



PILLAR III REPORT
DISCLOSURE AND MARKET DISCIPLINE REPORT FOR
2020
April 2021



Magnum FX (Cyprus) Ltd

Regulated by the Cyprus Securities and Exchange Commission License no. 359/18

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2020 has been prepared by Magnum FX (Cyprus) Ltd as per the requirements of Regulation (EU) No. 575/2013 (the “Capital Requirements Regulation”, “CRR”) issued by the European Commission and the Directive DI144-2014-14 issued by the Cyprus Securities and Exchange Commission (the “CySEC”).

Magnum FX (Cyprus) 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.

Magnum FX (Cyprus) Ltd is regulated by the Cyprus Securities and Exchange Commission under License number 359/18.

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

The Board of Directors approves in full the adequacy of Risk Management arrangements of the institution providing assurance that the risk management systems in place are adequate with regards to the institution's profile and strategy.

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1. Introduction

1.1. Investment Firm

Magnum FX (Cyprus) Ltd is established as a Cyprus Investment firm (“CIF”), licensed and supervised by CySEC. The Magnum FX (Cyprus) was granted its license on 4th of June 2018.

Magnum FX (Cyprus) Ltd offers Investment and Ancillary services to retail and professional clients. Its current activities are concentrated in the provision of investment services including reception, transmission, execution of orders in relation to one or more financial instruments, execution of orders on behalf of clients, portfolio management and provision of investment advice.

In addition, the Company provides ancillary services, which include the 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 and foreign exchange services where these are connected to the provision of investment services.

Table 1: Company information

Company name	Magnum FX (Cyprus) Ltd
CIF Authorization date	4 th June 2018
CIF License number	359/18
Company Registration Date	28 th September 2016
Company Registration Number	HE360548
Investment Services	
Reception & Transmission of orders in relation to one or more financial instruments	
Execution of Orders on Behalf of Clients	
Portfolio management	
Provision of investment advice	
Ancillary Services	
Safekeeping and administration of financial instruments, including custodianship and related services	
Granting credit 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. Purpose

The present report is prepared by Magnum FX (Cyprus) Ltd (the “Company”), a CIF authorized and regulated by the CySEC under the license number 359/18 and operates in harmonisation with the Markets in Financial Instruments Directive (“MiFID II”).

In accordance with CRR and the paragraph 32(1) of the Directive DI144-2014-14, the Company is required to disclose information relating to its risk exposure and management, capital structure, 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.

These Pillar III Disclosures are made on a solo basis and are updated and published annually; it will, however, be published more frequently if there are significant changes to the business (such as changes to the scale of operations, range of activities, etc.). CySEC is responsible for implementing and enforcing the European Capital Requirements Directive (“CRD”), a capital adequacy framework consisting of three (3) ‘Pillars’:

- **Pillar I:** sets minimum capital requirements comprising of base capital resources requirements; credit and market risk capital requirements; and the operational risk requirement.
- **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 (“ICAAP”).
- **Pillar III:** complements Pillars 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 Pillar III Disclosures Report for 2020 sets out both quantitative and qualitative information required in accordance with Part Eight of the CRR and in particular articles 431 to 455, which set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure Report is audited by the Firm's external auditors and published on the Company's website at magnumfx.eu and ETfinance.eu on an annual basis.

Furthermore, the Board of Directors ("BoD") and the Senior Management have the overall responsibility for the internal control systems in the process of capital adequacy assessment and they have established effective processes to ensure that the full spectrum of risks faced by the Company is properly identified, measured, monitored and controlled to minimise adverse outcomes.

The Company's business effectiveness is based on the guidelines of the risk management policies and procedures put in place. The BoD, Internal Audit, Risk Manager, Compliance 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.

As with all investment firms, the Company is exposed to a variety of risks and in particular to credit risk, market risk and operational risk. More information can be found in the sections below.

The Company is not preparing consolidated financial statements and is making the disclosures on an individual basis.

1.3. The Company

The Company acts as a CIF and operates in **Cyprus**, as a Straight Through Processing broker (hereafter "STP broker") offering Investment and Ancillary Services. The Company mainly offers trading in Contract for Differences (hereafter "CFDs") on foreign exchange, stocks, indices and commodities. It had **120** employees in Cyprus as at 31st December 2020.

The Company has a stable business model and this is reflected in:

- A well-balanced capital allocation between the Company's operations.
- A geographically balanced model.

The Company's growth strategy focuses on its existing areas of expertise and the quality of its customer base. The Company strives for sustainable profitability consistent with its cost of capital and a balanced business model. To this end, the Company:

- Seeks to contain the volatility of its results.
- Calibrates its capital ratio to ensure a significant safety margin relative to the minimum regulatory requirements.
- Monitors the stability and diversification of its funding sources.
- Ensures sufficient resilience in scenarios of liquidity shortages.
- Tightly controls its foreign-exchange risks.

The Company aims to maintain a diversified customer base.

The Company ensures that compliance rules are rigorously respected, especially in the area of anti-money laundering and counterterrorism financing. The Company monitors the loyalty of the behaviour of its employees with regard to customers and all its stakeholders, as well as the integrity of its investment and financial practices.

The Company considers its reputation to be an asset of great value that must be protected to ensure its sustainable development. The prevention and detection of the risk of harm to its reputation are integrated within all the Company's operating practices. The Company's reputation is protected by making its employees aware of the values of responsibility, ethical behaviour and commitment.

1.4. Regulatory Supervision

The minimum capital requirements as at 31st December 2020 for the CRD IV were calculated in accordance with the 'Pillar I' rules as set out by the Laws and Regulations, published by the CySEC. All CIFs under CySEC's authority must meet the requirements with respect to capital adequacy and market discipline, which are comprised by the following:

- Law L.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.
- 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.
- Directive DI144-2014-14: For the prudential supervision of Investment Firms.

- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013.

1.5. Major challenges during 2020

During 2020, the Company faced material challenges in relation to its operations due to the outbreak of the coronavirus (“COVID-19”). In particular, due to the social distancing measures introduced to restrict the COVID-19 virus the Company should take all necessary measures and actions so as to ensure that:

1. To identify all key operation risks and implement a plan to minimize the possible business disruptions.
2. Arrange for all staff members to have access to a laptop and ensure that everyone will be able to perform their duties from home in case of need.
3. Alternative communication channels are in place for all Company’s employees.
4. Measures and procedures are in place in order to contribute to the slow of the spread of the illness. The Company has established the following measures in order to ensure that the virus is spread slowly:
 - a) Cancel all of the social and public gatherings, such as seminars and meetings.
 - b) Follow the instructions issued by the Ministry of Health, and required from its staff tested positive, employees with symptoms, employees who are contacts with confirmed COVID-19 cases, or travelled recently to get quarantine.

1.6. Upcoming major developments

New prudential regime was introduced on 5th December 2019 for the investment firms and it will be into force from 26th June 2021.

As per the new prudential regime, the Company will be classified as Class 2 investment firm and will be subject to the new capital requirements set out in the Investment Firms Directive (“IFD”) and the Investment Firms Regulation (“IFR”), which will be into effect on 26th June 2021 onwards.

