



Octa Markets Cyprus Ltd

Regulated by the Cyprus Securities and Exchange Commission License no. 372/18

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2020

April 2021

DISCLOSURE

*The Disclosure and Market Discipline Report for the year 2020 has been prepared by **Octa Markets Cyprus 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 (hereinafter, “CySEC”).*

Octa Markets Cyprus Ltd (hereinafter, the “Company”) states that any information that was not included in this report is 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.

The present Disclosure and Market Discipline Report is based on the unaudited management accounts as of 31st December 2020.

*Octa Markets Cyprus Ltd is regulated by CySEC under License number **372/18**.*

Contact Us

Address: 1 Ayias Zonis and Thessalonikis Corner, Nicolaou Pentadromos Center, Block B, Office 201, Limassol, Cyprus.

Telephone: +357 25 251973

Fax: +357 25 251983

Web site: www.octafx.eu

Email: info@octafx.eu

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1. INTRODUCTION

1.1 INVESTMENT FIRM

Table 1: Company information

General Information:	
Company name	Octa Markets Cyprus Limited
CIF Authorization date	10/12/2018
CIF License number	372/18
Company Registration Date	13/09/2016
Company Registration Number	HE 359992
Investment Service:	
1) Reception and transmission of orders in relation to one or more financial instruments; 2) Execution of Orders on Behalf of Clients; and 3) Dealing on Own Account.	
Ancillary Services:	
1) Safekeeping and administration of Financial Instruments for the account of Clients, including custodianship and related services such as cash/collateral management; and 2) Foreign exchange services where these are connected to the provision of investment services.	
Financial Instruments:	
1) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash 2) Financial contracts for differences	

1.2 PURPOSE

The present report is prepared by Octa Markets Cyprus Ltd a Cyprus Investment Firm (hereinafter, “CIF”, “Company” or “Octa”) authorized and regulated by CySEC under the license number 372/18 and operates in harmonization with the Markets in Financial Instruments Directive II (hereinafter, “MiFID II”).

In accordance with Regulation (EU) No. 575/2013 (the “Capital Requirements Regulation”, hereinafter “CRR”), which was introduced in 2014, the Company is required to disclose information relating to its risk management, capital structure, capital adequacy, its risk exposures 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 Capital Requirements Regulation (“CRR”) comprises of the below three pillars:

- **Pillar I** sets the minimum capital requirements comprising of base capital resources requirements; credit, market and operational risk capital requirements.
- **Pillar II** requires firms to undertake an overall internal assessment of their capital adequacy, taking into account all the risks which the firm is exposed to and whether additional capital should be held to cover risks not adequately covered by Pillar I requirements. This is achieved through the Internal Capital Adequacy Assessment Process (hereinafter, “ICAAP”). CySEC may perform a Supervisory Review and Evaluation Process (hereinafter, “SREP”) to ensure that CIFs have sufficient capital to support all material risks to which their business exposes them. This level of capital, which may be higher than the capital calculated in the CIF’s own assessment (ICAAP), will form the CIF’s capital requirement.
- **Pillar III** complements Pillar I and II and improves market discipline by requiring firms to disclose information on their capital resources and Pillar I capital requirements, risk exposures and their risk management framework.

The 2020 Pillar III Disclosure and Market Discipline Report has been prepared based on the relevant requirements in accordance with Part 8 of the CRR and in particular articles 431 to 455, as applicable to the Company.

In order to meet the requirements of the CRR, the Board of Directors (“BoD”) and the Senior Management have the overall responsibility for the internal control systems in the process of the “Capital Adequacy Assessment” and they have established effective processes to ensure that the full spectrum of risks facing the Company is properly identified, measured, monitored and controlled to minimize adverse outcomes.

The Company’s business effectiveness is presented and based on the guidelines of the risk management policies and procedures. The BoD, Internal Auditor, Risk Manager, Compliance Officer, and Anti-Money Laundering Officer control and supervise the overall risk system so that all units charged with risk management perform their roles effectively on a continuous basis.

The information contained in the Pillar III Market Discipline and Disclosure report is to be audited by the Company’s external auditors and published on its website (<https://www.octafx.eu/company/legal-agreements/>) on an annual basis. Moreover, the Company is obliged to provide a copy of the external auditor’s verification report to CySEC within 5 months after the end of each financial year.

The information disclosed in this report is related to the year ended 31st December 2020 (based on unaudited management accounts). The Company has prepared this report on a solo basis as it is a standalone entity.

As with all Investment Firms, the Company is exposed to several risks. In particular, the Company is exposed to Credit Risk, Market Risk and Operational Risk. It is noted that the Company had begun to build its client base in 2019, after obtaining its authorization from CySEC in December 2018.

1.3 CURRENT REGULATORY (PRUDENTIAL) SUPERVISION

The Laws and Regulations that govern the operations of CIFs and set out the obligations and requirements that shall be met in the aspect of capital adequacy and market discipline, are comprised, inter alia, by the following:

- Law 87(I)/2017: Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereafter, “the Law”).
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation (the “CRR”).
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation (the “EMIR” regulation).
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms– Capital Requirements Directive IV (the “CRD IV”).
- Consolidated Directives DI144-2014-14 and DI144-2014-14 (A): For the prudential supervision of Investment Firms.
- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013.
- Directive 2014/65/EU on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU – (the “MiFiD II” Directive).
- Regulation (EU) No. 600/2014 – Markets in Financial Instruments and amending Regulation (EU) No. 648/2012 (the “MiFiR II” Regulation).

1.4 THE UPCOMING PRUDENTIAL FRAMEWORK FOR INVESTMENTS FIRMS (IFR)

The new prudential framework for Investment Firms Regulation (EU) 2019/2033 (‘IFR’) & Directive (EU) 2019/2034 (‘IFD’) is set to come into force in all EU Member States on June 26, 2021.

The new framework will change completely the way capital requirements are calculated for Investment Firms (hereinafter, “IFs”), which will now be categorised into three categories depending on their business activities, systemic importance, size, and interconnectedness.

Each IF class will be subject to a different set of prudential requirements, with some systematically important and larger firms remaining under the current Basel-derived CRR/CRD regime. In particular, IFs will now be categorised into the following classes:

- **Class 1 IFs (remain subject to CRR and CRD):** Large IFs that exceed certain criteria and need to be reclassified as credit institutions, plus:
 - **Class 1a:** Not reclassified as credit institutions, but above certain criteria and/or are categorised Systemically important IFs to the country (“O-SIs”) and subject to CRR.
 - **Class 1b:** Not-Systemic Large IFs, but which elect to be subject to the CRR (if they are part of a group containing a bank that is subject to consolidated supervision under CRR).
- **Class 2 IFs (subject to new IFR/IFD):** IFs exceeding the categorisation thresholds for Small and Non-interconnected Investment Firms.
- **Class 3 IFs (subject to new IFR/IFD, BUT with exemptions):** Small and Non-interconnected Investment Firms.

Octa will fall into the Class 2 category and will be subject to the new IFR/IFD framework. The new minimum Pillar 1 Capital Requirement for Octa will be the greatest of:

- A Permanent Minimum Capital Requirement of €750,000;
- A Fixed Overhead Requirement at 25% of the firm’s fixed overheads in the previous year; and
- A K-factors Requirement, which will be based upon nine risk exposure indicators (“K-factors”) which are designed to measure operational risk to customers, counterparty credit risk, trading book market risk, and concentration risk (in the trading book and securities financing type of transactions including REPOs).

The new prudential framework for Investment Firms Regulation (EU) 2019/2033 (‘IFR’) & Directive (EU) 2019/2034 (‘IFD’) is expected to enter into force on **June 26, 2021**.

The Company will ensure that several pre-requisites are implemented in a timely manner so that it is operationally ready and compliant for the new framework, including:

- i. Familiarize itself with the new templates and the way their new capital requirement will be calculated (the new “COREP” templates)
- ii. Identify the data needed to be collected and reported, especially regarding the calculation of K-Factors; and
- iii. Review its internal records and systems and make the necessary changes to ensure that the required data for the K-Factors will be available to calculate the Company’s new capital requirements.

In addition, the Company will conduct a quantitative impact analysis to ensure that: (a) the new capital requirements under IFR can be adequately covered by the Company’s eligible own funds; (b) large exposures in the trading book are within the new IFR limits; (c) liquid assets are within the new IFR limit.

