ or lower	150%	150%	150%	150%

The company has used the credit step mapping table below to map the credit assessment of S&P's to Credit Quality Steps ("CQS").

Table 8.1.7: Exposure to Institutions by CQS

Credit Quality Step	Exposure values before credit risk mitigation ($ '000)	Exposure values after credit risk mitigation ($ '000)
CQS 5	217	217
Unrated	184	184
Total	**401**	**401**

Operational Risk Capital Requirements

The Company falls under Article 95(1) of CRR and therefore the calculation of the capital requirements for operational risk is based on the fixed overheads approach. Under this method, the Company calculates its total Risk Weighted Assets as follows:

Total Risk Exposure Amount = max [total risk exposure amount (excluding Operational Risk); Fixed Overheads of the preceding year x 12.5 x 25%]

The following table shows the calculation of the capital requirements for Operational Risk based on the fixed overheads methodology.

Table 8.2: Operational Risk Capital Requirement – Fixed Overhead Approach

Type of Risk	Risk Weighted Assets ($ '000s)
Credit Risk	239
Market FX Risk	206
Operational Risk (Fixed Overheads)	1.819
Total Risk Weighted Assets as per Article 95(2) of the Regulation	**1.819**

Based on the above, the total risk weighted assets due to Fixed Overheads amounts to 1.819 USD thousand.

Market Risk Capital Requirements

The Company does not trade on own account. As a result, it does not have a trading book.

The Company calculates its capital requirements on FX risk only. As at 31 December 2020, the Company's capital requirement against FX risk amounted to 16 USD thousand.

Large Exposures

As at 31st December 2020, the Company's exposure to connected entities of its shareholder(s) and director(s), was 3,72% of the Company's own funds respectively. The said exposure exceeded the:

- 2% large exposure limit set by point (h) of paragraph 61(1) of CySEC Directive 144-2014-14 & 14(A) with regards to a CIF's exposure to its shareholders with more than 10% holding of its share capital, and their connected persons.
- 1% large exposure limit set by point (c) of paragraph 61(1) of CySEC Directive 144-2014-14 & 14(A) with regards to a CIF's exposure to its directors and their connected persons.

The receivable amount from its related entity relates to liquidator services which were repaid by the Company on behalf of the related entity. In subsequent period, the related entity set off this liability in full.

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10 Remuneration Policy

The remuneration policy of the Company is set by the Company's Senior Management and the Board of Directors. Decisions with regards to remuneration levels and salary increases of employees are taken by the Executive Directors of the Company, in consultation with the departmental heads. Due to its limited size the Company currently does not have a remuneration committee.

Remuneration Components

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's rank in the Company and professional activity as well as market practice.

The seven remuneration components are:

- Fixed remuneration (including fixed supplements)
- Performance-based remuneration (variable salary, as described hereinafter)
- Deferred compensation
- Workers' compensation and sick leave schemes
- Statutory pension contributions and schemes
- Other benefits
- Severance payment (early termination of employment).

The Company ensures that the there is no variable components to the remuneration package except for the annual bonus, which is paid based on the Annual Employee Appraisals.

The **fixed remuneration** is determined on the basis of the role of the individual employee, including responsibility and job complexity, performance and local market conditions.

The **performance-based remuneration** motivates and rewards high performers who strengthen long-term customer relations, and generate income and shareholder value. The Board of Directors has determined that there will be no performance-based remuneration relative to the fixed remuneration.

Deferred compensation is an arrangement in which a portion of an employee's income is paid out at a later date after which the income was actually earned. Examples of deferred compensation include private provident funds, retirement plans and employee stock options. The primary benefit of most deferred compensation is the deferral of tax to the date(s) at which the employee actually receives the income. The Company presently does not support any form of deferred compensation, private pensions, retirement plans or employee stock options.

Workers compensation and sick leave schemes guarantee employees a basic cover in the event of illness or death. The workers' compensation schemes of the company's Executive Directors and employees are subject to, and are regulated by applicable laws and regulations in Cyprus. The Company is committed to meeting its obligations under applicable workers' compensation acts which provide medical, rehabilitation, and wage-replacement benefits to individuals who sustain work-related injuries or illnesses while working.