A new permanent capital has been introduced by the new prudential regime for the Company. In this respect, the Company shall take all the necessary actions to ensure compliance with the new permanent capital requirement. In particular, from 26th June 2021 onwards the minimum

permanent capital that the Company shall maintain at all times shall amount to **EUR150,000**, in accordance with Article 9 of Directive (EU) 2019/2034.

Furthermore, the Company will be subject to a new capital requirement introduced by the new prudential regime, the K – factor requirement. In particular, the new K – factor requirement aims to capture the risk that the Company can pose to its clients, to market access or to the Company itself and is equivalent at least to the sum of:

- Risk-to-client (“RtC”).
- Risk-to-market (“RtM”).
- Risk-to-firm (“RtF”).

The RtC, RtM and RtF will be calculated based on the provisions introduced by IFR.

Additionally, the Company will also subject to the fixed overheads requirement, which remains the same as the relevant requirement arising from CRR/CRD IV capital framework and it shall amount to at least one quarter of the fixed overheads requirement of the preceding year.

As per the new prudential regime, the Company shall always ensure that its Own Funds amount to at least the highest between its permanent capital requirement, fixed overheads requirement and K – factor requirement.

Further to the above, the Company will be subject to new liquidity requirements, as well as new disclosures and reporting requirements as set out in the new prudential framework.

Following the new challenges arising from the new prudential regime, the Company assesses the impact of the new requirements introduced from the IFR and IFD on its Own Funds in order to take all the appropriate measures to ensure compliance with the new requirements from 26th June 2021 onwards.

2. Governance and Risk Management

Implementing a high-performance and efficient risk management structure is a critical undertaking for the Company, in all businesses, markets and regions in which it operates, as are maintaining a strong risk culture and promoting good corporate governance. The Company's risk management function, supervised at the highest level is compliant with the regulations enforced by CySEC and the European regulatory framework.

The Company operates a separate Risk Management function, who is responsible for the implementation of the Risk Management Policy, set by the BoD. The Risk Management Function is also responsible for the Risk Appetite of the Company and the monitoring of the risks on a regular basis. The procedures set by the Company ensure that all risks are effectively managed and measured against the set level of risk tolerance.

The Risk Management Function operates independently to the rest of the Company's functions. The Risk Manager shall submit reports to the Senior Management and Board on a frequent basis, and at least annually, indicating whether the appropriate remedial measures have been taken in the event of any deficiencies.

The Risk Management function can report directly to the BoD, independently from Senior Management, in order to raise concerns and warn where appropriate, if risks identified can affect the Company.

The Company has separate control functions which work independently from its operations and include the Compliance, Risk Management and Internal Audit functions. The head of each control function and has direct access to the BoD to raise concerns and warn in relation to any matter that may affect the Company.

The BoD ensures that each control function has adequate recourses to perform their responsibilities in accordance to the size and complexity of the Company.

2.1. Types of Risks

Given the diversity and evolution of the Company's activities, risk management involves the following main categories:

- **Credit and Counterparty risk** (including Country risk): risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments. Credit risk includes Counterparty risk linked to market transactions (Replacement risk) and securitisation activities. In addition, Credit risk may be further amplified by Concentration risk, which arises from a large exposure to a given risk, to one or more counterparties, or to one or more homogeneous groups of counterparties; Country risk arises when an exposure (loan, security, guarantee or derivative) becomes liable to negative impact from changing political, economic, social and financial conditions in the country of exposure.
- **Market risk**: risk of loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets.
- **Operational risks** (including Accounting and Environmental risks): risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss.
- **Liquidity risk**: risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.
- **Compliance risk** (including Legal and Tax risks): risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company's activities.
- **Reputational risk**: risk arising from a negative perception on the part of customers, counterparties, shareholders, investors or regulators that could negatively impact the Company's ability to maintain or engage in business relationships and to sustain access to sources of financing.
- **Strategic risk**: risks inherent in the choice of a given business strategy or resulting from the Company's inability to execute its strategy.
- **Business risk**: risk of lower than anticipated profits or experiencing losses rather than a profit.

2.2. Risk Appetite

The Company defines Risk Appetite as the level of risk, by type and by business that the Company is prepared to incur given its strategic targets. Risk Appetite is defined using both quantitative and qualitative criteria.

The Risk Appetite Framework takes into account earnings sensitivities to business cycles and credit, market and operational events. The Risk Appetite is one of the strategic oversight tools available to the Management bodies. It underpins the budgeting process and draws on the ICAAP, which is also used to ensure capital adequacy under stressed economic scenarios.

Furthermore, the positioning of the business in terms of risk/return ratio as well as the Company's risk profile by type of risk are analysed and approved by the BoD. The Company's risk appetite strategy is implemented by the Senior Management in collaboration with the BoD and applied by all divisions through an appropriate operational steering system for risks, covering:

- Governance (decision-making, management and supervisory bodies).
- Management (identification of risk areas, authorisation and risk-taking processes, risk management policies through the use of limits and guidelines, resource management).
- Supervision (budgetary monitoring, reporting, leading risk indicators, permanent controls and internal audits).

Essential indicators for determining the Risk Appetite and their adaptations are regularly supervised over the year in order to detect any events that may result in unfavourable developments on the Company's risk profile. Such events may give rise to remedial action, up to the deployment of the recovery plan in the most severe cases.

The Company has in place a Risk Appetite Statement which shall be approved by its BoD.

2.3. Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process ("ICAAP") requires institutions to identify and assess risks not adequately covered in Pillar I, maintain sufficient capital to face these risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward-looking basis, i.e., internal capital supply to exceed internal capital demand.

The Company maintains compliance with the ICAAP as required under Pillar II of Basel III and its local implementation in Cyprus, through risk management and governance framework, methodologies, processes and infrastructure. The Company's ICAAP report is constructed in accordance with the Guidelines GD-IF-02.

On 10th July 2019, CySEC issued Circular C326 regarding the Prudential Supervision Information which will be required to be submitted (“Form 144-14-11”) by all the Investment Firms by the 30th of June each year. Specifically, this particular form was addressed by CySEC in order to collect relevant information by the CIFs regarding the following areas:

- The assessment of ICAAP.
- The assessment of annual audited financial statements.
- The safeguarding of clients’ money.

The regular deadline of the submission of the Form-144-14-11 for 2020 was extended by two months due to COVID-19 issues as per CySEC’s [Circular C373](#). Therefore, the Company’s ICAAP results, have been successfully submitted to CySEC through Form 144-14-11 by the end of August 2020.

The Company prepared the ICAAP with reference date 31st December 2018. Based on the abovementioned form, the risks that the Company is exposed to and the amount of capital requirement the Company allocated to each of them as at the reference date of the latest ICAAP are illustrated in the table below:

Table 2: Capital allocation for Pillar I and Pillar II risks based on the Company’s ICAAP results

Risks	Total Capital Requirement
	EUR
Market Risk	-
Credit Risk	5,316
Operational Risk	42,916

Furthermore, the Company will include in the updated version of its ICAAP report tailored made stress scenarios which will take into consideration, the changes in relation to the challenges faced by the Company due to the outbreak of the COVID-19 in order to evaluate the risks arising from this pandemic.

3. Stress Tests

Stress testing is a key risk management 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 BoD. If the stress testing scenarios reveal vulnerability to a given set of risks, the management should make recommendations to the BoD for mitigation 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 capital.
- Enhance contingency planning.