2. CORPORATE GOVERNANCE

2.1 BOARD OF DIRECTORS

The Board of Directors (“BoD”) of the Company consists of two Executive Directors and three Non-Executive Directors, as at 31.12.2020.

The members of the Board of Directors exercise effective control on the company’s affairs and the non-executive members of the BoD exercise control over the business carried out by the executive members of the BoD.

The main responsibilities of the Board of Directors are:

- To establish, implement and maintain decision-making procedures and an organizational structure which clearly and in documented manner specifies reporting lines and allocates functions and responsibilities.
- To ensure that its relevant persons are aware of the procedures that must be followed for the proper discharge of their responsibilities.
- To establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the Company.
- To employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.
- To establish, implement and maintain effective internal reporting and communication information at all relevant levels of the Company.
- To maintain adequate and orderly records of its business and internal organization,
- To ensure that the performance of multiple functions by its relevant persons does not and is no likely to prevent those persons from discharging any function soundly, honestly, and professionally.

Furthermore, the BoD is responsible for establishing and amending the internal control procedures, where necessary. It also ensures that the Company has sufficient human and technical resources required for the performance of its duties.

The Chairman of the BoD is responsible for the proper running of the BoD and should ensure that all the issues on the agenda are sufficiently supported by relevant information. The Chairman also ensures that all directors are suitably informed on issues that arise during BoD meetings.

At the compliance with the abovementioned requirements, the Company considers the nature, scale and complexity of the business of the firm, and the nature and range of investment services and activities undertaken in the course of that business.

2.2 RECRUITMENT POLICY

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the BoD and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the BoD. The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. Factors considered in the review of potential candidates include:

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subject.
- Knowledge of and experience with financial institutions ("fit-and-proper").
- Integrity, honesty and the ability to generate public confidence.
- Knowledge of financial matters including understanding financial statements and financial ratios.
- Demonstrated sound business judgment.
- Risk management experience.

2.3 NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE BOARD OF DIRECTORS

The Board of Directors consists of five (5) members. Two (2) Executive Directors, one (1) Non-Executive Director and two (2) Non-Executive and Independent Directors as per below:

Table 2: Board of Directors as at 31.12.2020

<i>Name of Director</i>	<i>Executive Director/ Independent Non-Executive Director</i>	<i>Number of Directorships in other entities</i>
<i>George Pantzis</i>	Executive Director	0
<i>Anton Logvinvskiy</i>	Executive Director	0
<i>George Xydias</i>	Independent Non-Executive Director	1
<i>Dimitris Christou</i>	Independent Non-Executive Director	0
<i>Pavel Prozorov</i>	Non-Executive Director	3

2.4 DIVERSITY POLICY OF THE BOARD OF DIRECTORS

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 is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practices in the Corporate Governance Code of many EU countries.

The Company recognizes the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences will be considered when determining the optimum composition of the BoD.

2.5 TRAINING

During the year, the Company's employees and directors, including the Risk Manager, attended courses on the applicable Compliance/AML legislation and relevant procedures and Risk Management. The BoD is updated on a regular basis on changes to CySEC regulations.

2.6 INFORMATION OF FLOW ON RISK TO MANAGEMENT BODY

In line with the requirements set out in the Law and subsequent Directives, the Company has been able to maintain a good information flow on risk to the management body. Reporting obligations will be delivered in 2021 for the year-ended 31.12.2020 as per below:

Table 3: Reporting obligations of Octa Markets Cyprus Ltd

Report Name	Owner	Recipient	Frequency	Due Date
Annual Risk Management Report	Risk Manager	BoD, CySEC	Annual	30/04/2021
Internal Monthly Capital Adequacy Ratio ("CAR") monitoring	Risk Manager	BoD	Monthly	Monthly
Pillar I COREP templates	Risk Manager	Board, CySEC	Quarterly	11/02/2021 12/05/2021 11/08/2021 11/11/2021
Pillar III Disclosures (Market Discipline and Disclosure)	Risk Manager	BoD, Public	Annual	30/04/2021
Pillar III Disclosures External Auditor's Verification Report	External Auditor	BoD, CySEC	Annual	31/05/2021
ICAAP Report	Risk Manager	BoD	Annual	Within 2021
Prudential Supervision Information Form (Form 144-14-11)	Risk Manager, Finance Department	BoD, CySEC	Annual	30/06/2021
Recovery Plan & Form 20-01	Risk Manager	BoD, CySEC	Every two years	30/09/2022
Annual Compliance Report	Compliance Officer	BoD, CySEC	Annual	30/04/2021
Annual Internal Audit Report	Internal Auditor	BoD, CySEC	Annual	30/04/2021
Annual Anti-Money Laundering Report	Anti-Money Laundering Compliance Officer	BoD, CySEC	Annual	31/03/2021
Financial Reporting	External Auditor	BoD, CySEC	Annual	30/04/2021

3. RISK MANAGEMENT

3.1 RISK MANAGEMENT FRAMEWORK

The Company implements and maintains adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

The key stakeholders to the Company's risk management framework are the:

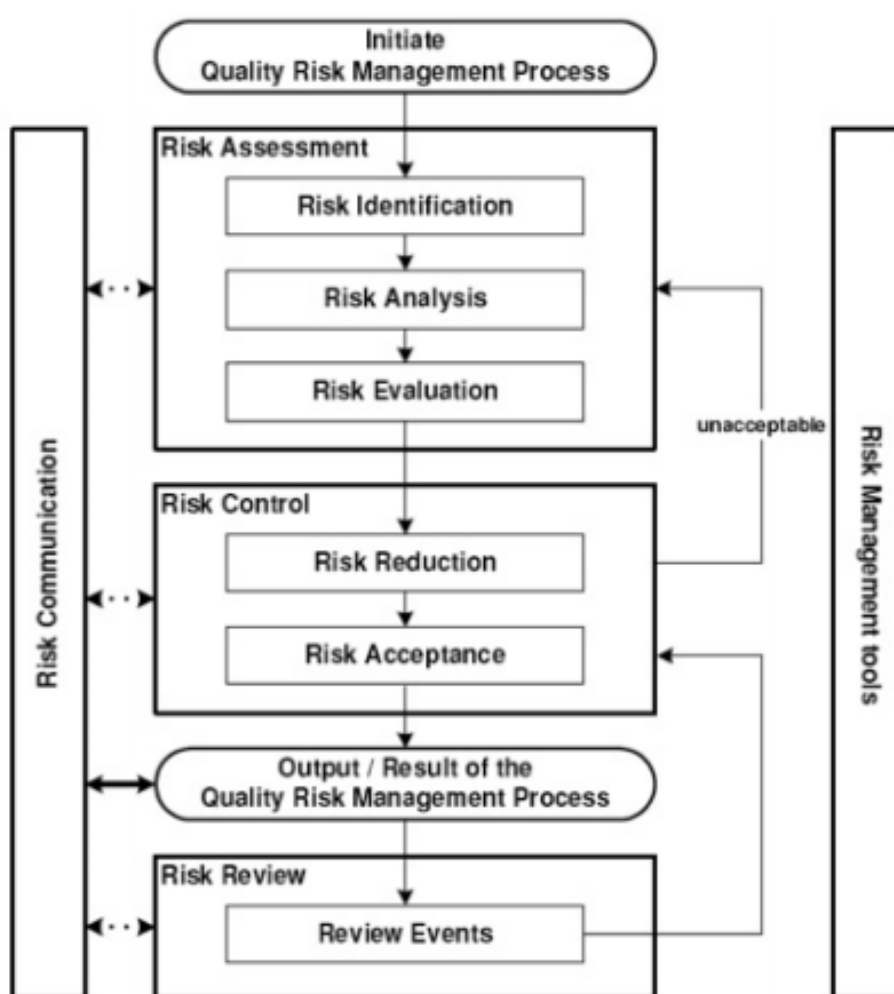
- Board of Directors;
- Board Risk Management Committee;
- Risk Manager;
- Internal Auditor;
- Compliance Officer; and
- Prevention of Money Laundering and Terrorist Financing Officer.