In accordance with applicable laws and regulations in Cyprus, the Company is under no statutory obligation to pay sick pay and sick pay is payable exclusively by the Social Insurance Department. An employee is entitled to receive sick pay for any period of over (three) 3 days in which he is unable to work in accordance at the prescribed statutory rate.

Statutory pension contributions and schemes: According to Social Pension Law there is an obligatory payment out of the General Revenue of the Republic of a pension to individuals residing in Cyprus, satisfy certain residence conditions, who reach the age of 65 and do not have the right to pension or other similar payment from any other source.

Other benefits may be awarded on the basis of individual employment contracts and local market practice. The granting of any such 'other benefits' requires the prior approval of the Board of Directors.

Severance payments are payable in accordance with the relevant employment laws in Cyprus, in particular, the Termination of Employment Law of 1967, as amended. The notice period to be observed in the case of early termination of employment depends on the employee's continuous length of service and is to be calculated in accordance with a Table set out in the Termination of Employment Law of 1967, as amended. Similarly, any severance payments due and or payable in the case of early termination of employment are to be calculated according to years of employment in accordance with a Table set out in the Termination of Employment Law of 1967, as amended. Please note that the Company is not a party to any Collective Bargaining Agreements.

Performance based remuneration

The company will not provide any performance-based remuneration or commissions to employees. The Company will have no performance-based commissions, ensuring its compliance with the local and international Laws and Regulations, promoting sound risk management.

Discretionary annual appraisal scheme for all departments

The discretionary annual bonus scheme of the Company is set by the Company's Senior Management and the Board of Directors. Decisions with regard to the discretionary annual bonus scheme are taken by the Executive Directors of the Company, in consultation with the departmental heads. Participation to the scheme is subject to certain conditions set in this section of the Report.

Factors that the company considers when paying a discretionary Annual Bonus based on the Employee's Appraisal:

- Quality/accuracy of work
- Dependability
- Punctuality
- Communication skills
- Ability to work as part of a team
- Compliance with company procedures
- Progress made toward professional growth
- Problem-solving skills.

Generally, the discretionary annual bonus will not exceed 20% of the employee's fixed salary, but it may be higher for selected employees. Discretionary annual bonuses are granted to the individual employee on the basis of compliance with the employee's performance, in accordance with the criteria described above.

Risk takers and control functions

The company will minimize the risk of employing risk takers by not providing any variables or performance based remuneration which is directly relevant to the specific performance of each employee connected to any investment service or financial instrument, thus minimizing the company's exposure to any conflicts of interest which may arise from the employees' interest over the best interest of client. The Board of Directors will take measures to identify if there are any employees who may take material risks on behalf of the Company, such as employees investing Company funds and/or employees who monitor compliance with risk taking limits.

Other employees with a material impact on the Company's risk profile are also subject to the stricter remuneration conditions.

Employees in control functions, including legal, Compliance, Finance and Risk Management are not eligible for performance-based pay. The control function of Internal Audit is outsourced, and the fee does not include any variable component.

Employees in control functions receive remuneration in the form of fixed salaries only. The Company ensures that employees in these functions receive competitive remuneration.

Remuneration of the Non-executive members of the Board of Directors

Non-executive members of the Board of Directors received a fixed fee and are not covered by incentive programs or receive performance-based remuneration.

Remuneration of Executive Directors

The remuneration of the Executive Board Members consists of fixed pay and incentives programs. Executive Board Members are also entitled to a free phone and other fixed benefits. Their performance is assessed once a year based on a written performance agreement containing both financial and non-financial goals.

The table below provides 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.