The Company performs financial modelling and stress analysis on a frequent basis especially when year-end financial results are available or when it revises its business plan.

4. 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, which includes and makes use of differences in the age, skills, experience, background, race and gender between them. A balance of these differences will be considered when determining the optimum composition.

The Company is committed in 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 practises in the Corporate Governance Code of many EU countries.

In line with the recent changes in the regulatory reporting framework, the Company maintains a dedicated diversity policy in relation to the Management body.

5. Board Recruitment

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Senior Management is assigned with 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. The final approval of a member of the Management Body is given by CySEC.

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.
- Clean criminal record.
- Risk management experience.

In line with the recent changes in the regulatory reporting framework, the Company maintains a dedicated recruitment policy in relation to the BoD.

6. Remuneration

Remuneration refers to payments or compensations received for services or employment. The remuneration system includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment and shall be appropriate to the CIF's size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the Directive DI144-2014-14.

During 2020, the Company's remuneration system is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management, members of the Board of Directors and the Heads of the Departments; the said practices are established to ensure that the rewards for the 'Executive Management' provide the right incentives to achieve the key business aims.

The total remuneration of staff consists of fixed and variable components. Fixed and variable components are appropriately balanced and the fixed component 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 Company shall manage and control the ratios between the fixed and the variable component of the total remuneration for each individual in order to comply with the requirements arising from Article 94(1)(g) of Directive 2013/36/EU. It shall be noted that the Company established a monitoring policy in order to ensure that no conflict of interest will arise.

Table 3: Aggregate Quantitative Information on Remuneration

<i>Figures in EUR</i>	No. of staff	Fixed	Variable	Non-cash	Total
Executive Directors	2	87,140	-	-	87,140
Non-Executive Directors	3	129,305	-	-	129,305
Other staff whose actions have a material impact on the risk profile of the Company	6	119,457	-	-	119,457
Grand Total	11	335,902	-	-	335,902

7. Directorships held by Members of the Management Body

As at 31st December 2020, the members of the Management body of the Company, given their industry experience, have been taking seats in other Company boards. In line with this, the following table indicates the number of positions that each member holds (including the one in the Company). Positions held by a member of the Management body in the same group are considered as one position.

Table 4: Directorships held by Members of the Management Body

Name	Position in the CIF	Directorships (Executive)	Directorships (Non-Executive)
George Miltiadous	Executive Director	1	1
Marios Zantis	Executive Director	1	0
Andreas Matsas	Non-Executive Director	0	4
Antonios Antoniou	Non-Executive Director	2	1
Diana Jomantaite	Non-Executive Director	1	1

Mr. Eliahu Eliron resigned from his position as a member of the Board of Directors of the Company on 16th of June 2020.

Mr. Marios Zantis was appointed as a member of the Board of Directors on 28th of December 2020.

During 2020, the BoD has met 5 times discussing important issues surrounding the Company's operations in an effort to effectively discharge its duties.

8. Board Risk Management Declaration

The Company's Risk Management Function is entitled to review and appropriately assess the effectiveness of the risk management strategies and procedures adopted by the Company.

The abovementioned procedures are designed in order to manage and mitigate any deficiencies that the Company might face during its operations.

The Company's Management Body ensures that the Company has adequate measures and procedures in place so as to prevent and mitigate any risk arising from its operations.

9. Risk Profile

The Company's management body is appropriately informed and acknowledge the necessity of taking all the appropriate actions for complying with the Company's minimum requirements for its capital adequacy ratio and its own funds, which are **8.00%** and **EUR125,000**.

The Company's material risks are assessed on a quarterly basis via the use of a Risk Register and the results are communicated to the Company's BoD in order to decide which mitigating actions the Company should take.

The table below summarises the main risks identified and the controls the Company has already taken in order to manage and mitigate those risks.

Table 5: Material Risks

Risk Type	Controls in place
Regulatory Risk	The Company monitors its Capital Adequacy Ratio and Own Funds on a quarterly basis in order to ensure that the Company complies with the relevant requirements (EUR125,000 and 8.00%, respectively). The Company's Capital Adequacy Ratio stood at 17.12% as at 31st December 2020, which is above the minimum requirement of 8.00%. Additionally, the Company's Own Funds stood at EUR409,421 which is above the minimum requirement of EUR191,295 (to comply with its minimum initial capital of EUR125,000 and 8.00% capital adequacy ratio).
Credit Risk	Credit Risk mainly emanates from Concentration Risk at the Company's bank accounts. The capital usage for credit risk amounted to EUR112,904 as of 31st December 2020. The Company monitors its credit risk on a quarterly basis through its capital adequacy calculations.
Market Risk	The Company's Market Risk mainly arises from foreign exchange rates fluctuations which affect the Company's assets and liabilities, which are denominated in foreign currencies. As at 31st December 2020, the total Net Long and Net Short in all the non-reporting currencies amounted to EUR212,042 and EUR7,098 respectively.

	The Company reports these exposures on a quarterly basis through its capital adequacy calculations.
Operational Risk	The Company is exposed to Operational Risk associated with inadequate personnel, processes, systems, infrastructure or external events of the Company. The Company's capital requirement arising from its operational risk due to additional Fixed Overheads capital usage amounted to EUR61,428 as of 31 st December 2020.

10. Reporting and Control

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

Table 6: Periodic Reporting Summary

Report Name	Report Description	Owner	Recipient	Frequency	Original Deadlines	Extended Deadlines
Annual Compliance Report	To inform the Senior Management & the BoD of the Company regarding the Performance of Compliance function during the year	Compliance Officer	Senior Management, BoD, CySEC	Annual	30/04/2021	30/06/2021
Annual Internal Audit Report	To inform the Senior Management & the BoD of the Company regarding the Internal Auditor during the year	Internal Auditor	Senior Management, BoD, CySEC	Annual	30/04/2021	30/06/2021
Annual Risk Management Report	To present the work undertaken by the Risk Manager during the year	Risk Manager	Senior Management, BoD, CySEC	Annual	30/04/2021	30/06/2021
Pillar III Disclosures (Market	To disclose information regarding	Senior Management	BoD, CySEC, Public	Annual	30/04/2021	30/06/2021

Discipline and Disclosure	Company's risk management, capital structure, capital adequacy and risk exposures					
Financial Reporting	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual	30/04/2021	30/06/2021
Suitability Report	It's a formal report, which is required to be provided to the retail clients of the CIF in order to make a personal recommendation to the client.	External Auditor	BoD, CySEC	Annual	30/04/2021	30/06/2021
Audited Statement of Eligible Funds	A measure of the CIF's ICF. It is expressed based on a risk based approach taking into account the reliability of the statement of eligible funds and financial instruments.	External Auditor	BoD, CySEC	Annual	10/05/2021	N/A
Pillar III Disclosures (Market Discipline and Disclosure) based on the Audited figures	To disclose information regarding Company's risk management, capital structure, capital adequacy and risk exposures based on its Audited figures.	Senior Management	BoD, CySEC, Public	Annual	31/05/2021	31/07/2021
Capital Adequacy Reporting	A measure of the CIF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world	Risk Management Function/ Financial Department	Senior Management, CySEC	Quarterly plus Audited	11/05/2020 11/08/2020 11/11/2020 11/02/2021	N/A

11. Capital Management and Adequacy

11.1. The Regulatory Framework

In response to the financial crisis of recent years, the Basel Committee, mandated by the G20, has defined the new rules governing capital and liquidity aimed at making the financial sector more resilient. The new Basel III rules were published in December 2010. They were translated into European law by a directive (CRDIV) and a regulation (CRR) which entered into force on 1st January 2014.

