HF Markets
HF Markets (Europe) Ltd

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HF Markets (Europe) Ltd

(CIF Licence No. 183/12)

Pillar III Disclosures and Market Discipline Report

May 2021

DISCLOSURE

The Pillar III Disclosure and Market Discipline Report for the year 2020 has been prepared by HF Markets (Europe) Ltd as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive DI144-2014-14 issued by the Cyprus Securities and Exchange Commission.

HF Markets (Europe) Ltd states that any information that was not included in this report was either not applicable on the Company's business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.

HF Markets (Europe) Ltd is regulated by the Cyprus Securities and Exchange Commission under License number ***183/12****.*

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1. INTRODUCTION

1.1. Corporate Information

Principal Activities

HF Markets (Europe) Limited (hereafter the "Company") is authorized and regulated by the Cyprus Securities and Exchange Commission (hereafter "CySEC") to operate as a Cypriot Investment Firm (CIF) under the license number 183/12.

The Company's CIF authorisation was granted on the 20th of November 2012 and it was activated by the Company on the 6th of March 2013. On the 12th of July 2013, the Company's CIF authorisation was amended to include the investment service of investment advice and on the 16th of January 2014 it was amended to include the ancillary service of foreign exchange services where these are connected to the provision of investment services. The latest extension of the Company's licence was on 21 January 2016, when the licences for the investment services portfolio management and dealing on own account were granted as well as the licence for the ancillary service of investment research.

Thus, the Company currently offers the following investment and ancillary services, as per the Investment Services and Activities and Regulated Markets Law (hereafter the "Law"):

Investment Services

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of Orders on Behalf of Clients
- Dealing on Own Account
- Portfolio Management
- 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

1.2. Organizational Structure

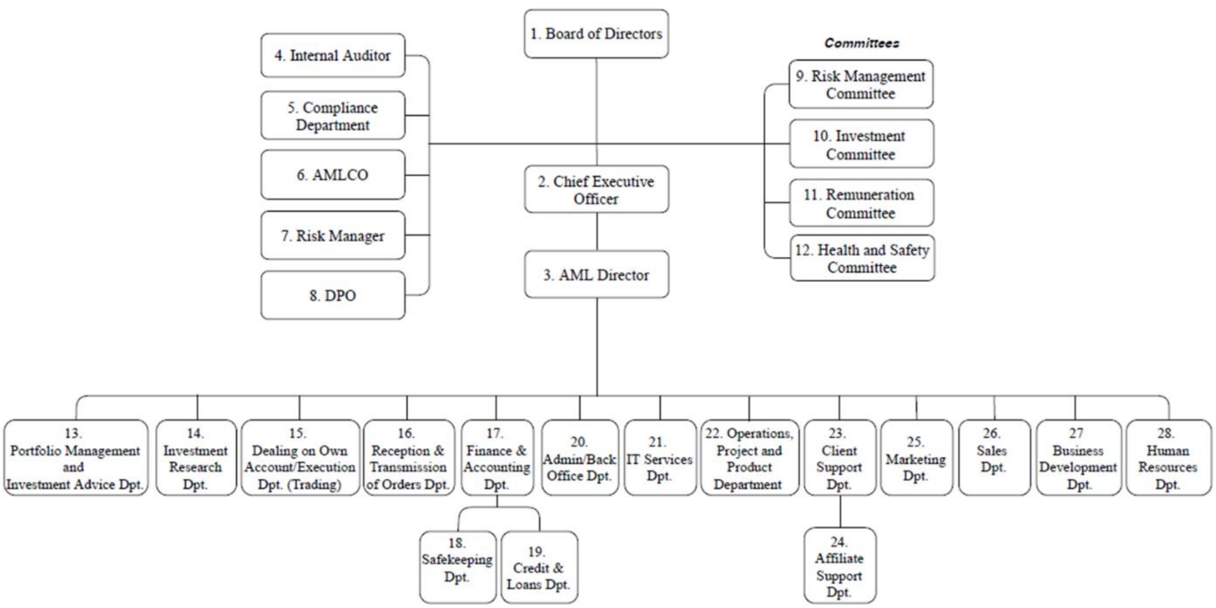

Figure 1 Organizational Structure

1.3. Scope of Application

This report has been prepared in accordance with the requirements 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.

It relates to the year ended 31 December 2020 and is prepared on an individual (solo) basis.

The Company is required to disclose information relating to its risk management, capital structure and capital adequacy as well as the most important characteristics of the Company's corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants.

The Directive is based on three pillars:

- Pillar 1 has to do with the standards that set out the minimum regulatory capital requirements required for credit, market and operational risk.

- Pillar 2 covers the Supervisory Review Process which assesses the internal capital adequacy processes. Investment Firms have to evaluate and assess their internal capital requirements.

- Pillar 3 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 they have in place.

1.4. Disclosure Policy

1.4.1. *Introduction*

The Company has established a Disclosures Policy (hereinafter, the "Policy") in accordance with Article 431(3) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (hereinafter, the "Regulation"). The purpose of this Policy is to set out the procedures of the Company in relation to the public disclosures requirements (Pillar 3 disclosures) emanated from the Regulation, regarding the Company's own funds, risk exposures and risk management processes, capital requirements and capital adequacy.

1.4.2. *Scope and Applicability*

This Policy applies solely to the Company and the information to be disclosed shall be based on the Company's latest annual audited financial statements prepared on individual basis, in accordance with International Financial Reporting Standards ("IFRS").

The applicability of this Policy is reviewed at least annually by the Board of Directors, in the context of an internal review for compliance with the relevant legislation as well as to confirm the appropriateness of the Pillar 3 disclosures and to ensure that they convey the risk profile of the Company comprehensively to market participants.

1.4.3. *Information to be disclosed*

It is the Company's policy to meet all required Pillar 3 disclosure requirements in accordance with the provisions of the Regulation and the relevant legislative requirements set by CySEC.

1.4.4. *Frequency*

The Company shall publish the disclosures required under the regulatory framework on an annual basis. The date of publication of the disclosures shall be in line with the date of publication of the annual audited financial statements, unless otherwise permitted by CySEC. The frequency of the disclosures shall be reviewed whenever there is a material change in the characteristics of the Company's business structure, the approach used for the calculation of capital or regulatory requirements.

1.4.5. *Medium and location of disclosures*

The Company shall publish the Pillar 3 disclosures on its website(s) through which it provides its services. The exact location of the disclosures shall be determined by Management and, unless otherwise specified, the disclosures shall be available in the "About Us" section of the website(s) under the "Regulatory Environment" page.

1.4.6. *Verification of disclosures*

The information to be presented in the Company's Pillar 3 disclosures shall be audited in accordance with the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, as provided for in paragraph 32(1) of Directive DI144-2014-14 for the prudential supervision of investment firms issued from CySEC.

The Company shall submit the external auditors' verification report to CySEC the latest within five months from the end of each financial year.

1.4.7. *Material, non-proprietary and non-confidential information*

The Company shall provide information which is regarded as material, non-proprietary and non-confidential in its Pillar 3 disclosures. In particular, the Company shall disclose information relevant to its governance arrangements and remuneration policy and practices, without prejudice to the provisions of the Processing of Personal Data (Protection of Individual) Law, to the extent required under the Regulation.