The Company envisages a risk management framework that is founded on the following principles:

- The Company's risk-taking strategy shall ensure that adequate risk management policies and procedures are established, implemented and maintained in such a way that the level of risk undertaken by the Company can be effectively tolerated. The risk tolerance determines the amount of risk in both qualitative and quantitative terms that the Company is willing to accept. The abovementioned policies and procedures shall be documented and subject to periodic review and adjustment in accordance with the Company's risk profile and appetite, as well as internal and external norms and best industry practices.
- Processes and systems necessary for ensuring effective and efficient operations, adequate control of risks, and prudent conduct of business, accurate internal and external disclosures, as well as compliance with internal and external rules shall be in place.
- The Company's risk-taking strategy shall ensure the compliance and monitoring of all transactions in the context of legality, avoidance of conflict of interest, insider dealing and preservation of confidential information. Clearly defined roles and responsibilities shall exist while independence between risk management functions and position/risk taking functions shall be ensured at all cases.
- The Company's risk-taking strategy shall at all times ensure the determination, evaluation and efficient management of the risks inherent in the provision of the investment services.

- The Company's strategic planning and capital management shall be based on the Company's risk-taking appetite and the shareholder return objectives as well as risk adjusted business line performance.
- The Company's operating model shall aim at the standardization and integration of policies and processes, supporting the improvement of operational competence and the efficient mitigation of operational risks. Adequate, reliable and automated reporting must support the implementation of the operating model. In addition, it shall be ensured that the Company's IT strategy is in line with the operating model at all classes.
- All new investment activities shall be subject to adequate procedures and controls prior to their introduction, allowing for proper and independent identification of all inherent risks in line with the Company's risk criteria and limits.
- The Company's personnel shall be properly trained in order to be aware of the Company's risk-related issues, understand their responsibilities regarding the management of those risks and have the adequate skills for their management.

The below diagram, illustrates the risk management process:



3.2 RISK MANAGEMENT POLICY

The Company's Risk Management Policy was formed with the view to ensure the sufficient identification, measurement and monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general.

It sets out the procedures and mechanisms regarding risks and it describes the roles and responsibilities of the Risk Management Department and the Risk Management Committee. In addition, it identifies the main reporting procedures and outlines the process followed by the Senior Management in order to evaluate the effectiveness of the Company's internal control procedures.

In accordance with the Company's Organisational Structure, the Risk Management Department of the Company comprises of:

1. Head of the Risk Management Department

Mr. Anton Logvinovskiy, Executive Director, Risk Manager, part of "Four Eyes", Based in Cyprus

2. Risk Management Support

[MNK Risk Consulting Ltd](#), Based in Cyprus

3. Risk Management Committee

- a. Mr. Anton Logvinovskiy, Executive Director, Risk Manager, part of "Four Eyes", Based in Cyprus;
- b. Mr. George Xydias, Independent, Non-Executive Director, Based in Cyprus; and
- c. Mr. Demetris Christou, Independent, Non-Executive Director, Based in Cyprus.

3.3 RISK MANAGEMENT COMMITTEE

The Risk Management Committee (hereafter, the "RMC"), will aim at ensuring the efficient risk management which is considered essential for the provision of investment services to Clients, as well as the risks underlying the operation of the investment firm. The RMC also bears the responsibility to monitor the adequacy and effectiveness of the risk management policies and procedures that are in place.

Members of the risk committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Company.

The Risk Management Committee meets at least annually, 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.

The duties and responsibilities of the Risk Management Committee include:

- Scrutinize and decide on the risks associated with the Company's operation, with the scope of: (i) increasing awareness; (ii) formulating internal policies; (iii) measuring the performance of the said policies, and (iv) dealing with such risks;
- Develop and integrate an internal risk management framework in line with the Company's decision-making process;
- Reviewing the capital adequacy and the exposures of the Company;
- Quality and financial analysis of the Company's Clients when opening a new Client account and classification of Clients according to Company's risk criteria and limits. Maintaining relevant record. Monitoring, periodic review and updating of Credit assessment;
- Assessment of the risk involved in potential new investment services and/or Financial Instruments, and preparation of a report to be reviewed and approved by the Risk Management Committee and the BoD.

3.4 RISK APPETITE FRAMEWORK

Risk appetite is the level of risk that the Company is willing to take in order to achieve its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, business, reputational, legal and compliance and data security/IT risk.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the BoD and management confidence to avoid risks that are not in line with the strategic objectives.

The BoD has approved the following Risk Appetite Statement decided by the Management:

Risk appetite statement

The Company's risk appetite is determined by its BoD, following the recommendations of the Risk Manager and taking into account the Company's risk bearing capacity. Risk appetite determines the maximum risk that the Company is willing to assume in order to meet its business targets.

In order to ensure coherence between the Company's strategic considerations as regards risk taking and the day-to-day decisions, Management reviews and when deemed necessary updates the Company's risk appetite statement.

The Company's risk appetite is set by taking into consideration its current risk profile. The following are the main risk appetite statements which are applicable across all the Company's activities:

- The available regulatory capital over the total Risk Weighted Assets (“RWAs”) for Pillar I risks is targeted to be greater than or equal to 12.5% or EUR 800K whichever is the highest in value, as per the Company’s Capital Management Policy;
- Under no circumstances should the regulatory Common Equity Tier 1 (“CET1”) capital adequacy ratio fall below the minimum regulatory requirement imposed by CySEC (i.e. 4.5% of total RWAs, plus applicable buffers¹);
- The Company has zero tolerance in regards to regulatory non-compliance, including regulatory client leverage limits. Therefore, all departments are required to operate at all times in compliance with respective regulatory requirements, relevant laws and regulations;
- The Company has limited tolerance towards operational risks / losses, such as internal fraud, unauthorized trading limit excesses, data security and General Data Protection Regulation (hereinafter, “GDPR”). Operational risks inherited in the business operations of the Company are managed proactively.

The Company’s risk bearing capacity is defined as the ability of the Company’s available capital to absorb adverse risk. The Company’s available paid-up capital currently consists solely of CET 1 capital (i.e. at EUR 968K as at 31.12.2020 based in unaudited management accounts), calculated after the relevant deductions.

The risk appetite of the Company is the aggregate level and types of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan. Thus, Risk Appetite and Strategic Plan occur and evolve in parallel. The Risk Appetite enables the Company to demonstrate that the achievement of its strategic goals has not been the result of fortuitous circumstances.

The BoD and Senior Management understand how the risk capacity impacts on the business and have taken the necessary steps in order to be in constant awareness, mitigating any potential threats.

3.5 RISK CULTURE

The BoD has a crucial role in strengthening risk governance, including setting the ‘tone at the top’, reviewing strategy, and approving the Risk Appetite Statement. It is the BoD that is ultimately responsible and accountable for risk governance.

The role of the Risk Manager is to promote a risk management culture across the Company, develop policies and supporting methodologies for identifying, assessing, and where possible mitigating the Company’s risk exposures.

¹ Applicable Buffers for Octa Markets Cyprus Ltd include: (i) the Capital Conservation Buffer (“CCB”), which is set at 2.5% of total RWAs from 2019 onwards; and (ii) the Institution-specific Countercyclical Capital Buffer (“CCyB”), which depends on the Company’s exposure to countries with positive countercyclical buffer rates as applied by their macroprudential authority.

The Company has focused primarily on the implementation of a firm-wide effective and pervasive risk culture. This will be achieved through the following:

- Embedding the risk culture at all levels of the Company with clear ownership and accountability of tasks;
- Conducting firm-wide risk assessments;
- Implementing formal risk education presentations;
- Changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions;
- Changes in key personnel; and
- Training.

3.6 BOARD DECLARATION – ADEQUACY OF THE RISK MANAGEMENT ARRANGEMENTS

The Board of Directors is ultimately responsible for the risk management framework of the Company.

The risk management framework is the sum of control systems, work processes and internal policies. These are designed with the aim to minimise the risks of not achieving business objectives, and - as such - offer reasonable but not absolute assurance against fraud, material misstatement and loss. The BoD considers that it has in place adequate systems and controls with regards to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

3.7 REGULATORY PILLAR I RISK MANAGEMENT

It is noted that the 8% minimum regulatory capital requirements referred to in the sub-sections below exclude the capital buffers, namely:

- a. Capital Conservation Buffer (the 'CCB')
- b. Institution-specific Countercyclical Capital Buffer (the 'CCyB')
- c. Other systematically important institutions buffer (the 'O-SII buffer').