The general framework defined by Basel III is structured around three (3) pillars, as in Basel II:

- **Pillar I:** sets the minimum solvency requirements and defines the rules that institutions, that are required to comply with the regulation, must use to measure risks and calculate associated capital requirements, according to standard or more advanced methods.
- **Pillar II:** relates to the discretionary supervision implemented by the competent authority, which allows them to assess the adequacy of capital requirements as calculated under Pillar I, and to calibrate additional capital requirements with regard to risks other than those assessed under Pillar I.
- **Pillar III:** encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to make a better assessment of a given institution's capital, risk exposure, risk assessment processes and, accordingly, capital adequacy.

12. Regulatory Capital

According to the International Financial Reporting Standards ("IFRS"), the Company's regulatory capital consists of Common Equity Tier 1 and Tier 2 Capital.

Common Equity Tier 1 Capital ("CET1 Capital")

According to CRR/CRDIV regulations, CET1 Capital is made up primarily of the following:

- Ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts.
- Retained earnings.
- Other reserves.

- Minority interest limited by CRR/CRDIV.

Deductions from CET1 Capital essentially involve the following:

- Estimated dividend payment.
- Goodwill and intangible assets, net of associated deferred tax liabilities.
- Unrealised capital gains and losses on cash flow hedging.
- Deferred tax assets on tax loss carry forwards.
- Deferred tax assets resulting from temporary differences beyond a threshold.
- Any positive difference between expected losses on customer loans and receivables, risk-weighted using the standardised approach, and the sum of related value adjustments and collective impairment losses.
- Expected loss on equity portfolio exposures.
- Value adjustments resulting from the requirements of prudent valuation.
- The Investors Compensation Fund (“ICF”) contributions as per Circular C162 issued by CySEC on 10th October 2016.
- According to paragraph 11(6) of the Directive DI87-07, the members of ICF are required to keep a minimum cash buffer of 3 per thousand of the eligible funds and financial instruments of their clients as at the previous year in a separate bank account in case there is need for an extraordinary contribution and this should not be used for any other purpose. Therefore, CIFs should deduct the additional cash buffer of 3 per thousand of the eligible funds and financial instruments of their clients from the CET 1 capital. CIFs are expected to reflect the above in their submissions of the Form 144-14-06.1 (calculation of own funds and capital adequacy ratio) from the 11th November 2019 onwards.

Inclusion of Interim Profits:

CySEC issued Circular C305 to provide further guidance to the CIFs regarding the inclusion of interim profits in CET1 Capital.

According to Article 26(2) of the CRR, CIFs may include interim profits in CET1 Capital, before the CIF has taken a formal decision confirming its final profits for the year, only if they get the prior permission of CySEC.

CIFs should apply for a permission from CySEC in order to include interim profits in CET1 Capital. In their application, CIFs are required to demonstrate that the conditions, as set out in Article 26(2) of CRR, are met.

The verification of interim financial information by the external auditor of the CIF for the purpose of Art. 26(2) shall be at least the ‘Independent auditors’ report on review of interim financial

statements' based on the international standard "International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the Entity'.

CIFs that apply to CySEC for a permission to include their interim profits in CET1 Capital should submit to CySEC, via portal and under the section "Application for permission as per Art. 26(2) of CRR for interim profits", the following:

- A confirmation letter from the CIF stating the below information:
 - The reporting period for which the CIF wishes to recognise as CET1 capital the verified profits.
 - Profits as verified.
 - Foreseeable charges/deductions (e.g. dividends).
 - The total CET1 prior and after the inclusion of verified profits
- The independent auditor's verification report with regards to the interim profits that the permission is requested.

It was clarified that interim profits, for which the permission of CySEC has not been granted, will not be eligible to be included in CET1 Capital.

Tier 2 Capital

Tier 2 capital includes:

- Dated subordinated notes.
- Any positive difference between (i) the sum of value adjustments and collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardised approach and (ii) expected losses, up to **0.60%** of the total credit risk-weighted assets using the Internal Ratings Based approach.
- Value adjustments for general credit risk related to collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardised approach, up to **1.25%** of the total credit risk-weighted assets.

Tier 2 capital shall be less or equal to one third of Tier 1 Capital.

Deductions of Tier 2 capital essentially apply to the following:

- Tier 2 hybrid treasury shares.
- Holding of Tier 2 hybrid shares issued by financial sector entities.

- Share of non-controlling interest in excess of the minimum capital requirement in the entities concerned.

13. Solvency Ratio (Capital Ratio or Capital Adequacy Ratio)

The solvency ratio is set by comparing the institutions' equity with the sum of risk-weighted assets for credit risk, market risk and operational risk.

Since 1st January 2014, the new regulatory framework sets minimum requirements to be met for the CET1 ratio and the Tier 1 ratio. For 2015, the minimum requirement for CET1 was **4.00%** and that of Tier 1 **5.50%**, excluding the Pillar II requirement. The total equity requirement, including CET1, AT1 and Tier 2 equity, was set at **8.00%**. In 2016, the minimum requirement for CET1 was **4.50%**, and that of Tier 1 **6.00%** with an overall ratio of **8.00%** (including Tier 2).

14. Capital Management

Capital management is implemented by the Senior Management. 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: supervisors, debt and equity investors, rating agencies, and shareholders.

The Company determines its internal solvency targets in accordance with these.

In line with the above, the Company is obligated to calculate and report on a quarterly basis (see section on *Reporting and Control*), under CRD, its credit risk, market risk and the operational risk requirements the result of which, i.e. solvency/capital ratio, needs to be above **8.00%** (calculated based on the section above) at all times.

At 31st December 2020, the Total Capital ratio of the Company stood at **17.12%** with total risk-weighted assets of **EUR2,391,186**. The Company's total Capital ratio and total risk weighted assets are calculated in accordance to the relevant provisions of CRR.

Table 7: Capital Requirements

EUR	December 31, 2020 (Unaudited)	December 31, 2019 (Audited)	EUR	Δ %
CAR Ratio	17.12%	12.36%		4.76%
CAR Ratio surplus/(deficit)	9.12%	4.36%		4.76%
Capital Adequacy (CET1) ratio	17.12%	12.36%		4.76%
CET1 Capital	409,421	301,631	107,790	35.74%
Tier 1 Capital	409,421	301,631	107,790	35.74%
Tier 2 Capital	-	-	-	-
Total Own Funds	409,421	301,631	107,790	35.74%
Total Own Funds surplus/(deficit)	218,126	106,328	111,798	105.14%
Total Credit Risk exposure	1,411,305	1,821,963	(410,658)	(22.54%)
Total Market Risk Exposure	212,042	619,321	(407,279)	(65.76%)
Operational Risk Exposure (due to Additional Fixed Overheads)	767,839	-	767,839	-
Total Risk Exposure	2,391,186	2,441,284	(50,098)	(2.05%)
Leverage ratio	20.65%	6.80%		13.85%

The Company calculates its regulatory capital in accordance with the relevant provisions set out in CRR.