1.5. Regulatory Supervision

All CIFs under CySEC's authority must meet the requirements with respect to capital adequacy and market discipline, as per the below legal framework:

- Law 87(I)/2017 regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets (hereafter "the Law")
- Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation ("CRR")
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV ("CRD IV")

2. Governance

2.1. The Board

The Board of Directors has the overall responsibility for the business and it is ultimately responsible for ensuring that the Company complies with its obligations under the Law. The Board shall assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law, and to take appropriate measures to address any deficiencies. The Board shall be responsible for monitoring the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and the prevention of any unlawful transactions, the identification of risks and the timely and adequately flow of information.

The Board of Directors comprises of 3 Executive Directors and 2 Independent, Non-Executive Directors. The Executive Directors shall take part in the day to day operation of the Company and, as appropriate, in the provision of investment services. The Independent, Non-Executive Directors shall monitor the operations of the Company and participate in the various meetings of the Board and will also request and be granted access to information and Reports from the Management of the Company, as necessary. The Chairman of the Board shall be the one of the Independent, Non-Executive Directors of the Company.

2.2. Recruitment Policy

The Recruitment Policy of the Company outlines the measures and procedures to be followed for the recruitment of persons employed by the Company, taking into consideration the provisions of Circular C025 issued from CySEC. In this respect, the Company's employees, as well as the members of the Board of Directors, need to be of sufficient good repute and have integrity, morals and credibility. In addition, they need to have the necessary skills, knowledge and expertise and be able to commit the necessary time and effort for performing their assigned responsibilities. The members of the Board of Directors need to have demonstrated sound business judgment and act with independence of mind during decision making, acting to the best interest of the Company as a whole. The recruitment and appointment of the members of the Board of Directors is subject to the approval of CySEC, following their assessment as "Fit and Proper".

2.3. Diversity Policy

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success.

The Company recognizes the value of a diverse and skilled workforce and management body (including the Board of Directors), which includes and makes use of differences in the age, skills, experience, background, race and gender between them as it recognizes the benefits of having diversity into the Company's business strategy and it is committed to promote a diverse and inclusive workplace at all levels.

The Company considers that the Board currently has a balanced and diverse range of skills, background, knowledge and experience and it aims to have board members with knowledge and experience in operational, corporate governance, financial, IT, software development, risk management, compliance, legal, marketing and sales matters.

The members of the Board collectively possess adequate knowledge, skills and experience to be able to understand the Company's activities, including the principal risks.

The Company devotes adequate human and financial resources to the induction and training of members of the Board, as well as to the rest of the Company's employees.

2.4. Number of Directorships held by members of the Board

The Company considers the provisions of the regulatory framework based on which the number of directorships which may be held by a member of the board of directors at the same time shall take into account individual circumstances and the nature, scale and complexity of the CIF's activities. Unless representing the Republic, members of the board of directors of a CIF that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

(a) one executive directorship with two non-executive directorships;

(b) four non-executive directorships.

For the purposes of the above the following shall count as a single directorship:

(a) executive or non-executive directorships held within the same group;

(b) executive or non-executive directorships held within:

(i) institutions which are members of the same institutional protection scheme provided that the conditions set out in Article 113, paragraph (7) of Regulation (EU) No 575/2013 are fulfilled; or

(ii) undertakings (including non-financial entities) in which the CIF holds a qualifying holding.

Directorships in organizations which do not pursue predominantly commercial objectives shall not count for the purposes of the above requirement. The Commission may allow members of the board of director to hold one additional non-executive directorship.

The Company acts in line with the above mentioned regulatory requirement, taking into consideration the principle of proportionality. In particular, the Executive members of the Board of Directors do not hold any other directorship in another company regulated by CySEC.

The table below indicates the number of directorships held by the members of the Board:

Name	Position in HF Markets (Europe) Ltd	Executive Directorships	Non-Executive Directorships
Georgios Koumantaris	Executive Director	3	0
Diego Alvarez	Executive Director	2	0
Kypros Kyprianou	Executive Director	1	0
Michalis Ioannides	Independent, Non-Executive Director	1	6
Chrystalla Neofytou	Independent, Non-Executive Director	1	3

Table 1 Directorships Summary

2.5. Risk Management Committee

The Risk Management Committee of the Company is established with the view to ensure the efficient monitoring and 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. It is noted that the Committee meets at least annually and reports directly to the Board of Directors.

In particular, the Risk Management Committee is responsible to:

- Scrutinize and decide on various risks associated with the operation of the Company with the view to increase the awareness of, formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company
- Review the risk management procedures in place
- Monitor and control the Risk Manager in the performance of his duties and the effectiveness of the Risk Management function
- Ensure that the Company has clear policy in respect of the assumption, follow up and management of risks duly notified to all interested parties or organizational units of the Company. Specifically, such policy shall ensure that all parties involved in the provision of investment services are aware of:
    - the particular features of each investment service, Financial Instrument, and risk inherent in the provision of the services in respect thereof
    - the interrelation between the volume of the projected returns and the gravity of the risks undertaken by the Company
- Consider, to the extent possible, risk factors affecting costs, the price at which competitors offer the same services, and the cost-benefit ratio for each service, and verify that such information is utilized by the Risk Management function in the carrying out of their duties
- Specifically, with respect to liquidity risk and market risk, review the policies of the Risk Management function on:
    - acceptable maximum risk assumption limits per class of risk

  - break down of such risk limits further where necessary, for example, per class of investment service or Financial Instrument, or Client or market
  - implementing stop loss-control limits
  - following up open positions within the approved limits
- prior to expanding its operations to any new financial instruments or investment services, the Committee shall be satisfied that the Company incorporated such expansion projects into its strategic development plan, located and accurately assessed the inherent risks, by implementing the necessary risk management procedures, and resolving any legal issues associated with the execution of the relevant transactions as well as the issues relating to their monitoring
- ensure the immediate tracking down and scrutiny of important abrupt changes in the Company's financial figures, procedures or personnel, as well as the regular control of the volume and causes underlying deviations between projections and corporate end results, as submitted to the Board, so as to enable the assessment of the performance of each of the Company's separate organizational units by reference to the set targets
- approve Client and counterparty limits
- approve policy description concerning information systems and monitor the information systems in place
- appoint the responsible security user/super user for the provision of access rights to the various database and monitor the security measures in place
- establish policy regarding the amount of information provided to Clients about the nature and risks of Financial Instruments according to the Client classification
- maintain systematic supplier cooperation with the information services end-users in all phases of development, operation and evaluation of the information applications of the Company's system
- supervise the Disaster Recovery Plan

The Committee meets at least quarterly, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager. During 2020, the Risk Committee has met twenty-nine times.

3. Information Flow on risk to the management body

The Board of Directors shall collectively possess adequate knowledge, skills and experience to be able to understand the Company's activities, including the principal risks. In this respect, the Board shall ensure that it receives on a frequent basis, and at least annually, written reports regarding Internal Audit, Compliance, Money Laundering & Terrorist Financing and Risk Management issues. The Board shall also review and approve the Company's Internal Capital Adequacy Assessment Process (ICAAP) report and shall ensure that the ICAAP is used as an internal tool for the assessment of Company's risks and the determination of the internal capital that the Company needs to hold in order to be covered against the risks to which is exposed or might be exposed in the future.