Currently only the CCB and CCyB applies to the Company. From January 1st, 2019 and onwards, the CCB buffer is set at 2.5%. The CCyB for the Company as at 31.12.2020 was 0.0%.

Therefore, the Company's total Pillar I capital requirement plus additional buffers totalled to 10.5% as of end-December 2020, comprising of: (i) a minimum 8% Pillar I capital requirements; and (ii) a 2.5% CCB buffer; or (iv) EUR 730K (regulatory initial capital), whichever is the higher.

3.8 STRESS TESTING

The scope of the stress test, in the context of the Annual Internal Capital Adequacy Assessment Process (hereinafter, the “ICAAP”) is to evaluate the impact on the Company’s current and future profitability and capital adequacy, as well as, to assess and quantify risks using forward looking stress testing scenarios.

Stress tests consider the following, if and when deemed necessary:

- Understanding the risk profile of the Company;
- Evaluating of the Company’s capital adequacy in absorbing potential losses under stressed conditions from risks not covered or not adequately covered under Pillar I. This takes place in the context of the Company’s ICAAP;
- Evaluating 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;
- Establishing or revisioning 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 BoD. If the stress testing scenarios reveal vulnerability to a given set of risks, management should make recommendations to the BoD for remedial measures or actions. These may vary depending on the circumstances and include one or more of the following:

- Review the overall business strategy, risk appetite, capital and liquidity planning;
- Review limits;
- Reduce underlying risk positions through risk mitigation strategies;
- Consider an increase in share capital; or
- Enhance contingency planning.

3.9 INTERNAL CAPITAL ADEQUACY ASSESSMENT (the “ICAAP”)

Further to the requirements of Pillar I, a more detailed approach on managing risks is achieved through the preparation of the Pillar II requirements and more precisely the internal capital adequacy assessment process (“ICAAP”) report which follows the requirements under Regulation (EU) No. 575/2013 and relevant guidelines issued by CySEC.

The ICAAP process helps the Company to determine the additional, to Pillar I, capital needed to cover all risks and to maintain an adequate surplus in respect to the minimum capital requirements under Pillar I.

The ICAAP is conducted in accordance to the CySEC’s guidelines and the results are communicated to CySEC, upon its request, the BoD and the General Management.

For the preparation of the ICAAP Report, the Company will implement the Circular C026 (previously Guidelines GD-IF-02) issued by CySEC.

The ICAAP process can be outlined in the following steps:

- Assess the actual risk to which the Company is exposed by risk category (market risk, credit and counterparty risk, liquidity risk, operational risk);
- Establish the Risk Heat map;
- Focus on areas preliminary assessed as High Risk;
- Look into existing Pillar I capital allocation and risk mitigation measures, and assess whether these are sufficient for High-Risk Areas;
- Quantify the add-on (Pillar II capital) for High-Risk areas where capital is deemed to be an effective risk mitigant;
- Adopt the “Pillar I - Plus” approach and design and conduct Stress Tests to quantify the Pillar II add-on capital needed for the High-Risk areas;
- Prepare a Three-year Capital Plan (in cooperation with your Finance team who need to provide projections based on the Company’s business plan);
- Communicate the results to the Company, and assess whether proposed internal capital needs (Pillar I capital requirement plus any Buffers plus internal Pillar II capital needs) are covered by available equity capital (CET 1 own funds);
- Document the whole procedure and results.

The Company is preparing the ICAAP Report on a solo basis as it is a standalone entity, i.e. it has neither a parent undertaking nor a subsidiary, and as such, it is not required to produce a consolidated report.

According to the criteria set by the aforementioned Guidelines, the Company is considered ‘large’ and / or ‘complex’ for the purposes of the ICAAP as it is authorised to deal on own account. Nonetheless, it is noted that at present the Company does not meet any of the other criteria under this classification as it is neither authorised to underwrite financial instruments, nor to operate a multilateral trading facility. Furthermore, the Company does not make use of any advanced methods to calculate its capital requirements.

4. FINANCIAL INFORMATION

The following information provides a reconciliation between the balance sheet presented in the unaudited management accounts and the balance sheet prepared for prudential purposes.

Table 4: Regulatory Capital (Eligible Own Funds for Solvency Purposes as defined in CRR)

Composition of the capital base/own funds	31/12/2019	31/12/2020
	EUR '000	EUR '000
Total Equity as per Financial Statements		
Share Capital (paid-up)	2,170	3,315
Share Premium	0	0
Total Capital Instruments eligible as CET1 Capital	2,170	3,315
Retained Earnings/(Losses)	(1,324)	(2,287)
Other reserves	75	0
Less Intangible Assets	0	0
Less Contribution to Investor Compensation Fund ("ICF")	(60)	(60)
Total Common Equity Tier 1 (CET1)	861	968
Additional Tier 1 Capital	0	0
Total Tier 1 Capital	861	968
Tier 2	0	0
Total Eligible Own Funds	861	968
Capital Requirements before additional capital buffers¹		
Credit Risk (=8% of RWAs)	15	18
Market Risk (=8% of RWAs)	2	0
Operational Risk (=8% of RWAs)	0	0
Total Capital Requirements	17	18
CET1 Capital Ratio	402.7%	435.4%
T1 Capital Ratio	402.7%	435.4%
Capital Adequacy Ratio	402.7%	435.4%

Notes:

¹ Total capital requirements are those determined by RWAs (in this case EUR 222K as at 31.12.2020 and EUR 214K as at 31.12.2019) or the 730K initial minimum capital requirement whichever is the highest.

² 2019 numbers are based on the Audited Financial Statements

³ 2020 numbers are based on the Unaudited Management Accounts as at 31.12.2020

5. CAPITAL MANAGEMENT AND ADEQUACY

5.1 CAPITAL REQUIREMENTS UNDER PILLAR I

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 minimum own funds which are at all times more than or equal to the sum of its capital requirements. In addition to the Pillar I minimum capital requirements, the Company's eligible own funds must at all times exceed the EUR 730K minimum initial capital requirement as specified under the Article 28 (2) of the CRD IV.

In line with the CRR, Pillar I sets out the minimum regulatory capital requirements of firms to cover credit risk, market risk 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 capital quality requirements have become more stringent: Common Equity Tier 1 ratio has increased to 4.5%, plus applicable additional buffers, Tier 1 to 6%, and Overall (Tier 1 and Tier 2) to 8% plus any additional capital buffers (including the countercyclical capital buffer) and any SREP add-on.

The total Pillar I capital requirement for the Company for the year 2020 totals to 10.5% of its total RWAs as at 31.12.2020 and is derived from: (i) the minimum total capital ratio of 8% of its total RWAs plus the CCB buffer of 2.5%; and (iii) the minimum initial capital requirement of EUR 730K, whichever is the higher.

The Management Body, 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.

The Company's Own Funds, Capital Requirements and Capital Adequacy Ratio as at 31st of December 2020, based on unaudited management accounts, were the following:

Table 5: Own Funds

Available Capital Level	31/12/2019	31/12/2020
	€ '000	€ '000
Common Equity Tier 1 (CET 1)	861	968
Additional Tier 1 Capital (AT 1)	0	0
Total Tier 1 Capital	861	968
Tier 2	0	0
Total Eligible Own Funds	861	968

Table 6: Minimum Capital Requirements and Capital

	31/12/2019		31/12/2020	
Type of Risk	RWAs	Cap. Req. at 8%¹	RWAs	Cap. Req. at 8%¹
	€ '000	€ '000	€ '000	€ '000
Credit Risk	191	15	222	18
Market Risk	23	2	0	0
of which Foreign Exchange risk	21	2	0	0
of which Interest Rate risk	0	0	0	0
of which Equity risk	2	0	0	0
of which Commodity risk	0	0	0	0
Operational Risk	0	0	0	0
Credit Valuation Adjustment Risk	0	0	0	0
Total Risk Exposure Amount (=RWAs)	214	17	222	18
CET1 Capital Ratio	402.7%	Surplus: 851	435.4%	Surplus: 958
T1 Capital Ratio	402.7%	Surplus: 848	435.4%	Surplus: 955
Total Capital Ratio	402.7%	Surplus: 844	435.4%	Surplus: 950

Notes:

¹ Excludes Capital Buffers

6. CREDIT RISK

6.1 DEFINITION

Credit Risk is the risk of loss arising from actual, contingent or potential claims against any counterparty, obligor or borrower, due to the deterioration of the counterparty's or borrower's willingness or ability to perform on an actual, contingent or potential obligation. The Company follows the Standardized Approach under Pillar I for calculating its Credit Risk Capital Requirements as specified in the CRR. It categorizes the assets in respect to their exposure class and uses the Credit Quality Step ("CQS") methodology to determine its respective Risk Weights ("RWs").