Table 8: Regulatory Capital

EUR	December 31, 2020 (Unaudited)	December 31, 2019 (Audited)	EUR	Δ %
Common Equity Tier 1 (CET 1) capital: instruments and reserves				
Capital instruments and the related share premium accounts	965,331	965,331	-	-
Retained earnings	(500,256)	(604,211)	103,955	(17.21%)
Accumulated other comprehensive income (loss), net of tax	74,213	103,955	(29,742)	(28.61%)

Other	-	-	-	-
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	465,075	465,075	-	-
Common Equity Tier 1 (CET 1) capital: regulatory adjustments	-	-	-	-
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	-	(110,000)	110,000	(100.00%)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities where the conditions in Art. 38 (3) CRR are met) (negative amount)	-	-	-	-
Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 15 % threshold and net of eligible short positions) (negative amount)	-	-	-	-
Other regulatory adjustments	(55,654)	(53,444)	(2,210)	4.14%
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	(55,654)	(163,444)	107,790	(65.95%)
Common Equity Tier 1 (CET 1) capital	409,421	301,631	107,790	35.74%
Additional Tier 1 Capital	-	-	-	-
Tier 1 Capital	409,421	301,631	107,790	35.74%
Tier 2 Capital	-	-	-	-
Total Capital	409,421	301,631	107,790	35.74%
Total risk-weighted assets	2,391,186	2,441,284	(50,098)	(2.05%)
Capital Ratios				
Common Equity Tier 1 (CET 1) capital ratio	17.12%	12.36%	-	4.76%
Tier 1 Capital ratio	17.12%	12.36%	-	4.76%
Total Capital ratio	17.12%	12.36%	-	4.76%

Table 9: Own funds disclosure template under the Transitional and Full – phased in definition

EUR	Transitional Definition	Full – phased in Definition
Common Equity Tier 1 (CET 1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	965,331	965,331
Retained earnings	(500,256)	(500,256)
Accumulated other comprehensive income (loss), net of tax	74,213	74,213
Other	-	-
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	465,075	465,075

Common Equity Tier 1 (CET 1) capital: regulatory adjustments		
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	-	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities where the conditions in Art. 38 (3) CRR are met) (negative amount)	-	-
Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 15 % threshold and net of eligible short positions) (negative amount)	-	-
Other regulatory adjustments	(55,654)	(55,654)
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	(55,654)	(55,654)
Common Equity Tier 1 (CET 1) capital	409,421	409,421
Additional Tier 1 Capital	-	-
Tier 1 Capital	409,421	409,421
Tier 2 Capital	-	-
Total Capital	409,421	409,421
Total risk-weighted assets	2,391,186	2,391,186
Capital Ratios		
Common Equity Tier 1 (CET 1) capital ratio	17.12%	17.12%
Tier 1 Capital ratio	17.12%	17.12%
Total Capital ratio	17.12%	17.12%

Deductions from Own Funds:

The Company, in accordance with Article 36 of the CRR, deducted from CET 1 Capital the amount of **EUR55,654** representing the ICF contributions as per Circular C162 of the CySEC dated 10 October 2016 and the additional cash buffer of 3 per thousand of the eligible funds and financial instruments of Company's clients as per the paragraph 11(6) of the Directive DI87-07.

Capital Adequacy Ratio

The Capital Adequacy Ratio as reported to CySEC for the year ended 31st December 2020 stood at **17.12%**, which is above the minimum regulatory requirement of **8.00%**.

15. Leverage Ratio

The Company steers its leverage effect according to the CRR leverage ratio rules, as amended by the Article 1 of the Delegated Regulation (EU) 2015/62 of 10th October 2014. Steering the leverage ratio means both calibrating the amount of Tier 1 capital (the ratio's numerator) and controlling the Company's leverage exposure (the ratio's denominator) to achieve the target ratio levels that the Company sets for itself.

The leverage ratio is a simple non-risk adjusted capital measure, defined as a measure of Tier 1 capital percentage of the total exposures. The leverage ratio intends to constrain leverage and bring institution's assets more in line with their capital, in order to help the Company mitigate the destabilizing deleveraging process in downturns situations.

As at 31st December 2020 the Company's leverage ratio was **20.65%** compared to **6.80%** as at 31st December 2019.

Table 10: Leverage ratio common disclosure

EUR	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)	1,982,385
Derivative exposures	-
Securities financing transaction exposures	-
Other off-balance sheet exposures	-
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	-
Tier 1 capital	409,421
Total leverage ratio exposures	1,982,385
Leverage ratio	20.65%

Table 11: Split-up of on balance sheet exposures

EUR	CRR leverage ratio exposures
Trading book exposures	-
Banking book exposures, of which:	1,982,385
Covered bonds	-
Exposures treated as sovereigns	-

Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
Institutions	1,037,159
Secured by mortgages of immovable properties	-
Retail exposures	-
Corporate	3,740
Exposures in default	-
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	941,486
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	1,982,385

16. Credit Risk

Credit risk corresponds to the risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments.

The Company's credit risk mainly arises:

- By the Company's deposits in credit and financial institutions.
- By assets mainly held from debtors or prepayments made.

The Company follows the Standardized Approach under Pillar I for calculating its Credit Risk Capital Requirements, as specified in CRR. It categorizes the assets in respect to their exposure class and uses the Credit Step methodology to determine its respective Risk Weights ("RW").

The Company follows both regulatory and compliance-oriented credit risk mitigation ("CRM") strategies in order to minimize the possibility of occurrence of this risk, such as:

- All Client funds are held in segregated accounts, separated from Company's funds.
- In order to maintain its Credit risk to the minimum, the Company is using EU credit institutions for safekeeping of funds and always ensures that the banks it cooperates with have high ratings based on top credit rating agencies (Moody's, S&P or Fitch), it frequently monitors their compliance with the EU regulatory framework and diversifies the funds over several credit institutions thus mitigating the risk exposure efficiently.

Concentration Risk

Concentrations are measured using a standardised model and individual concentration limits are defined for large exposures. Any concentration limit breach is managed over time by reducing exposures.

16.1. External Ratings

For the purpose of calculating the capital requirements of the Company, mainly under the credit risk requirement, the external credit ratings from **Moody's Analytics** have been applied for the exposure classes listed below:

- Exposures to central governments or central banks.

- Exposures to institutions.
- Exposures to corporates.

The general association with each credit quality step complies with the standard association published by CySEC as follows:

Credit Quality Step	Moody's Rating	Institution Risk Weight (Below 3 months)	Institution Risk Weight (Above 3 months)	Sovereigns Risk Weight	Corporate Risk Weight
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%

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

Please note that the external ratings are not taken into account where exceptions or discretions as per the CRR apply.

17. Quantitative Information

The credit exposures in this section are measured using the standardized approach. Exposures are broken down by sectors and obligor ratings.