3.1. Regulatory Reporting

In line with the requirements set out in the Law, the Company has been able to maintain a good information flow to the Management body, as it can be seen below:

Report	Description	Responsible Person	Recipients	Frequency
Annual Compliance Report	To inform the Senior Management & the BoD of the Company regarding the Performance of Compliance function during the year	Compliance Officer	BoD, CySEC	Annual
Annual Internal Audit Report	To inform the Senior Management & the BoD of the Company regarding the Internal Auditor during the year	Internal Auditor	BoD, CySEC	Annual
Annual Risk Management Report	Represents the work & activities undertaken by the Risk Manager during the year	Risk Manager	BoD, CySEC	Annual
Pillar III Disclosures (Market Discipline and Disclosure	The Company is required to disclose information regarding its risk management, capital structure, capital adequacy and risk exposures	Risk Manager	BoD, CySEC, Public	Annual
Financial Reporting	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual

Annual Anti-Money Laundering Compliance Report	To inform the Senior Management & the BoD of the Company regarding the Performance of Anti-Money Laundering function during the year	AML Compliance Officer	BoD, CySEC	Annual
Capital Adequacy Reporting	A measure of the CIF's capital. It is expressed as a percentage and is used to monitor and promote the stability and efficiency of financial systems all over the world	Risk Manager / Accounting	Senior Management , CySEC	Quarterly

Table 2 Reporting Summary

4. Risk Appetite Statement

The Company's mission is to be the most reliable broker in the industry in terms of the services that is offering. The Company values consistency in quality of performance and the ability to be trusted by offering various accounts, trading software and trading tools to trade Forex and Commodities for individuals, fund managers and institutional customers. The Company's strategy is pursued within a defined Risk Appetite.

The Board expresses the Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across profit and liquidity.

The set of risk appetite rules support the effective management of company profit volatility within prescribed limits of exposure allowed. The profit volatility limits seek to ensure that the Company remains profitable during harsh economic conditions and that its funds are safeguarded properly with the strategy of diversification.

The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels that indicate when the risk tolerance levels are reached and the corrective action to apply before such levels are reached.

The following table sets out a number of the key measures used to monitor the Brokerage's risk profile:

	Risk Area	Metric	Comment	Measure at 31/12/2020
FINANCIAL RISK	Profitability	Net Margin	The Company has established a set of policies regarding expenditure spending. Such controls contribute to maintaining high profit margins. Current growth keeps the Company's net margin at high levels, which is an indication of competitiveness within the industry.	-3.5%
	Liquidity	Current Ratio	The Current Ratio is an indicator of the Company's ability to repay short term liabilities.	10.13
		Return on Equity	The Company's ratio, suggests that management is efficiently utilizing its equity base providing a better return to shareholders.	-4%
		Risk Diversification Practice	When it comes to the safekeeping of client funds it is common practice to share a percentage of the risk with a market maker. The Company is aware of risks involved against the outsourcing of a diversified deposit program to the Liquidity Provider (market maker), therefore accurate recordkeeping procedures are in place to control such exposure.	N/A

Table 3 Risk Appetite Key Measures

The following set of key risk appetite metrics are utilized to ensure that the Company remains within its risk appetite and are the basis onto which the Internal Capital Adequacy Assessment Process is formed.

		Metric			**Metric**
		CET 1 ratio	**Total Ratio**		**Own Funds**
● **Normal**		> 10%	> 11%		>1,000,000
● **Critical**		10% - 8%	11 % - 10%		730,000 – 1,000,000
● **Crisis**		< 8%	< 9%		<730,000

Table 4 Risk Appetite Metrics

5. Declaration of the Management Body

The Board of Directors has the ultimate responsibility for the risk management framework of the Company, aiming to establish robust risk management practices in all areas of the business for the identification, assessment, monitoring and control of risks that could have a material impact on the Company's operations and capital adequacy.

In addition, the Board of Directors is responsible for the assessment and periodic review of effectiveness of the risk management framework in order to ensure that the level of risk faced by the Company is consistent with the Company's risk appetite and business objectives and that appropriate measures are taken where necessary to address any issues identified.

The Board of Directors considers that the risk management systems and controls put in place are adequate given the Company's risk profile and strategy.

6. Strategies and Processes to Manage Risk

6.1. Risk management framework

In this respect, the Company operates an independent risk management function which is responsible for implementing the risk management procedures of the Company and ensuring that there are properly adopted under the supervision and control of the Risk Manager and the Risk Management Committee. In addition, the Company's Board of Directors approves and periodically reviews the risk management procedures in place taking into consideration the Company's activities and business model.

Risk Management is the process of identification, analysis and evaluation of uncertainty in investment decision-making. As a result, it is treated accordingly; either accepted or mitigated.

Risk management is a responsibility of all, with specific risk responsibilities being allocated to different groups and levels within the firm. Risk management is not a stand-alone discipline but requires integration with existing business processes such as business planning and Internal Audit, in order to provide the firm with the greatest benefits. Risk Management is the culture, processes and structures that are directed towards realizing potential opportunities whilst managing adverse effects. Risk management is a continual process that involves the key steps as indicated at the following figure.

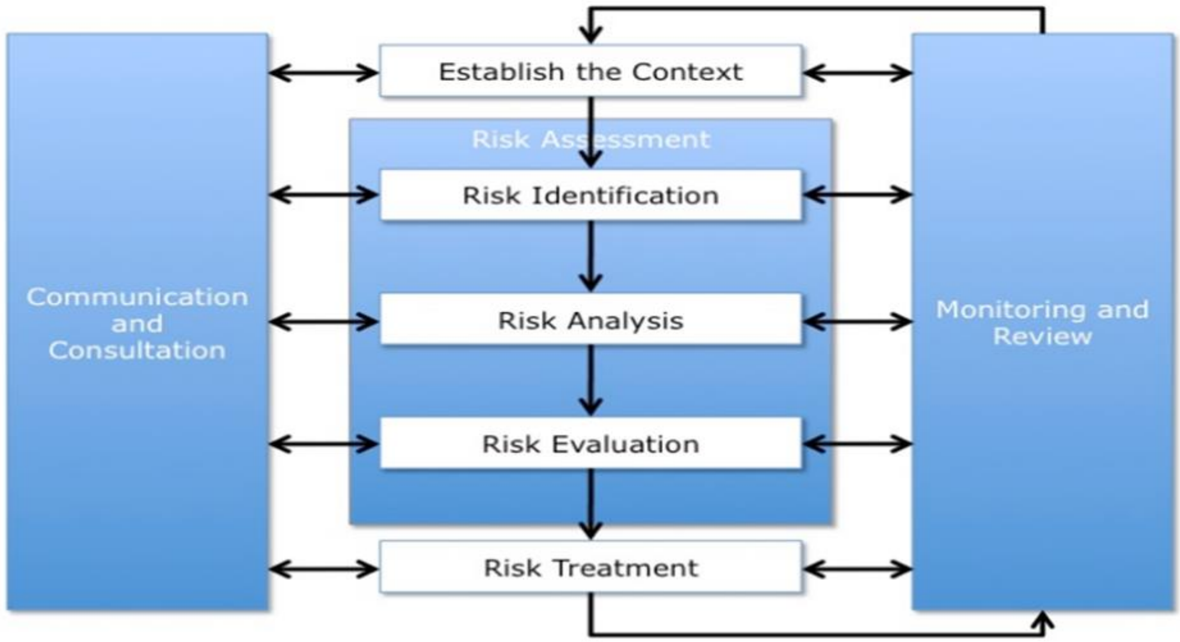

Figure 2 Risk Management Framework

Although this process is conducted across the entire organization on an annual basis, risk management is not solely an annual process. It should be occurring at all times and in relation to all business activities. Therefore, everyone has a responsibility to continually apply this process when making business decisions and when conducting day-to-day management.