6.2 RISK IDENTIFICATION, MEASUREMENT, CONTROL AND REPORTING

Credit Risk arises when failures by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets in hand, at the balance sheet date. The Company's Credit Risk for 2020 arises, from the Company's exposure in:

- deposits in financial institutions;
- exposures to brokerages and other corporates; and
- other Assets (i.e. fixed assets, prepayments and cash in hand).

Further to the above, concentrations are measured using a standardised model and individual concentration limits are defined for large exposures. The Company is subject to the Large Exposures limits and exposures to directors and shareholders, as stipulated by the CRR, in regards to their credit exposure to any particular counterparty.

6.3 USE OF EXTERNAL CREDIT ASSESSMENTS INSTITUTION'S (ECAI) CREDIT ASSESSMENT OF THE DETERMINATION OF RISK WEIGHTS

For the purpose of calculating the capital requirements of the Company mainly under the Credit Risk requirement, for the exposure classes listed below, Moody's, S&P and Fitch's external credit ratings have been applied.

- Exposures to central governments or central banks;
- Exposures to public sector entities;
- Exposures to institutions; and
- Exposures to corporates.

The general External Credit Assessment Institutions (hereinafter, "ECAI") association with each credit quality step complies with the standard association published by CySEC as follows:

Table 7: ECAI and Credit Quality Step association

<i>Credit Quality Step</i>	<i>S&P</i>	<i>Moody's</i>	<i>Fitch</i>	<i>Institution Risk Weight (Below 3 months)</i>	<i>Institution Risk Weight (Above 3 months)</i>	<i>Sovereigns Risk Weight</i>	<i>Corporate Risk Weight</i>
1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%	20%	0%	20%
2	A+ to A-	A1 to A3	A+ to A-	20%	50%	20%	50%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	20%	50%	50%	100%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	50%	100%	100%	100%
5	B+ to B-	B1 to B3	B+ to B-	50%	100%	100%	150%
6	CCC+ and below	Caa1 and below	CCC+ and below	150%	150%	150%	150%

For exposures to regional governments or local authorities, public sector entities and institutions, the ECAIs are applied in the following priority:

1. Issue/Exposure.
2. Issuer/Counterparty.
3. Sovereign.

For exposures to central governments or central banks and corporates the ECAIs are applied in the following priority:

1. Issue/Exposure.
2. Issuer/Counterparty.

The ECAIs are not taken into account where all relative exceptions or discretions as per the CRR apply. This means the credit quality step tabulated below may not apply for credit exposure risk weighting purposes if CRR preferential treatment provisions apply (for example exposures to EU institutions denominated and funded in EUR with remaining maturity up to 90 days). The classification of original exposures as at 31/12/2020 in the table below follows the information above.

Table 8: Classification of Original Exposures as at 31/12/2020 (€ '000)

<i>Credit Quality Step</i>	<i>Corporates</i>	<i>Institutions</i>	<i>Public Sector Entities</i>	<i>Other Assets</i>	<i>Total</i>
CQS 1					
CQS 2		221			221
CQS 3					
CQS 4					
CQS 5		199			199
CQS 6					0
Unrated	4.65	537		28	570
Not Applicable					0
Total	5	956	0	28	990

6.4 CREDIT RISK ANALYSIS

The tables below indicate the Company's Credit Risk exposure under Pillar I, as at 31.12.2020.

a. Minimum Credit Risk Exposure and Capital Requirements

Table 9: Credit Risk Capital Requirements

	31/12/2020		
	€ '000	€ '000	€ '000
Risk Weighted Assets:	RWAs	Cap. Req. (8% of exposure)	Cap. Req. (10.5% of exposure)
<i>Institutions (20% risk weighted)</i>	191	15	20
<i>Institutions (50% risk weighted)</i>	0	0	0
<i>Institutions (100% risk weighted)</i>	1	0	0
<i>Corporates (100% risk weighted)</i>	5	0	0
<i>Retail Exposures (75% risk weighted)</i>	0	0	0
<i>Other assets and receivables</i>	26	2	3
Total Credit RWAs	222	18	23

During 2020, the Company's eligible Own Funds for Solvency Purposes (hereinafter, "Own Funds") remained, at all times, above the minimum initial capital requirement of EUR 730K and the minimum total capital ratio of 8%, plus Pillar I additional buffers (a total capital ratio of 10.5%).

b. Credit Risk Exposure by Industry

Table 10: Credit Risk Exposure by Industry

Credit Risk Capital Requirements by Industry	31/12/2019	31/12/2020
	€ '000	€ '000
Risk Weighted Assets:		
<i>Financial institutions</i>	173	192
<i>Non-financial institutions (including corporates, equity exposures)</i>	0	5
<i>Retail</i>	0	0
<i>Other</i>	18	26
<i>Total Risk Weighted Assets (RWAs)</i>	191	222
Capital Requirements (=8% x RWAs)	15	18
Capital Requirements plus applicable buffer (=10.5% x RWAs)	20	23
Minimum Initial Capital Requirements	730	730
Total Available Eligible Capital (equals to CET1)	861	968

c. Credit Risk Exposure by Residual Maturity

Table 11: Credit Risk Exposure by Residual Maturity

Credit Risk Capital Requirements by Maturity	31/12/2019	31/12/2020
	€ '000	€ '000
Risk Weighted Assets:		
Up to 3 Months	172	191
Greater than 9 months up to 10 months	0	0
Greater than 11 months up to 12 months	3	9
Greater than 5 years up to 10 years	1	1
Undefined maturity	15	22
Total Risk Weighted Assets (RWAs)	191	222
Capital Requirements (=8% x RWAs)	15	18
Capital Requirements plus applicable buffer (=10.5% x RWAs)	20	23
Minimum Initial Capital Requirements	730	730
Total Available Eligible Capital (equals to CET1)	861	968

d. Credit Risk Exposure by Country

Table 12: Credit Risk Exposure by Country

Credit Risk Capital Requirements by Country	31/12/2019	31/12/2020
	€ '000	€ '000
Risk Weighted Assets:		
Cyprus	69	103
Austria	0	44
Denmark	0	20
Germany	50	4
Liechtenstein	72	0
Switzerland	0	48
UK	0	4
Other	0	0
Total Risk Weighted Assets (RWAs)	191	222
Capital Requirements (=8% x RWA)	15	18
Capital Requirements plus applicable buffer (=10.5% x RWAs)	19	23
Minimum Initial Capital Requirements	730	730
Total Available Eligible Capital (equals to CET1)	861	968

7. MARKET RISK

7.1 DEFINITION

Market Risk is the risk of loss arising from movements in market prices and rates including equity and commodity prices as well as interest and foreign exchange rates. The Company had adopted the Standardised Approach for calculating its minimum capital requirements under Pillar I.

In the context of Pillar I, Market Risk can be divided in the following categories:

- Equity Position Risk: It refers to the probability of loss associated with a particular trading (long or short) position due to share price changes.
- Interest Rate Risk: The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Commodities Risk: It 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.
- Foreign Exchange Risk: It is a financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the Company. The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

7.2 RISK IDENTIFICATION, MEASUREMENT, CONTROL AND REPORTING

The Company's Market Risk mainly arises from:

- Foreign exchange fluctuations which affect the Company's assets or liabilities denominated in foreign currencies as well as from positions held during forex trading.
- Financial security market fluctuations, position risk, arising from positions being traded on the Company's platform.

Market risk is being effectively managed by setting and monitoring foreign exchange risk limits, including, among others:

- Net Exposure Limits, including intra-day and end-of-day limits;
- Margin Level Limits;
- Client Limits;
- Margin Close-Out protection limits;
- Stop-Out protection limits; and
- Negative Balance Protection Limits.