As at 31st December 2020, the Company's capital usage for credit risk amounted to **EUR112,904**, while the risk weighted exposure was **EUR1,411,305** (compared to **EUR145,757** and **EUR1,821,963**, respectively, as at 31st December 2019). The tables below indicate the Company's credit risk exposure as at 31st December 2020.

Table 12: Asset Class Breakdown of Net Credit Risk Exposure and Minimum Capital Requirement as at 31st December 2020, EUR

Asset Class	Net value of exposures at the end of the period	Minimum capital requirement
Central governments or central banks	-	-
Public sector entities	-	-
Institutions	466,079	37,286
Corporates	3,740	299
<i>Of which: SMEs</i>	-	-
Retail	-	-
<i>Of which: SMEs</i>	-	-
Equity exposures	-	-
Other exposures	941,486	75,319
Total risk weighted assets	1,411,305	
Total Credit Risk Capital Requirements		112,904

Table 13: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Exposure Class, EUR

Asset class	Exposure before CRM	Exposure after CRM
Central governments or central banks	-	-
Public sector entities	-	-
Institutions	466,079	466,079
Corporates	3,740	3,740
<i>Of which: SMEs</i>	-	-
Retail	-	-
<i>Of which: SMEs</i>	-	-
Equity exposures	-	-
Other exposures	941,486	941,486
Total risk weighted assets	1,411,305	1,411,305
Total Credit Risk Capital Requirements	112,904	112,904

Table 14: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Significant Geographic Area and Material Exposure Class, EUR

Asset class	Cyprus	Australia	Germany	United Kingdom	Lithuania	Czech Republic	Latvia	United States	Total
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Central governments or central banks	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-
Institutions	277,023	21,207	97,450	4,559	7,275	1,924	56,641	-	466,079
Corporates	2,756	-	-	940	-	-	-	44	3,740
Of which: SMEs	-	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-	-
Of which: SMEs	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-
Other exposures	941,486	-	-	-	-	-	-	-	941,486
Total risk weighted assets	1,221,265	21,207	97,450	5,499	7,275	1,924	56,641	44	1,411,305
Total Credit Risk Capital Requirements	97,701	1,696	7,796	440	582	154	4,531	4	112,904

Table 15: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Industry and Exposure Class, EUR

Asset class	Financial Services	Other Industry	Total
Central governments or central banks	-	-	-
Public sector entities	-	-	-
Institutions	466,079	-	466,079
Corporates	-	3,740	3,740
Of which: SMEs	-	-	-
Retail	-	-	-
Of which: SMEs	-	-	-
Equity exposures	-	-	-
Other exposures	-	941,486	941,486
Total risk weighted assets	466,079	945,226	1,411,305

Total Credit Risk Capital Requirements	37,286	75,618	112,904
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Table 16: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Residual Maturity and by Material Exposure Class, EUR

Asset class	Up to 3 months	More than 3 months	Total
Central governments or central banks	-	-	-
Public sector entities	-	-	-
Institutions	101,405	364,674	466,079
Corporates	-	3,740	3,740
Of which: SMEs	-	-	-
Retail	-	-	-
Of which: SMEs	-	-	-
Equity exposures	-	-	-
Other exposures	-	941,486	941,486
Total risk weighted assets	101,405	1,309,900	1,411,305
Total Credit Risk Capital Requirements	8,112	104,792	112,904

Table 17: Credit Quality Concentration, EUR

Credit Quality Step	Exposure before CRM	Exposure after CRM
1	-	-
2	-	-
3	99,477	99,477
4	-	-
5	-	-
6	-	-
Unrated	1,311,828	1,311,828
Total	1,411,305	1,411,305

Large Exposures:

An institution's exposure to a Counterparty shall be considered as a large exposure if its value exceeds the **10.00%** of its Own Funds.

The Company monitors its large exposures on a quarterly basis and has policies in place in order to limit the amount of credit exposures to any particular counterparty in compliance with the provisions of the CRR.

The Company is not obligated to report its large exposures as at 31st December 2020 according to article 388 of EU Regulation 575/2013.

18. Market Risk

Market risk corresponds to the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include, but are not limited to, exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets.

As mentioned above, in the context of Pillar I, market risk mainly arises through:

Position Risk: It refers to the probability of loss associated with a particular trading/security (long or short) position due to 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. However, due to their short residual maturity, the resulting capital requirement is zero.

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.

The Company acts as a Straight Through Processing (“STP”) broker entered into risk agreements with third parties in order to transfer the market risk from open positions of its clients to them.

As at 31st December 2020, the Company’s market risk mainly emanated from foreign exchange rates fluctuations which affect the Company’s deposits in foreign currencies primarily with respect to the US Dollar and the GBP.

18.1. Quantitative Information

The Company's capital requirements related to market risk are determined using the standardized approach in accordance with the provisions of CRR.

The Company's total capital usage for market risk as at 31st December 2020 amounted to **EUR16,963**, while the market risk risk-weighted exposure amounted to **EUR212,042** (compared to **EUR49,546** and **EUR619,321**, respectively, as at 31st December 2019).

Table 18: Foreign Exchange risk capital requirements in EUR

	RWAs	Capital Requirements
Foreign exchange risk		
<i>GBP</i>	211,569	16,925
<i>USD</i>	473	38
Total	212,042	16,963

19. Operational Risk

Operational risks (including accounting and environmental risks) correspond to the risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss. This section describes the monitoring of the Company's operational risk, in addition to providing an analysis of the Company's operational risk profile and regulatory capital requirements.

The Company has developed processes, management tools and a control infrastructure to enhance the Company-wide control and management of the operational risks that are inherent in its various activities. These include, among others, general and specific procedures, permanent supervision, business continuity plans and functions dedicated to the oversight and management of specific types of operational risks, such as fraud, risks related to external service providers, legal risks, information system security risks and compliance risks.

In order to control the exposure to operational risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
- To improve the effective management of the Company and strengthen its brand and external reputation.

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, at 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-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.
- Detection methods are in place in order to detect fraudulent activities.
- Comprehensive business contingency and disaster recovery plan.

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.

The Company calculates its capital requirement for its Operational risk in accordance with the Fixed Overheads approach as set out in CRR.

19.1. Quantitative Information

The operational risk capital usage, as at 31st December 2020, was **EUR61,427**, while the operational risk risk-weighted exposure was **EUR767,838** (compared to **EUR0.00** and **EUR0.00** respectively as at 31st December 2019, since the sum of the Credit and Market risk was greater than the Fixed Overhead requirement).

20. Liquidity risk

Liquidity risk corresponds to the risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.

The Company's primary objective is to ensure the funding of its activities in the most cost-effective way by managing liquidity risk and adhering to regulatory constraints. The liquidity system aims at providing a balance sheet framework with assets and liabilities target structure that is consistent with the risk appetite defined by the BoD:

- The assets structure should allow the businesses to develop their activities in a way that is liquidity-efficient and compatible with the target liabilities structure.
- The liabilities structure is based on the ability of the businesses to collect financial resources from customers and the ability of the Company to sustainably raise financial resources on the markets, in accordance with its risk appetite.

The principles and standards applicable to the management of liquidity risks are defined by the Company's governing bodies, whose duties in the area of liquidity are listed below:

- The Company's BoD establishes the level of liquidity risk tolerance as part of the Risk Appetite exercise.
- The Senior Management (i) sets budget targets in terms of liquidity (ii) allocates liquidity to the pillars.