6.2. Risk Manager

The Board has appointed a Risk Manager to ensure that all the different types of risks taken by the Company are in compliance with the Law and the obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place. The Risk Manager reports to the Board of Directors and Senior Management of the Company.

Specifically, the Risk Manager is responsible for:

- Implementing the relevant provisions of the Law, relating to risk management issues
- Requiring sufficient information from all the relevant departments of the Company,
- Educating and training the personnel of the Company on risk-related issues

- Examining the financial results of the Company
- Analyzing the market and its trends, from a risk management perspective
- Evaluating how the introduction of any potential new services or activities by the Company could affect the risk management framework of the Company
- Examining the capital adequacy and the exposures of the Company
- Drafting written reports to the Senior Management and to the Board including recommendations as well as indicating in particular whether the appropriate remedial measures have been undertaken in the event of any deficiencies, at least annually. These reports shall be presented to the Board and discussed during its meetings, at least annually.
- Calculating, setting, reviewing, updating and monitoring Client and counterparty limits
- Managing the overall risks faced by the Company, with a particular focus on the Client side risks where fraud, dispute, Client identification and due diligence and funding/deposit risks are handled and monitored accordingly in coordination with the AMLCO and the Administration/Back Office Department, as applicable
- Maintaining a record of all the Clients and counterparties risk and limits involved
- Recommending, providing and supervising policy description concerning information systems (including backup systems that can restore smooth operation in case of failure)
- Monitoring the provision of the ancillary service of granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- With respect to liquidity risk and market risk:
  - defining acceptable maximum risk assumption limits per class of risk
  - breaking down the above risk limits further where necessary, for example, per class of investment service or Financial Instrument, or Client or market
  - implementing stop loss-control limits
  - following up open positions within the approved limits

In addition, the risk manager is responsible for drafting written reports to the Senior Management and to the Board including recommendations as well as indicating in particular whether the appropriate remedial measures have been undertaken in the event of any deficiencies, at least annually. These reports shall be presented to the Board and discussed during its meetings, at least annually.

6.3. Internal Audit Function

The Internal Audit function ensures that there is adequate planning, control and recording of all audit and review work performed, that there is timely reporting of findings, conclusions and recommendations to the Board of Directors, and that matters or risks highlighted in the relevant reports are followed up and resolved satisfactorily. The Internal Auditor reports directly to the Board of Directors through a written internal audit report prepared annually.

The Company's Internal Auditor annually reviews the risk management policies and procedures established by the Company in order to evaluate the adequacy and effectiveness of the Company's internal control systems in relation to risk management.

6.4. Compliance Officer

The Board ensures regulatory compliance through a comprehensive and pro-active compliance strategy. To this end, the Board has appointed a Compliance Officer in order to establish, implement and maintain adequate and effective policies and procedures as well as appropriate systems and controls designed to detect any risk of failure by the Company to comply with its obligations. Further to this, the Compliance Officer is responsible to, put in place such adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively. The Compliance Officer reports to the Senior Management of the Company.

The Compliance Officer is independent and has the necessary authority, resources, expertise and access to all relevant information.

6.5. Money Laundering Compliance Officer

The Board retains a person to the position of the Company’s Money Laundering Compliance Officer (hereinafter the “MLCO”) to whom the Company's employees report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The MLCO belongs to the higher hierarchical levels/layers of the Company so as to command the necessary authority. The MLCO leads the Company’s Money Laundering Compliance procedures and processes and reports to the Senior Management of the Company. In cases where it is deemed necessary, and following recommendations by the MLCO, assistants to the MLCO shall also be appointed.

Once a Company employee has reported his/her suspicion to the MLCO he/she is considered to have fully satisfied his/her statutory requirements, according to the Law 188(I)/2007 and the CySEC Directive DI144-2007-08, as amended.

6.6. Internal Capital Adequacy Assessment Process (ICAAP)

The Internal Capital Adequacy Assessment Process designed and implemented by the Company aims to enhance the link between the Company's risk profile, risk management and risk mitigations systems and its capital. In addition, it facilitates the identification of business, financial and macroeconomic developments that might have a significant influence on the Company's operations and risk profile and enables the application and further enhancement of the risk management and internal control framework.

The Company's ICAAP is used as an internal tool which enables the ongoing assessment of the risks that are inherent in Company's activities and allows the Company to determine the amount of internal capital that needs to hold in order to be covered against the risks it is facing or against the risks to which it may be exposed in the future.

The Pillar 1 minimum capital requirement is used the foundation, reflecting the Company's exposures to Pillar 1 risks, that is, credit risk, market risk and operational risk.

The adequacy of the minimum capital required under Pillar 1 is then assessed, in relation to risks arising from the following three categories:

- Risks covered in Pillar 1 (i.e. credit risk, market risk and operational risk)
- Risk not fully covered in Pillar 1 (e.g. concentration risk which is part of credit risk)
- Risks not covered in Pillar 1 (e.g. liquidity risk, strategic risk, reputation risk)

A comprehensive risk assessment is carried out for the three abovementioned categories of risks, during which a risk profile was determined for each risk (extreme/high/medium/low), based on its anticipated impact and its likelihood of occurrence.

All risks with extreme, high and medium net risk profiles are considered as material risks for the Company and, therefore, they are further analyzed and additional mitigation measures are set, as necessary, by either allocating additional capital or by setting additional internal controls.

The Company has in place an ICAAP report as a result of the above-mentioned requirements.

The ICAAP also serves as a stress testing tool used by the Company to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- Understanding the risk profile of the Company
- The evaluation of the Company’s capital adequacy in absorbing potential losses under stressed conditions (This takes place in the context of the Company’s ICAAP on an annual basis)
- The evaluation of the Company’s strategy. Senior management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows senior

management to determine whether the Company's exposures correspond to its risk appetite

- The establishment or revision of limits. Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios

The ultimate responsibility and ownership of the Company's stress testing policy rests with the Board of Directors. If the stress testing scenarios reveal vulnerability to a given set of risks, the management makes recommendations to the Board of Directors for mitigation measures or actions.

In our ICAAP reports for 2020, no significant risk signals have been detected and the Company was adequately capitalised, however we remain diligent in order to mitigate any unexpected risks.

7. Risk Management Functions

7.1. Credit Risk Management

Credit risk arises when a failure by counterparty, borrower, obligor or issuers (which are referred to collectively as "counterparties") and or customers to discharge their obligations could reduce the amount of future cash inflows from financial assets held at the reporting date. Credit risk arises from cash and bank balances and trade receivables. Also, this risk primarily arises from exposures with credit institutions and investment firms as well as corporate and individual customers. It may also arise as a result of a downgrade in the credit ratings of rated counterparties.

The Company has significant exposure in credit risk which mainly arises from country concentration risk, counterparty concentration risk and sectorial risk. In order to mitigate its credit risk exposure the Company employs a wide range of measures and controls. These include the diversification of the Company's exposures to various credit institutions established in different countries within European Union, the review and assessment on frequent basis of their performance and credit quality, the establishment of counterparty and country limits, the ongoing monitoring of the ageing profile of its receivables as well as the daily monitoring of its exposures taking into account the large exposure limits.

7.2. Market Risk Management

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. Due to its business model, the Company's exposure to market risk arises from its exposure to foreign exchange risk. Foreign exchange risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates.