7.3 MARKET RISK ANALYSIS

The tables below present the total market RWAs and the capital requirements as at 31 December 2020, based on unaudited management accounts, for each type of market risk.

Table 13: Market Risk Exposure: Foreign Exchange

Foreign Exchange Capital Requirements	31/12/2019	31/12/2020
Net Currency Exposures	€ '000	€ '000
Currency denominated in Euro		
EUR	1,440	1,026
USD	(1,102)	1
Swiss Franc (CHF)	525	0
GBP	0	1
Other	0	0
Total Risk Weighted Assets	21	0
Capital Requirements (=8% x RWA)	2	0

Table 14: Market Risk Exposure: Equity Risk

Position Risk on Equities Capital Requirements	31/12/2019	31/12/2020
	€ '000	€ '000
Sectorial Equity Breakdown		
Germany	nil	nil
USA	2	nil
Other	nil	nil
Total Risk Weighted Assets	2	nil
Capital Requirements (=8% x RWAs)	0.2	nil

Table 15: Market Risk Exposure: Traded Debt Instruments (TDI) Risk

Position Risk on Traded Debt Instruments (TDI) Capital Requirements	31/12/2019	31/12/2020
	€ '000	€ '000
Sectorial Equity Breakdown		
USA	nil	nil
EU	nil	nil
Other	nil	nil
Total Risk Weighted Assets	nil	nil
Capital Requirements (=8% x RWAs)	nil	nil

Table 16: Market Risk Exposure: Commodity Risk

Commodity Risk Capital Requirements	31/12/2019	31/12/2020
	€ '000	€ '000
Commodity Type	nil	nil
Total Risk Weighted Assets	nil	nil
Capital Requirements (=8% x RWA)	nil	nil

8. OPERATIONAL RISK MANAGEMENT

8.1 DEFINITION

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems malfunction or from external factors. Operational Risk includes Legal Risk but excludes Strategic and Reputational Risk. For the calculation of Operational Risk minimum capital requirements under Pillar I, the Company uses the Basic Indicator approach.

The following list presents some event types, included in Operational Risk, with some examples for each category:

- Internal Fraud – unauthorized trading limit excess with intent, misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees.
- External Fraud – theft of information, hacking damage, third-party theft and forgery, data security.
- Compliance – Brand impairment, Complaint handling, third country regulator retaliation, E-commerce global taxation matters, GDPR.
- Clients, Products and Business Practice – market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.
- Execution, delivery and process management – wrong execution of orders, data entry mistakes when transmitting orders, trade miscapturing.
- Employment Practices and Workplace Safety – acts inconsistent with employment, health or safety laws or agreements.
- Damage to Physical Assets – natural disaster or other events.
- Business Disruption and system failures.

8.2 RISK IDENTIFICATION, MEASUREMENT, CONTROL AND REPORTING

The Company recognises that the control of Operational Risk is directly related to effective and efficient management practices and high standards of corporate governance.

To that effect, 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.

The Company implements the below Operational Risk Mitigation Strategies in order to minimize its Operational Risk Exposure:

- The development of Operational Risk awareness and culture.
- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities.
- The implementation of 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.
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.
- Established a "four-eyes" 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 and a Risk Management Committee. The BoD further reviews any decisions made by the Management while monitoring their activities.
- Providing clients with all appropriate information prior to establishing a business relationship (i.e. Privacy Policy, Clients Complaints Policy, Conflicts of Interest Policy, Safeguarding of Clients' Financial Instruments and Funds, Best Execution Policy, Risk Warning, etc.).
- Comprehensive business contingency and disaster recovery plan.

With regards to client data security and safety the following measures are being taken:

- Client and Counterparty identification documents to be duly completed and verified according to the relevant legislative framework (this way preventing the occurrence of external frauds).
- Client data, including transaction data, are secured with appropriate firewalls and backed up regularly (this way preventing the loss of data from external fraud).
- Client funds are deposited to dedicated bank accounts, being segregated from own funds, and balances are regularly reconciled per CySEC requirements (this way preventing internal fraud).
- Client investment profiling is performed in accordance to IOM and relevant internal policies (i.e. Client Acceptance Policy); and making sure clients understand the risks of the products on offer by the Company prior to investing to such products (this way preventing risks related to aggressive selling, non-suitability and product misrepresentation).

8.3 OPERATIONAL RISK ANALYSIS

For the calculation of Operational Risk in relation to the capital adequacy returns, the Company uses the Basic Indicator approach. Based on the relevant calculations in the Company's capital requirements, the figures calculated show the Company's exposure to Operational Risk, as at 31st December 2020 (based on unaudited management accounts):

Table 17: Operational Risk

Operational Risk Capital Requirements	31/12/2019	31/12/2020
	€ '000	€ '000
<i>Gross Income as specified in CRR:</i>	<i>(46)</i>	<i>(175)</i>
<i>Last 3 years average (based on working-assumptions)</i>	<i>0</i>	<i>0</i>
Pillar I Operational Risk Capital Requirement (15% of 3-year average Gross Income)	0	0
Total Own Funds	861	968
Total Risk Weighted Assets equivalent	0	0

9. OTHER RISKS

9.1 Concentration Risk

Regulatory Limits to Large Exposures to institutions and non-institutions

Limits to large exposures are calculated as specified in the CRR. According to the regulatory definition, 'large exposure' means the exposure of the Company to a person or a group of connected persons where its value is equal to or exceeds 10% of the Company's eligible own funds.

In general, the Company shall comply with the Large Exposure limits laid down below:

- The Company shall not incur an exposure, after taking into account the effect of the credit risk mitigation in accordance with the provisions of the CRR, to a client or a group of connected clients (which are not institutions), that exceeds 25% of the Company's own funds.
- Where the aforementioned client is an institution, or where a group of companies of connected clients include one or more institutions, the value of the exposure shall not exceed 25% of the Company's own funds or EUR 150m, whichever the higher.
- Where the amount of EUR 150m exceeds the 25% of the Company's own funds, the value of the exposure shall not exceed a reasonable and determined limit by the Company of its own funds. That limit shall not be higher than 100% of the Company's own funds. Separately, note that the term institutions mean credit institutions, investment firms and insurance companies based in the European Economic Area ("EEA"). Where the amount of EUR 150m is applicable, the European Commission may allow on a case-by-case basis the 100% limit in terms of the Company's own funds to be exceeded.

The allowable limits to institutions and non-institutions, as mentioned above, are closely monitored and controlled by the Company. As at 31st December 2020, the Company's exposures to institutions and non-institutions are within the regulatory allowable limits.

9.2 Reputational Risk

Reputational risk is defined as the potential that adverse publicity regarding a financial organisation's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of the institution. In particular, reputational risk can materialize in the case of non-compliance with regulations, a breach of ethical values or the perception by the customer of an unfavourable discrepancy between the commercial offering and the reality of staff's practices.

The Company manages its reputational risk through corporate governance and internal controls ensuring that:

- The Company controls all marketing communication that goes out to the public and stays up to date with new regulatory requirements and obligations in an effort to maintain a strong reputation. In addition, it obtains legal opinions on new jurisdictions

in which it wants to operate to ensure that it doesn't violate any laws. According to the third country's requirements, it adjusts its marketing material accordingly.

- The Company has transparent policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company provides high quality services to clients.
- Furthermore, employees are bound by confidentiality policies and there are several controls to minimize the risk of internal fraudulent activity not being spotted/prevented.
- In addition, the management ensures that the Company is responsive to changes of a market or regulatory nature that impact its reputation in the marketplace.

9.3 Strategic Risk

Strategic Risk could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is considered low as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

9.4 Business Risk

Business risk is a distinct type of risk that is not captured in the course of the Pillar I capital requirement and is defined as the possibility of economic loss arising from adverse strategic and business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment, including technological progress. The Company manages strategic risk through its normal conduct of business, while business risk is further examined in the course of the annual ICAAP.

9.5 Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has in place documented procedures and policies based on the requirements of relevant Laws and Directives issued by CySEC. Compliance with these procedures and policies is further assessed and reviewed by the Company's Internal Auditor and suggestions for improvement are implemented by management. The Internal Auditor evaluate and test the effectiveness of the Company's control framework at least annually. Therefore, the risk of non-compliance is considered as low.