To minimize its exposure to liquidity risk, the Company implements the below Liquidity Risk Mitigation Strategies:

- Regular analysis & reporting to the BoD on the funding needs of the Company.
- Monitoring of the Company's exposures and diversification to avoid rise of concentration risk as per the internal policies.
- Cash Management.

The Company has undertaken a specific review of its liquidity risks and believes that it is able to meet its upcoming maturities. As at 31st December 2020, the Company held **EUR1,037,159** in its bank accounts.

Furthermore, the client assets held in fiduciary capacity (in segregated accounts) were **EUR2,781,122**. The Company is taking due care in safeguarding these assets and performs the following mitigation strategies:

- These 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.
- Daily reconciliations are performed internally and also from the External Auditors which also are tasked to verify and submit to CySEC annual reports.

From 26th June 2021, the Company will be subject to new liquidity requirements as per the provisions of the new prudential regime. In particular, the Company shall hold an amount of liquidity assets (as defined in Article 45 of IFR) equivalent to at least one third of the fixed overheads requirement calculated in accordance with Article 13 (1) of IFR. Following the introduction of the new prudential regime for investment firms, the Company assesses the impact of the new liquidity requirement in order to take all the appropriate measures and actions to ensure compliance with the new requirements from the date the new prudential regime will enter into force, on 26th June 2021 onwards.

21. Product Intervention Measures

On the 27th March 2018 ESMA agreed on temporary product intervention measures on the provision of Contracts for Differences (“CFDs”) and Binary Options to retail clients, which were formally adopted by ESMA on the 1st June 2018 and were renewed for last time on 1st May 2019 and 2nd April 2019, respectively.

ESMA decided not to renew its product intervention measures relating to relating to the binary options and CFDs, since most of the NCAs have taken permanent national product intervention measures, which are at least as stringent as ESMA’s measures.

On 27th September 2019, CySEC issued a Policy Statement (“PS-04-2019”) and permanently introduced ESMA measures into national law pursuant to Article 42 of Regulation EU No 600/2014 or MiFIR. The purpose of this policy was to publish the relevant rules that restrict the sale, marketing and distribution of CFDs in or from Cyprus in line with ESMA’s temporary product intervention measures. On 27th September 2019, ESMA published an Opinion concluding that overall CySEC’s national measures are justified and proportionate, with the exception for CySEC’s decision to define the Territorial Scope of Cyprus National Product Intervention Measures (“CyNPIMs”).

National Intervention Measures:

CySEC replicated ESMA’s Product Intervention measures:

- Leverage requirements/ initial margin requirements.
- Margin close out rule.
- Negative Balance Protection.
- Restriction on the incentives offered to the trade CFDs.
- Standardised risk warnings with minor amendment as defined below:
 - 1) For new CFD providers or with CFD providers without any trades during the last twelve months, the specific percentage range of retail client accounts that lose money shall not be mentioned.
 - 2) For the durable medium and webpage specific risk warning and the abbreviated specific risk warning: “... ***The vast majority of retail investor accounts...***”.
 - 3) For the reduced character specific risk warning: “***Retail client accounts generally lose money***”.

The Company is up to date in relation to the Product Intervention measures and has amended its procedures so as to comply with the Product Intervention measures which are into force.

22. Negative Balance Protection Risk Management

“Negative Balance Protection” is a precautionary measure that firms take in order to safeguard their clients.

The negative balance protection aims at protecting retail clients in exceptional circumstances where there is a price change in the underlying that is sufficiently large and sudden to prevent the CFD provider from closing out the position as required by the margin close-out protection, resulting to a negative account value.

Large market events can cause gapping, preventing the automatic margin close-out protection from being effective.

The purpose of a negative balance protection is to ensure that an investor's maximum losses from trading CFDs, including all related costs, are limited to the total funds related to trading CFDs that are in the investor's CFD trading account.

The Company ensures that it maintains appropriate arrangements with its Liquidity Providers (the “LPs”) so as to ensure that the market risk is covered by its Liquidity Providers, in order to comply with the Negative Balance Protection.

23. Risk Transferring Arrangements

“Risk transfer arrangement” is defined as the transferring of risk and liability to a third party.

According to the CySEC communication to all CIFs, CFD CIFs under an **EUR125,000** Limited License or under **EUR730,000** License, which have in place LP Contractual Arrangements with entities domiciled in jurisdictions that do not have or it is unlikely to have an adequate prudential regime in relation to investment firms. This inevitability creates an additional risk element. To this end, such CFD CIFs operating under **EUR125,000** Limited License or under **EUR730,000** License must maintain an additional capital buffer of the highest quality of their capital (CET 1 capital) against the risks that such arrangements entail.

Therefore, CFD CIFs operating under **EUR125,000** Limited License or under **EUR730,000** License that collaborate and have in place LP Contractual Arrangements with entities domiciled in a third country not listed in Annex I of the Commission Implementing Decision (EU) 2016/230 as amended by the Commission Implementing Decision (EU) 2019/536, as in force, or which is not a member of the G20, or which is not a European Economic Area (“EEA”) regulated entity as per CySEC’s Policy PS-01-2019, are required to have an additional buffer of CET 1 Capital of at least:

- **EUR2,000,000** or
- Equal to **2.00%** of their total risk exposure,

whichever is the higher. It should be noted that this is a minimum buffer which should be further evaluated in the context of ICAAP and if deemed necessary it should be increased accordingly.

CFD CIFs operating under **EUR125,000** Limited License or under **EUR730,000** License that collaborate and have in place LP Contractual Arrangements with entities domiciled in a third country listed in Annex I Implementing Decision (EU) 2016/230 as amended by the Commission Implementing Decision (EU) 2019/536, as in force, or is a member of the G20 or which is a EEA regulated entity as per CySEC’s Policy PS-01-2019, are not required to have additional capital buffer as above. However, they should in any case assess the risks associated with that risk transferring arrangements and if in the context of ICAAP or SREP is deemed necessary, they should maintain an additional capital buffer.

The Company collaborates and have in place LP contractual arrangements solely with EEA regulated entities or with duly authorized and regulated entities domiciled in a third country listed in Annex I of the Commission Implementing Decision (EU) 2016/230, as amended by the Commission Implementing Decision (EU) 2019/536, as in force or is a member of G20 or which

is a EEA regulated entity as per CySEC's Policy PS-01-2019. Therefore, the Company does not need to include a minimum CET 1 additional capital buffer.

The Company shall assess the risks associated with their risk transferring arrangements in the context of its ICAAP or SREP.

24. Market Abuse

As per Article 16(2) of the Regulation 596/2014 the Company is required to establish and maintain effective arrangements, systems and procedures in order to detect and report suspicious orders and transactions that may constitute insider dealing or market manipulation. The Company's measures and procedures shall be in line with the measures and procedures required to be established (as applicable) by the Delegated Regulation 2016/957.