The Company considers that it has significant exposure to foreign exchange risk which arises from the foreign exchange conversions of assets and liabilities denominated in a currency different than euro, which is the reporting currency of the Company. The Company monitors its exposure to foreign exchange risk on a continuous basis.

In line with the above, the Company has policies to minimize its market risk exposures which are in accordance with the CRR. In particular it follows mitigation strategies in order to minimize the possibility of occurrence of this risk, such as:

- Hedging strategy
- Stop Loss - Limits on trading
- Margin Calls
- Monitoring and controlling effective leverage
- Ongoing monitoring of Market Risk

7.3. Operational Risk Management

Operational risk is the risk of loss arising from inadequate or failed internal procedures, human behaviour and systems or from external events. Operational risk is one of the major risks that the Company is facing where errors, fraud or disruptions to systems and services can have monetary or reputational cost. In particular, the Company is exposed to third party dependency risk, mainly from its dependency to its Liquidity Providers, as well as to availability of data risk, since its type of business is highly dependent on information extracted from its systems and in unexpected cases were such information might become unavailable or lose its integrity, the Company's business may be severely affected.

The Company has policies and procedures in place for monitoring and mitigating its exposure to operational risk, including due diligence procedures for its counterparties as well as procedures for their regular assessment to ensure that its third parties are of high credit standard and have reliable IT systems for delivering their services.

The management of operational risk is geared towards:

- Maintaining a strong internal control governance framework.
- Managing operational risk exposures through a consistent set of processes that drive risk identification, assessment, control and monitoring.

In line with the above, the Company implements the below mitigation strategies in order to minimize its Operational Risks and to develop risk awareness and culture:

- Provide of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities.
- Implement a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives.
- Implement improvements on productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.
- Establish a "four-eye" structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management. The Board further reviews any decisions made by the Management while monitoring their activities;
- Implement improvements on its methods of detecting fraudulent activities;
- Updating its business contingency and disaster recovery plan.
- Use insurance for Professional Indemnity

Finally, the Senior Management employs specialized tools and methodologies to identify, assess, mitigate and monitor operational risk. These specialized tools and methodologies assist operational risk management to address any control gaps. To this effect, the following are implemented:

- Incident collection
- Key Risk Indicators
- Business Continuity Management
- Training and awareness

7.4. Business Risk Management

Business risk is the risk that may cause insufficient profits or even losses to the Company. The Company acknowledges that the business risk could be triggered by numerous factors which may be also correlated with reputation risk. Reputation risk is defined as the current or potential risk relating to earnings and capital, which arises from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, poor customer service, system and/or platform failure, customer complaints and legal actions against the Company.

The Company is significantly exposed to reputation risk, since it is an internet based business. In particular, this risk arises from clients adversely disrupting the Company's reputation through online forums or from competitors' bad practices affecting the FX industry, not only in Cyprus but also worldwide. In addition, reputation risk might arise in case of regulatory actions or fines imposed by the competent authorities. In this respect, the Company has established sufficient policies and procedures for handling clients' complaints in a timely and effective manner, providing the best possible service to clients and taking necessary remedial actions whenever this is deemed necessary. This is in line with the Company’s objective to keep its clients satisfied at all times, so as to avoid any legal actions against it and, therefore, bad reputation. In addition, the Company's Compliance Function strives to ensure that the Company operates according to regulatory requirements in order to minimize the possibility of regulatory fines and also, the Company takes a specifically designed marketing approach to keep its reputation at the desired level.

7.5. Political Risk Management

Political risk is the risk that may affect the Company's business and profitability, as a result of unfavourable political changes or instability in country, where the Company has significant operations. Instability could stem from a change in government, legislation, taxation, other foreign policymakers or a general political problem.

7.6. Liquidity Risk Management

Liquidity risk is the risk that arises when there are no sufficient liquid assets to meet liabilities as they fall due. The Company has insignificant exposure to liquidity risk due to the nature of the Company's business and structure. The Company has mitigating procedures in place by maintaining sufficient cash and other highly liquid current assets and by keeping the majority of its deposits in current accounts for immediate access. Overall the Company's assets are readily available to meet urgent commitments.

The Company has undertaken a specific review of its liquidity risks and believes that it is able to meet its upcoming obligations.

Safeguarding of client Assets

The client assets held in fiduciary capacity are held in segregated accounts in banking institutions.

The Company is taking due care in safeguarding these assets and performs the following mitigation strategies:

- The client assets are held by the Company in a fiduciary capacity and are not included in the Company’s funds nor its financial statements
- The funds are held in client segregated bank accounts
- Frequent reconciliations are performed internally and also from the External Auditors which also are tasked to verify and submit to CySEC annual reports

7.7. Compliance, Reputational and Legal Risks

Compliance risk corresponds to the risk of legal, administrative or disciplinary sanctions or material financial losses, arising from failure to comply with the provisions governing the Company's activities.

Compliance means acting in accordance with applicable regulatory rules, as well as professional, ethical and internal principles and standards. Fair treatment of customers, with integrity, contributes decisively to the reputation of the Company.

By ensuring that these rules are observed, the Company works to protect its customers and, in general, all its counterparties, employees, and shareholders.

The Compliance Officer verifies that all compliance laws, regulations and principles applicable to the Company's services are observed, and that all staff respect the codes of good conduct and individual compliance. His role is explained at section 6.4, above.

Independent compliance "policies" have been set up within the Company's different business lines to identify and prevent any risks of non-compliance.

7.8. Anti-Money Laundering and Terrorist Financing

Money laundering and terrorist financing risk mainly refers to the risk where the Company may be used as a vehicle to launder money and/or assist/involved in financing terrorism.

The Company has in place policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks. Among others, these policies, procedures and controls include the following:

- The adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and

manage the Money Laundering and Terrorist Financing risks faced by the Company
- The adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing risk
- Setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents from independent and reliable sources, third party information)
- Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a Business Relationship or an Occasional Transaction
- Monitoring and reviewing the business relationship or an occasional transaction with clients and potential clients of high-risk countries
- ensuring that the Company's personnel receive the appropriate training and assistance

The Company is frequently reviewing its policies, procedures and controls with respect to money laundering and terrorist financing to ensure top level compliance with the applicable legislation and has assigned a Money Laundering Compliance Officer (MLCO) as described at section 6.5, above.

8. Financial Information

The following information provides a reconciliation between the balance sheet presented in Financial Statements and the balance sheet prepared for prudential purposes.

Balance Sheet Description (as per published financial statements)	**(€'000)**
Share Capital	247
Share Premium	4,223
Retained Earnings b/f	(69)
Other Reserves	1,308
Audited income / (loss) for the year	(224)

Total Equity as per Audited Financial Statements	**5,484**
Intangible assets/Goodwill	19
Deferred Tax assets	-
Adjustments to Own Funds for the purposes of Own Funds	117
Total Own Funds as per CoREP	**5,349**

Table 5 Balance Sheet Description

Country-by-Country reporting

In line with the requirements of paragraph 18 of the Directive please find below the following information for the year end of 2020:

Name	HF Markets (Europe) Limited
Nature of Activities	The principal activities of the Company continue to comprise the provision of services and the foreign exchange trading.
Geographical Location	Cyprus
Turnover	6,433,022
Number of Employees on a full time basis	69
Gross Profit	-284,886
Gross Profit Margin	-4.43%
Public Subsidies received	The Company does not receive any public subsidies, so no such disclosure is necessary.