9.6 COMPLIANCE MONEY LAUNDERING TERRORIST FINANCING RISK

Compliance risk is the current and prospective risk of economic loss arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards.

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 and is updating as applicable, certain policies, procedures and controls in order to mitigate the Compliance/Money Laundering and Terrorist Financing Risks. Among others, the Company has established or is in the process of establishing the below policies, procedures and controls:

- a. 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;
- b. adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing Risk, prior and after the establishment of a business relationship with a client;
- c. setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents collected from independent and reliable sources);
- d. 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 particular Business Relationship or an Occasional Transaction;
- e. monitoring and reviewing the business relationship or an occasional transaction with Clients and potential Clients of high-risk countries;
- f. Developed and established a Customers' Acceptance Policy ("CAP") which has also been included in its AML Manual and reflects the actual policies and procedures followed by the Company;
- g. A number of policies (i.e. Conflicts of Interest Policy, Client Complaints Policy, Investor Compensation Fund Policy, MIFID Client Categorization, etc.) have been uploaded in the Company's website aiming at providing its Clients with all necessary information prior to the establishment of a business relationship;
- h. The Company's Compliance Officer, in liaison with the BoD and the Heads of the Front-line Departments, designed effective organizational and administrative arrangements, which are expected to be implemented going forward, with a view to taking all reasonable steps to prevent conflicts of interest from adversely affecting the interests of the Company's Clients;
- i. Established mechanisms that allow the Company to submit the EMIR and MIFIR reporting on a daily basis according to the provisions of the relevant Laws and Directives;
- j. Electronically submit to CySEC the Risk Based Supervision Framework ('RBS-F');
- k. The Company is in the process of setting in place the Common Reporting Standard (CRS) reporting;
- l. Registered with the goAML system implemented by Unit for Combating Money Laundering (MOKAS).
- m. The Company's Compliance Officer and Senior Management shall ensure on an ongoing basis that, the Product Governance Requirements under MiFiD II will be met; and
- n. Ensure that the Company's personnel receive the appropriate training and assistance.



The Company has reviewed its policies, procedures and controls with respect to money laundering and terrorist financing in order to ensure compliance with the applicable legislation and incorporated, as applicable, any new information issued/available in this respect.

9.7 IT Risk

IT risk could occur as a result of inadequate information technology and processing or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, internet use, data protection procedures, and disaster recovery, as applicable. The Company is regularly, at least annually, conducting Business Continuity Plan (BCP) stress tests to ensure the proper functioning of its systems and back-up procedures but also to minimise the possibility of such type of risk to materialise.

10. LEVERAGE

According to the CRR's Article 429, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposures and is expressed as a percentage. Institutions shall calculate the end-of-quarter leverage ratio as per the discretions from CySEC. The leverage ratio must at all times exceed the 3% of the Company's eligible capital

As at 31st December 2020 (based on unaudited management accounts), the leverage ratio of the Company was equal to 92.7% using a fully phased-in definition, as per the table below:

Table 18: Leverage Ratio Exposure Amount

Leverage Ratio Exposure Amount	31/12/2019	31/12/2020
	€ '000	€ '000
<i>Total assets as per accounts</i>	938	1,044
<i>Derivatives: Add-on under the mark-to-market method</i>	0	0
<i>SFTs: Add-on for counterparty credit risk</i>	0	0
<i>Other adjustments</i>	0	0
Total Leverage Ratio exposure – using a fully phased-in definition of Tier 1 capital	938	1,044

Table 19: Leverage Ratio Calculation

Leverage Ratio Calculation	31/12/2019	31/12/2020
	€ '000	€ '000
Exposure Values		
- <i>Derivatives: Add-on under the mark-to-market method</i>	0	0
- <i>SFTs: Add-on for counterparty credit risk</i>	0	0
- <i>Other Assets</i>	938	1,044
Total Leverage Ratio exposure – using a fully phased-in definition of Tier 1 capital	938	1,044
<i>Total Leverage Ratio exposure – using a transitional definition of Tier 1 capital</i>	938	1,044
Tier 1 capital – fully phased-in definition	861	968
<i>Tier 1 capital – transitional definition</i>	861	968
Leverage Ratio - using a fully phased-in definition of Tier 1 capital	91.8%	92.7%
<i>Leverage Ratio - using a transitional definition of Tier 1 capital</i>	91.8%	92.7%

11. REMUNERATION POLICY AND PRACTICES

The Cyprus Securities and Exchange Commission Directive DI144-2007-05 (“Directive”) in its Annex VI specifically Article 11, namely “Remuneration Policies” incorporates the requirements of the European Union (“EU”) Capital Requirements Directive 2013/36/EU which aims to align remuneration principles across the EU. The Clause 23 of Article 11 of Annex VI of the said Directive requires companies to apply remuneration policies, practices and procedures that are consistent with and promote effective risk management.

The Company’s remuneration policy is set by the BoD and focuses on ensuring sound and effective risk management through:

- Setting goals and communicating these goals to employees;
- Including non-financial goals in performance and result assessments;
- Making fixed salaries the only remuneration component.

The variable element of the pay structure, if any, does not rely solely on meeting sales targets or other purely quantitative performance criteria but also on qualitative performance criteria. Such qualitative performance criteria include the quality of service provided to Clients (client positive feedback or no Client complaints), the level of understanding of the investments services or products being offered, and the ability to explain in layman terms to Clients all the risks underlying a product or a financial instrument.

Furthermore, the fixed and variable elements are appropriately balanced, and the fixed element represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component.

The Board of Directors is responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the Company concerned. When preparing such decisions, the Board of Directors shall take into account the long-term interests of shareholders, investors and other stakeholders in the Company and the public interest.

It should be noted that the Company didn’t offer any variable remuneration or bonus in 2020.

Table 20: Directors Annual Remuneration as at 31.12.2020 (in EUR)

Remuneration as at 31st December 2020	No. of Directors during 2020	Annual Remuneration (EUR)		
		Fixed	Variable	TOTAL
Executive directors	2	144,000	0	144,000
Non-executive directors	3	36,420	0	36,420
Total	5	180,420	0	180,420

Table 21: Remuneration by business area as at 31.12.2020 (in EUR)

Remuneration as at 31.12.2020 by business area	No. of Beneficiaries	Annual Remuneration (EUR)		
		Fixed	Variable	TOTAL
Control functions	3	101,850	0	101,850
Reception, transmission and Execution	1	36,000	0	36,000
Dealing on Own Account	1	18,000	0	18,000
Safekeeping	1	43,333	0	43,333
Total	6	199,183	0	199,183