Table 9.1: Aggregate Remuneration by Senior Management, Heads of Departments & Directors and Other Staff for the year 2020				
Role	**No. of employees**	**Fixed ($ '000)**	**Variable ($ '000)**	**Total Remuneration ($ '000)**
Senior Management – Directors	2	120	-	120
Heads of Departments	3	95	-	95
Non-Executive Directors	2	11	-	11
Total	7	226	-	226

Notes:

1. Due to the size of the company, the remuneration was not broken into business area
2. The Company presently does not support any form of deferred compensation, private pensions, retirement plans or employee stock options.
3. During 2020 the Company had no sign-on or severance payments and no deferred remuneration has been awarded.

Due to the size of the company, the remuneration was not broken into business area

Annexes

Annex I – Board Approved Risk Statement

The Company's main strategic objective is to operate with a strong customer focus and to provide clients with the best Forex online trading solution. The current objectives (for the near future) are to further develop and refine their product iPAMM "intelligent Percent Allocation Management Module" which will help increase trading volume and boost the number of existing clients. The Company is currently trying to enter new markets, and, towards that end, they are currently in the process of hiring additional sales professionals. By the end of the year the Company plans to have a substantial number of new clients form EU member states and third countries.

The Company is using a trading platform that was developed "in house".

The Company has negotiations with different additional liquidity providers to improve their final liquidity for their clients. In addition, the Company is developing “in house” their own aggregator which will help them connect more liquidity providers.

The aforementioned objectives are pursued within defined Risk boundaries. The Company's Risk Exposure is acceptable and confined within reasonable Risk limits, due to the small size and mode of its operations (STP Broker).

The Board constantly monitors risk exposures, so as to determine that the level of risk that the company is exposed to at all times is acceptable.

The key risks faced by the company, with their subsequent risk classification, at 31 December 2020 were, in the Board’s opinion, as stated in the below table:

	Risk Area	Comment	Risk Classification at 31.12.2020
Market Risks	Liquidity Risk	Low as the company does not have either material liabilities with third parties or any huge receivables from clients or other parties. Sufficient cash reserves and own funds in excess of the minimum required capital are maintained at all times	**L**
	Interest Rate Risk	Remote, as the company has neither any interest bearing assets or material interest bearing liabilities	**L**
	Client Default Risk	Low, as client losses cannot exceed the deposits of a client, clients will be required to lodge fund prior to trading (margin call)	**L**
Other Risks	Reputational Risk	Possible to low, as the board undertakes all necessary measure to safeguard against reputational risk	**L**
	Key Client Risk	Low - as the company plans to have a diversified client base	**L**
	Compliance Risk	Unlikely, as the company is committed at adhering with all rules and regulations that govern its activities	**L**

Annex II – Balance sheet reconciliation

Balance Sheet Description	Amount ($'000)
Share Capital, as per published financial statements	2
Share Premium, as per published financial statements	2.476
Retained Earnings, as per published financial statements	(2.795)
Profit & Loss, as per published financial statements	(351)
Other instruments eligible as capital	995
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(74)
Total Own Funds	**253**

Annex III – Own funds disclosure template

At 31 December 2020	Transitional Definition	Prescribed residual amount of Regulation (EU) No 575/2013	Full - phased in Definition
At 31 December 2020	$'000	$'000	$'000
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and the related share premium accounts	2.478		2.478
Retained earnings	(2.795)		(2.795)
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(351)		(351)
Funds for general banking risk	995		995
Common Equity Tier 1 (CET1) capital before regulatory adjustments	327		327
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets (net of related tax liability)	-		-
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(74)		(74)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-		-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(74)		(74)
Common Equity Tier 1 (CET1) capital	253		253
Additional Tier 1 (AT1) capital	-		-
Tier 1 capital (T1 = CET1 + AT1)	253		253
Tier 2 (T2) capital	-		-
Total capital (TC = T1 + T2)	253		253
Total risk weighted assets	1.819		1.819
Capital ratios and buffers			
Common Equity Tier 1	13,91%		13,91%
Tier 1	13,91%		13,91%
Total capital	13,91%		13,91%

Definitions:

- The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total risk weighted assets for covering Pillar 1 risks.
- The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total risk weighted assets for covering Pillar 1 risks.
- The Total Capital ratio is the own funds of the Company expressed as a percentage of the total risk weighted assets for covering Pillar 1 risks.