Table 6 Country-by-Country reporting

Public disclosure of return on assets

The Company's Return on Assets, as at 31 December 2020, calculated in line with paragraph 19 of the Regulation is -4.1%. It is noted that the Net Profit figure taken is after tax.

9. Own Funds

The Own Funds of the Company as at 31 December 2020 consisted solely of Tier 1 capital and are analysed in table below:

Capital Base (€'000)	
Original Own Funds (Tier 1)	**31-Dec-20**
Share Capital	247,000
Share Premium	4,223,000
Retained Earnings b/f	(69,379)
Other Reserves	1,307,732
Audited income / (loss) for the year	(223,892)
Total Own Funds	**5,484,461**

Table 7 Capital Base

Authorized Capital

The authorized capital of the Company as at 31 December 2020 was 247.000 ordinary shares of €1 each.

Capital Adequacy Ratio

The capital (adequacy) ratio is a key metric for a financial institution and is calculated by comparing the institutions' capital base with the sum of risk-weighted assets from 3 major risk categories (credit, market, operational risk). The calculation always follows a strict set of rules defined in CRR. The minimum Total Capital Ratio that must be maintained AT ALL times is 8%.

As at 31 December 2020, the Company's Capital Adequacy ratio was 16.28% based on the end of year audited figures.

10. Capital Requirements

The primary objective of the Company with respect to its capital management is to ensure that the Company complies with the capital requirements regulation imposed by the European Union and regulated by CySEC. Under this framework, the Company needs to monitor its capital base and maintain a strong capital adequacy ratio in order to be able to promote itself as a fully compliant and healthy Company, to support its business and maximize shareholders' value. In this respect, the Capital requirements should not be seen as a restriction of business but rather as proactive risk management imposed to help both the Company and its client base.

The fundamental pillar of the capital adequacy framework, Pillar I, is based on the fact that the Company must have own funds which are at all times more than or equal to the sum of its capital requirements.

In line with CRR, Pillar I sets out the minimum regulatory capital requirements of firms to cover credit, market and operational risk. The minimum capital adequacy ratio an investment firm is required to maintain is set at 8%. Moreover, with the introduction of Basel III/CRR, the minimum capital adequacy ratio has been further defined and fragmented providing more rigorous monitoring of core equity ratio which is set at 4.5% in contrast with the total ratio at 8%.

Additional capital is required due to Capital Conservation buffer which for 2020 amounts to 2.5%. The Capital Adequacy Ratio of the Company on 31st December 2020 was 16.28%.

The BoD, as well as the Risk Manager, monitor the reporting requirements and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company.

The Company manages its capital structure and makes adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

Minimum regulatory capital requirements

The total Risk Weighted Exposures of the Company as at 31 December 2020 amounted to €32,855 thousands and with Pillar II it amounted to €33,448 thousands and are analyzed in the table below:

Capital Requirements Pillar 1	31/12/2020 € '000	
Core Equity Tier 1 (CET 1)	5,349	
Additional Tier 1 Capital (AT 1)	-	
Total Tier 1 Capital	5,349	
Tier 2	-	
Total Own Funds	5,349	
	Risk weighted assets	**Capital Requirement**
	€ '000	**€ '000**
Credit Risk	5,459	437
Market Risk	17,785	1,423
Operational Risk	9,611	769
Credit Valuation Adjustment Risk	-	-
Pillar II Risk	593	47
Total Risk Exposure Amount	32,855	2,628
CET1 Capital Ratio	16.28%	
T1 Capital Ratio	16.28%	
Total Capital Ratio	16.28%	
Total Risk Exposure Amount with Pillar II risk	33,448	2,676
CET1 Capital Ratio	15.99%	
T1 Capital Ratio	15.99%	
Total Capital Ratio	15.99%	

Table 8 Minimum Capital Requirements

The Company follows the Standardized Approach for the measurement of its Pillar 1 capital requirements for Credit Risk and Markets Risk and the Basic Indicator approach for own funds requirement for operational risk, in accordance with the provisions of Article 315 of the CRR Regulation.

10.1. Credit Risk

10.1.1. *General*

Credit risk (including counterparty 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.

Counterparty credit risk arises from credit exposures of open trading positions. Counterparty credit risk is measured using the mark-to-market method. According to this method, the current replacement cost of all derivative financial assets is calculated and adjusted with their potential future credit exposure.

The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

10.1.2. *Capital Requirements*

As part of managing its capital, the Company ensures that its solvency level is always compatible with the following objectives:

- Maintaining its financial solidity and respecting the Risk Appetite targets
- Preserving its financial flexibility to finance organic growth
- Adequate allocation of capital among the various business lines according to the Company's strategic objectives
- Maintaining the Company's resilience in the event of stress scenarios
- Meeting the expectations of its various stakeholders: regulators, debt and equity investors, rating agencies, and shareholders

The Company determines its internal capital adequacy targets in accordance with the above and the Senior Management is tasked to monitor the Capital on a constant basis.

Further to the above, the Company is obligated to calculate and report its capital adequacy on a quarterly basis to the Cyprus Securities and Exchange Commission (the "CySEC").

Below you may find the latest results reported for 2020 in comparison with 2019:

Risk and Capital Performance in EUR (thousands)		
Asset Class	**2019 (audited)**	**2020 (audited)**
CAR Ratio	18.75%	16.28%
CAR Ratio surplus	10.75%	8.28%
Capital Adequacy (CET1) ratio	18.75%	16.28%
CET1 Capital	5,541	5,349
Tier 1 Capital	5,541	5,349
Tier 2 Capital	0	0
Total Own Funds	5,541	5,349
Total Own Funds surplus	596	443
Total Credit Risk exposure	4,915	5,459
Total Market Risk Exposure	13,382	17,785
Total Fixed Overhead & Operational Risk Exposure	11,251	9,611
Total Risk Weighted Assets	29,548	32,855
Total PII exposure	593	593
Total Risk Weighted Assets with Pillar II	30,141	33,448
CAR Ratio with Pillar II	18.38%	15.99%
CAR Ratio surplus with PII	10.38%	7.99%
Leverage ratio	74.24%	73.72%
Capital Buffers	739	821

Table 9 Capital Requirements Comparison

The Company follows the Standardised Approach for the calculation of its minimum capital requirements for credit risk. Table below presents the allocation of credit risk in accordance with the Standardised Approach exposure classes:

Exposure Classes and Minimum Capital Requirements (€'000)			
Exposures at 31 December 2020	**Total Exposure Value**	**Risk-weighted amounts**	**Minimum Capital Requirements**
<u>Exposure Class</u>			
Institutions	2,150	1,316	105
Corporates	162	162	13
Equity	1,008	1,008	81
Retail	1,846	1,384	111
Other items	1,309	1,192	95
Total	6,475	5,062	405

Table 10 Exposure Classes and Minimum Capital Requirements

The following table presents the exposures of the Company per risk weight:

Exposure Amount per risk weight (€'000)	
Risk Weight	**Exposure Amount**
0%	118
20%	1,084
50%	107
75%	1,846
100%	3,145
150%	175
Total	**6,475**

Table 11 Exposure Amount per risk weight

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

Institutions

For the purpose of calculating its exposures to Institutions, the Company used the credit ratings of Moody's, as these stood as of 31 December 2020.