The Company has policies in place in order to minimise this risk. Additionally, the Company ensures that the compliance function has sufficient knowledge, understanding, skills and authority to assess such procedures as well as that the responsible staff for trading is capable for monitoring the clients' trading activity and identify potential suspicions of market abuse. Further to the above, the Company shall ensure that all employees who are involved in trading are adequately trained, in order to be able to identify orders, which may give rise to market abuse. The Company monitors the trading activities of its individuals/algorithms and its clients, and keep records of the submitted orders, the modified, the cancelled and the executed transactions in order to be able to perform efficient live monitoring. The Company performs human analysis in order to review the for monitoring, detecting and identifying of transactions and orders that could constitute insider dealing market manipulation or attempted insider dealing or market manipulation in order for these to be further investigated. Moreover, the Company shall maintain procedures for the escalation of suspicious transactions to the Compliance Officer for review. The Company conducts at least annual assessments on its procedures and arrangements to identify instances that potential market abuse may not be detected. Finally, the Company shall keep for at least 5 years detailed records of the followed arrangements and procedures, to identify conduct, that may involve market abuse, including how each alert of possible suspicious behaviour is dealt and whether or not a report to CySEC is made.

25. Compliance, Reputational and Legal Risks

Compliance risk (including legal and tax risks) corresponds to the risk of legal, administrative or disciplinary sanction, or of 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 of its counterparties, employees, and the various regulatory authorities to which it reports.

Compliance System and Department

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

The Compliance Officer verifies that all compliance laws, regulations and principles applicable to the Company's services are observed, and that all staff respect codes of good conduct and individual compliance. The Compliance Officer also monitors the prevention of reputational risk and provides expertise for the Company, performs controls at the highest level and assists with the day-to-day operations. The Compliance Officer is responsible for:

- The Company's financial security (prevention of money laundering and terrorism financing; know-your-customer obligations; embargoes and financial sanctions).
- Developing and updating consistent standards for the function, promoting a compliance culture, coordinating employee training and managing Company regulatory projects.
- Coordinating a compliance control mechanism within the Company (second-level controls), overseeing a normalised Compliance process, oversight of personnel operations and, finally, managing large IT projects for the function.
- Preventing and managing conflicts of interest.
- Proposing ethical rules to be followed by all Company employees.
- Training and advising employees and raise their awareness of compliance issues.
- Building and implementing steering and organisational tools for the function: Compliance and Reputational Risk dashboards, forums to share best practices, meetings of functional compliance officers.

- Generally monitoring subjects likely to be harmful to the Company's reputation.

25.1. Compliance Monitoring

In light with the new regulatory requirements introduced during 2020, the Company's compliance function has adopted the compliance monitoring plan for the reference year which was appropriate to the size of the Company as well as the nature, scale and complexity of its business so as to be able to detect any risk of failure by the Company to comply with its obligations under the relevant legislation, as well as the associated risks.

It targets the continued enhancement of priority functions, the central tools for monitoring regulatory application (including training, harmonisation, and regulatory oversight), financial security, constant oversight, customer protection, market integrity (including preventing conflicts of interest), and reporting quality.

The Company intends to uphold the strictest rules in order to ensure high ethical and professional standards.

26. Prevention of Money Laundering and Terrorism 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/be involved in financing terrorism.

The Company has in place, and is updating as applicable, certain policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks, based on the *Prevention and Suppression of Money Laundering and Terrorist Financing Laws of 2007-2018*, as amended during the year by the Amending Laws 158(I)/2018 and 81(I)/2019 ("AML Law"). 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 particular 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 compliance with the applicable legislation and incorporated, as applicable, any new information issued/available in this respect.

27. Appendix - Specific References to CRR

CRR Ref	High Level Summary	Compliance Reference
<i>Scope of disclosure requirements</i>		
431(1)	Requirement to publish Pillar III disclosures.	1.2
431(2)	Disclosure of operational risk information.	6
431(3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	1.2
431(4)	Explanation of ratings decisions to SMEs upon request.	N/A
<i>Frequency of disclosure</i>		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements.	1.2
<i>Means of disclosures</i>		
434(1)	To include disclosures in one 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 III if appropriate.	1.2
<i>Risk management objectives and policies</i>		
435(1) (a)	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	2, 4, 5 and 6
435(1) (b)		2, 4, 5 and 6
435(1) (c)		2, 4, 5 and 6
435(1) (d)		2, 4, 5 and 6
435(1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements	Preface
435(1) (f)	Concise risk statement approved by the BoD	Preface
435(2)	Information, once a year at a minimum, on governance arrangements.	2
435(2) (a)	Number of directorships held by members of the BoD.	2.8
435(2) (b)	Recruitment policy of BoD members, their experience and expertise.	2.6
435(2) (c)	Policy on diversity of BoD members, its objectives and results against targets.	2.5
435(2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	N/A
435(2) (e)	Description of information flow on risk to BoD.	2.9
<i>Scope of application</i>		
436(a)	Name of institution.	1.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	N/A
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 nor deducted.	N/A
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	N/A

436 (d)	Capital shortfalls in any subsidiaries outside of 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	3.4
437 (1)		3.4
437 (1) (a)		3.4
437 (1) (b)		3.4
437 (1) (c)		3.4
437 (1) (d) (i)		3.4
437 (1) (d) (ii)		3.4
437 (1) (d) (iii)		3.4
437 (1) (e)		3.4
437 (1) (f)		3.4
437(2)	EBA shall develop implementation standards for points (a), (b), (d) and (e) above	N/A
Capital Requirements		
438(a)	Summary of institution's approach to assessing adequacy of capital levels.	2.3
438(b)	Result of ICAAP on demand from competent authority.	2.3
438(c)	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	4
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.	5.1
438(f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	6.1
Exposure to counterparty credit risk (CCR)		
439(a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	N/A
439(b)	Discussion of policies for securing collateral and establishing reserves.	N/A
439(c)	Discussion of policies as regards wrong-way exposures.	N/A
439(d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	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 of 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
Credit Risk Adjustments		
442(a)	Definitions for accounting purposes of 'past due' and 'impaired'.	N/A
442(b)	Approaches 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.	4.2
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.	4.2
442(e)		4.2
442(f)	Exposures post value adjustments by residual maturity and by material exposure class.	4.2
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 are disclosed separately.	N/A
Unencumbered assets		
443	Disclosures on unencumbered assets.	N/A
Use of ECAI's		
444(a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	4.1
444(b)	Exposure classes associated with each ECAI.	4.1
444(c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	4.1
444(d)	Mapping of external rating to credit quality steps.	4.1
444(e)	Exposure values pre- and post-credit risk mitigation, by credit quality step.	4.1
Exposure to market risk		

445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	5
Operational Risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	6
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, by currency.	N/A
Remuneration Disclosures		
450	Remuneration Policy	2.7
Leverage		
451(1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	3.5
451(1) (b)		3.5
451(1) (c)		3.5
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.	N/A
451(1) (e)		N/A
451(2)	EBA shall develop implementation standards for points above.	N/A
Use of Credit Risk mitigation techniques		
453(a)	Policies and processes, and an indication of the extent to which the CIF makes use of on- and off-balance sheet netting.	N/A
453(b)	Policies and processes for collateral valuation and management.	N/A
453(c)	Description of types of collateral used by the CIF.	N/A
453(d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	N/A
453(e)	Information about market or credit risk concentrations within the credit mitigation taken.	N/A
453(f)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure value covered by eligible collateral.	N/A
453(g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	N/A
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.	N/A