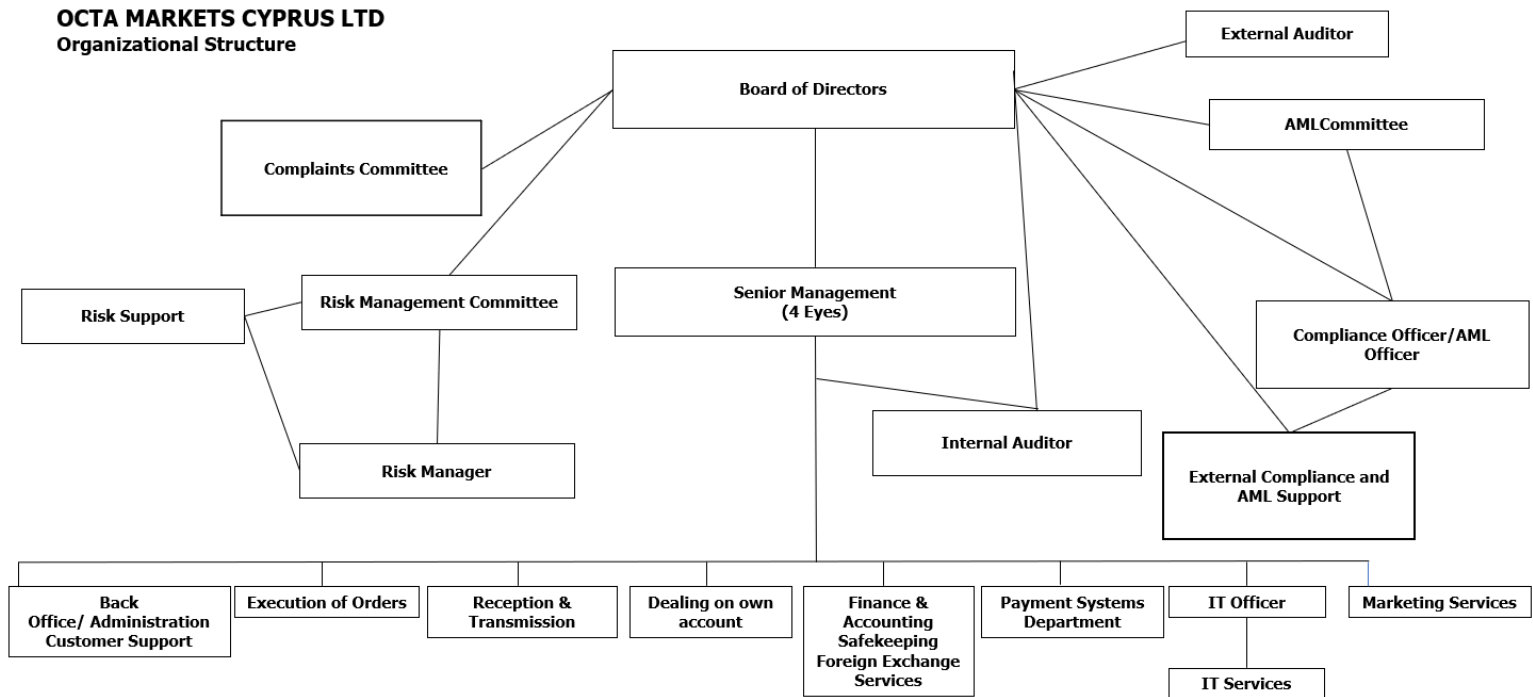
Notes:

¹ Control Function involves Compliance Officer, Internal Auditor, Risk Manager and Money Laundering Compliance Officer.

The Company implements performance review on an annual basis for all employees of the Company using qualitative components.

12. ANNEX I – ORGANISATIONAL STRUCTURE

OCTA MARKETS CYPRUS LTD Organizational Structure



13. ANNEX II – SPECIFIC REFERENCES TO THE CRR

CRR Reference	High Level Summary	Compliance Reference
Scope of Disclosure Requirements		
431 (1)	Requirement to publish Pillar 3 disclosures	1.2
431 (2)	Disclosure of operational risk information	8
431 (3)	Institution must have a disclosures policy, including their verification and frequency.	1.2
431 (4)	Explanation of credit ratings decisions to SMEs upon request	N/A
Frequency of disclosure		
433	Pillar 3 disclosures must be published on an annual basis, in conjunction with the date of publication of the financial statements.	1.2
Means of disclosures		
434 (1)	Pillar 3 disclosures to be published in an appropriate medium or provide clear cross-references to other media.	1.2
434 (2)	Equivalent disclosures made under other requirements (i.e. accounting) can be used to satisfy Pillar 3 appropriate.	1.2
Risk management objectives and policies		
435 (1) (a)	Disclosure of information in relation to strategies and processes, organisational structure of the risk management function, reporting and measurement systems and risk mitigation/hedging strategies.	1,2 and 3
435 (1) (b)		1,2 and 3
435 (1) (c)		1,2 and 3
435 (1) (d)		1,2 and 3
435 (1) (e)	Declaration approved by the Board on adequacy of risk management arrangements.	3.6
435 (1) (f)	Concise risk statement approved by the Board.	3.4
435 (2) (a)	Number of directorships held by members of the Board.	2.3
435 (2) (b)	Recruitment policy of Board members.	2.2
435 (2) (c)	Diversity policy of the Board, its objectives and results against targets.	2.4
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	3.3
435 (2) (e)	Description of information flow on risk to the Board.	2.6
Scope of Application		
436 (a)	Name of Institution.	1.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	1.2
436 (b) (i)	Fully consolidated;	N/A
436 (b) (ii)	Proportionally consolidated;	N/A
436 (b) (iii)	Deducted from Own Funds;	N/A
436 (b) (iv)	Neither consolidated or deducted.	1.2
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	N/A
436 (d)	Capital shortfalls in any subsidiaries outside the scope of consolidation and their names (if any).	N/A

436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries/entities.	N/A
Own Funds		
437 (1)	Requirements regarding capital resources table.	4
437 (1) (a)		4
437 (1) (b)		4
437 (1) (c)		4
437 (1) (d)		4
437 (1) (e)		4
437 (1) (f)		4
437 (2)	EBA shall develop implementation standards for points (a), (b), (c) and (e) above.	N/A
Capital Requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels to support current and future activities.	3.8, 3.9, 5 and 6
438 (b)	Result of ICAAP upon request of competent authority.	3.9
438 (c)	Capital requirements amounts for credit risk for each Standardised Approach exposure class (8% of RWAs)	5
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class.	N/A
438 (d) (i)		N/A
438 (d) (ii)		N/A
438 (d) (iii)		N/A
438 (d) (iv)		N/A
438 (e)	Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits.	7
438 (f)	Capital requirements amount for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approached as applicable.	8
Exposure to Counterparty Credit Risk (CCR)		
439 (a)	Description on methodology used to assign capital and credit limits for counterparty credit exposures.	N/A
439 (b)	Description of policies for securing collateral and establishing reserves.	N/A
439 (c)	Description of policies for wrong-way risk exposures.	N/A
439 (d)	Description of the impact of collateral to be provided given a downgrade in its credit rating.	N/A
439 (e)	Derivation of net derivative credit exposure.	N/A
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	N/A
439 (g)	Notional value credit derivative hedges and current credit exposure by type of exposure.	N/A
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	N/A
439 (i)	Estimation of alpha, if applicable.	N/A

Capital Buffers		
440 (1) (a)	Geographical distribution of credit exposures for the calculation of the countercyclical capital buffer.	N/A
440 (1) (b)	Amount of institution specific countercyclical capital buffer.	N/A
Indicators of global systemic importance		
441 (1)	Disclosure, on annual basis, of the values of the indicators used for determining if an institution is identified as G-SII.	N/A
Credit Risk Adjustments		
442 (a)	Definition for accounting purposes of 'past due' and 'impaired'.	N/A
442 (b)	Approached for calculating credit risk adjustments.	N/A
442 (c)	Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by different types of exposures.	6
442 (d)	Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by significant geographic areas and material exposure classes.	6
442 (e)	Exposure post-value adjustments by residual maturity and by material exposure class.	6
442 (g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	N/A
442 (g) (i)		N/A
442 (g) (ii)		N/A
442 (g) (iii)		N/A
442 (h)	Impaired, past due exposures, by geographical area and amounts of specific and general impairment for each geography.	N/A
442 (i)	Reconciliation of changes in specific and general credit risk adjustments.	N/A
442 (i) (i)		N/A
442 (i) (ii)		N/A
442 (i) (iii)		N/A
442 (i) (iv)		N/A
442 (i) (v)		N/A
442 endnote	Specific credit risk adjustments recorded to income statement and disclosed separately.	N/A
Unencumbered assets		
443	Disclosure on unencumbered assets.	N/A
Use of ECAIs		
444 (a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	6.3
444 (b)	Exposure classes associated with each ECAI.	6.3
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book.	6.3
444 (d)	Mapping of external rating to credit quality steps.	6.3

444 (e)	Exposure values pre- and post-credit risk mitigation, by credit quality step.	6.3
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	7
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	8
Exposures in equities not included in the trading book		
447 (a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	N/A
447 (b)	Recorded at fair value and actual prices of exchange traded equity where it is materially different from fair value.	N/A
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	N/A
447 (d)	Cumulative realised gains and losses on sales in the period.	N/A
447 (e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 Capital.	N/A
Exposure to interest rate risk on positions not included in the trading book		
448 (a)	Nature of interest rate risk and key assumptions in measurement models.	N/A
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, broken down by currency.	N/A
Remuneration disclosures		
450	Remuneration policy	11
Leverage		
451 (1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	10
451 (1) (b)		10
451 (1) (c)		10
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.	10
451 (1) (e)		10
451 (2)	EBA shall develop implementation standards for points above.	N/A