The rating values are used and are matched to the relevant Credit Quality Step as per CRR in order to calculate the weighted credit risk exposure:

Credit Quality Step	Moodys Rating	Institution - Risk Weight		Sovereigns (Central Government) Risk Weight	Corporate Risk Weight
		Maturity <3 months	Maturity >3 months		
1	Aaa to Aa3	20%	20%	0%	20%
2	A1 to A3	20%	50%	20%	50%
3	Baa1 to Baa3	20%	50%	50%	100%
4	Ba1 to Ba3	50%	100%	100%	100%
5	B1 to B3	50%	100%	100%	150%
6	Caa1 and below	150%	150%	150%	150%

Table 12 Credit Ratings

For exposures to regional governments or local authorities, public sector entities and institutions, the external ratings are applied in the following priority (i) Issuer/Exposure, (ii) Issuer/Counterparty, (iii) Sovereign.

For exposures to central governments or central banks and corporates the external ratings are applied in the following priority (i) Issuer/Exposure, (ii) Issuer/Counterparty.

Where exceptions or discretions as per the CRR apply, the external ratings are not taken into consideration and a preferential treatment is followed.

The Company has used the credit step mapping table below to map the credit assessment to credit quality steps.

Exposure amount per CQS (€'000)		
Credit Quality Step	**Moodys**	**Exposure Amount**
1	Aaa to Aa3	1,253
2	A1 to A3	947
3	Baa1 to Baa3	-
4	Ba1 to Ba3	4,275
5	B1 to B3	-
6	Caa1 and below	-
Unrated/Not Applicable	N/A	-
Total		**6,475**

Table 13 Exposure amount per CQS

Corporate & Other Items

Exposures to Corporates and Other Items were unrated. As a result, a 100% risk weight was used, except for cash in hand which are subject to a 0% risk weight.

10.1.3. *Residual Maturity of Credit Risk Exposures*

The following table presents the residual maturity of the Company's credit risk exposures by asset class:

Exposure Classes and Residual Maturity (€'000)			
Exposures at 31 December 2020	**Maturity ≤ 3 months**	**Maturity > 3 months or Not Applicable**	**Total**
Exposure Class			
Institutions	2,150	-	2,150
Corporate	-	162	162
Equity		1,008	1,008
Retail		1,846	1,846
Other Items	-	1,309	1,309
Total	2,150	4,325	6,475

Table 14 Exposure Classes and Residual Maturity

10.1.4. *Geographic Distribution*

The Company's exposures analysed by geographical area are shown below:

Exposure Classes and Geographic Distribution			
Exposures at 31 December 2020	**European Countries**	**Non – European Countries**	**Total**
Exposure Class			
Institutions	2,102	48	2,150
Corporate	162		162
Equity	1,008		1,008
Retail	1,846		1,846
Other Items	1,309	-	1,309
Total	**6,427**	**48**	**6,475**

Table 15 Exposure Classes and Geographic Distribution

10.1.5. *Industry Sector of Credit Risk Exposures*

A breakdown of the credit risk exposures by industry, for each exposure class at year end, is provided in table below:

Exposure Classes and Industry (€'000)			
Exposures at 31 December 2020	**Financial**	**Other**	**Total**
Exposure Class			
Institutions	2,150	-	2,150
Corporate	162	-	162
Equity	1,008		1,008
Retail	1,846		1,846
Other Items	-	1,309	1,309
Total	**5,166**	**1,309**	**6,475**

Table 16 Exposure Classes and Industry

Table below presents the average exposure per exposure class:

Average Exposure (€'000)			
Exposures at 31 December 2020	**2020**	**2019**	**Average**
Exposure Class			
Public sector entities	0	0	-
Institutions	2,150	2,752	2,451
Corporate	162	265	214
Retail	1,846	1,465	1,656
Equity	1,008	983	996
Other Items	1,309	1,152	1,231
Total	**6,475**	**6,617**	**6,546**

Table 17 Average Exposure per exposure class

10.1.6. *Impairment of assets*

As at 31 December 2020, the Company did not recognize any impairment losses, nor did it make any provisions.

10.2. Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal procedures, human behaviour and systems or from external events. Operational Risk includes Legal Risk but excludes Strategic and Reputational Risk.

Further to the recent developments of the COVID-19 outbreak, which is a current major worldwide issue, the Company follows all of the government and health authorities' guidelines and instructions, regarding the protection measures against the virus. Moreover, the Company implements additional health and safety measures enabling the company to continue its operations in a smooth and moderate manner. Furthermore, the Company has adapted a dynamic business model, ready to withstand possible market volatilities and anomalies, that are caused due to the rapid developments of the virus.

The Company applies the Basic Indicator approach for own funds requirement for operational risk, in accordance with the provisions of Article 315 of the CRR Regulation, for calculating the amount of capital required under the minimum regulatory capital requirements for Operational Risk. As at 31 December 2020, the risk weighted exposure amount for operational risk was EUR 9,622 thousand and the minimum capital requirements under this approach, amounted to €770 thousand.

10.3. Market and Liquidity 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.

Foreign Exchange Risk

Foreign Exchange Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Due to its business model, the Company's exposure to Foreign Exchange Risk arises due to the Company's spot positions in currencies other than the reporting currency (i.e. the Euro).

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.

Commodities risk

Commodities risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. These commodities may be oil, metals, gas, electricity etc.

Position risk

Position risk refers to the probability of loss associated with a particular trading (long or short) position due to price changes.

The Company follows the standardized Approach for Market Risk. Market Risk Capital requirements are calculated with respect to Foreign Exchange Risk, Commodities Risk and Equity Risk.

The market risk capital requirement of the Company as of 31 December 2020, were as follows:

Analysis of market risk capital requirements as at 31 December 2020 (€'000)		
Type of Market Risk	**RWA Total**	**Capital Requirements**
Equity Risk	4,513	361
Foreign Exchange	12,971	1,038
Commodities	301	24
Total	**17,785**	**1,423**

Table 18 Analysis of Market Risk capital requirements

11. Leverage

The Basel III framework introduced a simple, transparent, non-risk-based Leverage ratio to act as a credible supplementary measure to the risk-based capital requirements.

Leverage is the amount of debt used to finance a firm's assets. It is used as a measure of the resilience of a financial institution.

Leverage ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014, amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regards to the Leverage ratio. The institution calculates its Leverage ratio at the end of each quarter.

The recommended minimum for the purposes of Leverage ratio is currently assessed at 3%. The Company's Leverage ratio as at 31st of December 2020 was 92.72%.

Summary reconciliation of accounting assets and leverage ratio exposures as at 31 December 2020 (€'000)	
Total assets as per financial statements	**6,592**
Adjustment for derivative financial instruments	528
Intangible assets	19
Balances with Investors' Compensation Fund	117
Leverage ratio exposure	**7,256**
Tier 1 Capital	5,349
Leverage Ratio	**73.72%**

Table 19 Summary reconciliation of accounting assets and leverage ratio exposures

12. Remuneration

The Remuneration Policy of HF Markets (Europe) Ltd has been prepared by the Compliance Function and reviewed and approved by the Board. The employees' total remuneration consists of a fixed component and, subject to specified criteria, annual bonus. Additionally, all employees are eligible for overtime pay and holiday remuneration, while Sales Department staff are also entitled to variable remuneration based on certain conditions.

12.1.1. *Remuneration Committee*

The Company, taking into account its growing size, the internal organisation and nature, scope and the complexity of its activities, decided to establish and maintain a Remuneration Committee.

The Remuneration Committee is responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the Company, and which are taken by the Board of Directors. The Remuneration Committee consists of members Senior Management. The Remuneration Committee when preparing decisions regarding remuneration, takes into consideration the long-term interests of shareholders, investors and any other stakeholders in the Company and the public interest.

The Responsibilities of the Remuneration Committee shall be to:

a) Implementation and application of the remuneration policy to the Company and Company's employees;
b) Review of the Remuneration Policy and practices and propose any updates thereof;
c) Review the Sales and/or Retention Commission Agreements and propose any updates thereof;
d) Discuss and prepare any decisions regarding the remuneration of employees, including decisions which have implications on the risk and risk management of the Company;

e) Prepare recommendations of possible changes and/or amendments to the Remuneration Policy;
f) Overview of the application of the Remuneration Policy to the Company's members.

The Remuneration Committee shall present its findings in a report to the Board. The latter shall decide upon the Remuneration policies of the Company, following the recommendations of the Remuneration Committee.
The Remuneration Committee meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Remuneration Committee.

12.1.2. *Fixed Remuneration*

The Company's fixed remuneration is approved by the Board of Directors for all the relevant employees. It varies for different positions/roles depending on each position's actual functional requirements and is set at levels that reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role.

Benefits provided to the Company employees, such as health and social insurance protections, are not employee performance-related and are considered part of the fixed remuneration.

12.1.3. *Variable Remuneration*

Moreover, the variable remuneration scheme affects the Account Management Department staff and is paid in cash, via the Company's payroll system. Its amount is determined in accordance with a number of factors which have been set and approved by the Company's Senior Management. The calculation of variable remuneration is confirmed by the Head of the Account Management Department and finally approved by one of the Company's Executive Directors.

12.1.4. *Annual Bonus*

The employees' annual bonus payments are determined based on their performance, which is evaluated during their annual performance appraisal. Annual bonus payments need to be approved by one of the Company's Executive Directors.

12.1.5. *Performance Appraisal*

The Company ensures that, where remuneration is linked with performance, the total amount of remuneration is based on a combination of the performance assessment of:

a. the individual (financial as well as non-financial criteria are taken into account),
b. the business unit concerned, and
c. the overall results of the Company.

The Company implements a performance appraisal program, mainly to foster talent and promote healthy competition amongst personnel which is based on a set of Key Performance Indicators and Targets, developed for each department.

In general, performance appraisal is performed in a multiyear framework in order to ensure that the appraisal process is based on longer-term performance and that in the future (i.e. when applicable), the actual payment of performance-based components of remuneration will be spread over a period which will take into account the Company's underlying business cycle and risks.

Additionally, performance appraisal on medium and short-term is being performed as follows:

a. Objectives are set in the beginning of each month, quarter and/or year (depending on the department appraisal process) defining what the Company functions, departments and individuals are expected to achieve over an upcoming period of time
b. Performance checks and feedbacks: Managers provide support and feedback to the concerned staff during the time periods decided, during the daily activities or

during formal or informal performance reviews. The aim is to assist the staff to develop their skills and competencies.

c. Annual performance evaluation: Takes place annually, usually within the first three months of the year. The annual performance evaluation also determines the level of the annual (one-off) bonus to be awarded to the employees, after it is approved by one of the Company's Executive Directors. This bonus depends on the employees' performance and the fulfilment of their annual performance related targets.

During the year ended 31 December 2020, remuneration consisted of fixed monthly salaries and performance-based bonuses. Table below presents the annual fixed and variable remuneration per business area as at 31 December 2020, for those categories of staff whose professional activities have a material impact on the risk profile of the Company:

Annual Aggregate Remuneration by Business Area (€)	No. of staff during 2020	Fixed	Variable	Non Cash	Total
Sales & Marketing & Customer Service	3	278,950	66,520	-	**345,470**
Investment Advice, Dealing Room, Portfolio Management	2	132,182	5,875	-	**138,057**
Control Functions & Finance	3	217,371	1,400	-	**218,771**
Other Risk takers	10	580,604	25,577	-	**609,181**
Total	**18**	**1,209,107**	**102,372**	**-**	**1,311,479**

Table 20 Annual Aggregate Remuneration By Business Area

The table below shows the fixed and variable remuneration paid to those categories of staff whose professional activities have a material impact on the risk profile of the Company, broken down by Senior Management and staff:

Annual Aggregated for Senior Management and Staff whose actions have a material impact on the risk profile of the institution	No. of staff during 2020	Fixed	Variable	Non Cash	Total
Senior Management	6	353,426	17,177	-	**370,603**
Other Staff whose actions have a material impact on the risk profile of the Institution	12	855,681	85,195	-	**940,876**
Total	**18**	**1,209,107**	**102,372**	**-**	**1,311,479**

Table 21 Annual Aggregated for Senior Management and Staff whose actions have a material impact on the risk profile of the institution

Variable cost includes bonus, overtime pay, bank holidays and weekends payments.

13. Reference table to CRR

CRR Ref	High Level Summary	Compliance Reference
Scope of disclosure requirements		
431(1)	Requirement to publish Pillar III disclosures.	Point 1.4.3
431(2)	Disclosure of operational risk information.	Point 7.3
431(3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	Point 1.4
431(4)	Explanation of ratings decisions to SMEs upon request.	N/A
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements.	Point 1.4.4
Means of disclosures		
434(1)	To include disclosures in one appropriate medium or provide clear cross-references to other media.	Point 1.4.5
Risk management objectives and policies		
435(1) (a) 435(1) (b) 435(1) (c) 435(1) (d)	Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation/hedging policies	Point 6.1
435(1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements	Point 2.1
435(1) (f)	Concise risk statement approved by the BoD	Point 4

435(2)	Information, once a year at a minimum, on governance arrangements.	Point 5
435(2) (a)	Number of directorships held by members of the BoD.	Point 2.4
435(2) (b)	Recruitment policy of BoD members, their experience and expertise.	Point 2.3, 2.4
435(2) (c)	Policy on diversity of BoD members, its objectives and results against targets.	Point 2.3
435(2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Point 2.5
435(2) (e)	Description of information flow on risk to BoD.	Point 3, 3.1
Scope of application		
436(a)	Name of institution.	Point 1.1
Own Funds		
437 (1)	Requirements regarding capital resources table	Point 10
437 (1)		
437 (1) (a)		
437 (1) (b)		
437 (1) (c)		
437 (1) (d) (i)		
437 (1) (d) (ii)		
437 (1) (d) (iii)		
437 (1) (e)		
437 (1) (f)		
Capital Requirements		
438(a)	Summary of institution's approach to assessing adequacy of capital levels.	Point 10
438(b)	Result of ICAAP on demand from competent authority.	Point 6.6
438(c)	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	Point 10.1
438(d)	Capital requirements amounts for credit risk for each Internal	n/a
438(d) (i)		
438(d) (ii)		

438(d) (iii) 438(d) (iv)	Ratings Based approach exposure class.	
438(e)	Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits.	Point 10.3
438(f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	Point 10.2
Exposure to counterparty credit risk (CCR)		
439(a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	Point 10.1.1
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	Point 10.1.1
Use of ECAI's		
444(a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	Point 10.1.2
444(b)	Exposure classes associated with each ECAI.	
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Point 10.3
Operational Risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Points 7.3, 10.2
Remuneration Disclosures		
450	Remuneration Policy	Point 12
Leverage		

451(1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Point 11
451(1) (b)		
451(1) (c)		
451(1) (d)	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	
451(1) (e)		
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	Point 7.3

Table 22 Reference table to CRR