RISK MANAGEMENT (PILLAR III) DISCLOSURES

YEAR ENDED 31 DECEMBER 2020
JUNE 2021

This document has been prepared, for information purposes only, by SM Capital Markets Ltd. (authorized and regulated by the Cyprus Securities and Exchange Commission under license number CIF 339/17). The information herein is provided as at the date of this document according to Directives DI144-2014-15 and DI144-2014-14 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

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Contents

1-Definitions:

a. SM Capital Markets Ltd: the "Company",
b. Cyprus Securities and Exchange Commission: "CySEC"
c. DI144-2014-14 and DI144-2014-15 of the Cyprus Securities and Exchange Commission and Regulation 575/2013 ("the Regulation or "CRR") and Directive 2013/36/EU of European Commission for the Prudential Supervision and Capital Requirements of Investment Firms (the "Directive").
d. Frequency: The Company will be making these disclosures annually.
e. Media and Location: The disclosure will be published on our website: www.smcapitalmarkets.com
f. Scope of report: The disclosures are in accordance to the audited financial statements of the Company for the year ended 31 December 2020. The information contained in the Pillar III Market Discipline and Disclosure report is verified by the Firm's external auditors.

2-Corporate Information

SM Capital Markets Ltd. is a Company registered in Cyprus under registered number HE346068. The Company is authorized and regulated by the Cyprus Securities and Exchange Commission (License Number 339/17). The registered address of the Company is Gladstonos, 116 M. Kyprianou House, 3&4th Floor 3032, Limassol, Cyprus.

The Company has the license to provide the following investment and ancillary services:

Investment Services:

a. Reception and transmission of orders in relation to one or more financial instruments
b. Execution of Orders on Behalf of Clients

Ancillary Services:

a. Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
b. Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
c. Foreign exchange services where these are connected to the provision of investment services

The Company established a subsidiary entity in Kenya during the year 2019, therefore the Company falls under the consolidated supervision in regards to the Capital Adequacy Requirements

Pillar III is prepared on a solo basis as the company reports on solo basis for the Annual Audited Financial Statements.

3-Pillar III Regulatory Framework

Pillar III disclosure is a requirement of the European Union's Capital Requirements Regulation 575/2013 and Directive 2013/36/EU, as implemented by CySEC Directives 144-2014-14 and 144-2014-15 (where applicable) and Law 87(I)/2017 (the "Law"). Pillar III aims to encourage market discipline by developing a set of disclosure information, which gives access to market participants, regarding to the Company's capital adequacy and to each material category of risk it faces. Additionally, it aims to provide information regarding the risk assessment and the risk mitigation process which was followed by the Company during 2020.

According to Basel III regulations, there are three pillars, which are designed to promote market discipline through the disclosure of important financial information regarding the risk exposures of the Company and of the risk management process followed.

The current regulatory framework consists of three pillars:

Pillar I: Sets out the minimum capital requirements for the Company to be able to cover the credit risk, market risk and operation risk.

Pillar II: Sets out the supervisory review which requires the regulators to undertake a qualitative review of the Company's capital allocation techniques (ICAAP) and compliance with the relevant standards.

Pillar III: Sets out the required disclosures to allow market participant to gain access and better understand the risk profile of the Company, to assess/review important information of the capital structure, risk exposures, the risk management process followed and most important the capital adequacy of the Company.

The Board of Directors and Senior Management are responsible for establishing and maintaining an effective internal control structure over the disclosure of financial information, including Pillar III disclosures.

The Pillar III Disclosures report was approved by the Board of Directors on 10th of June.

The Company reports on a Solo basis and the reporting currency is EUR.

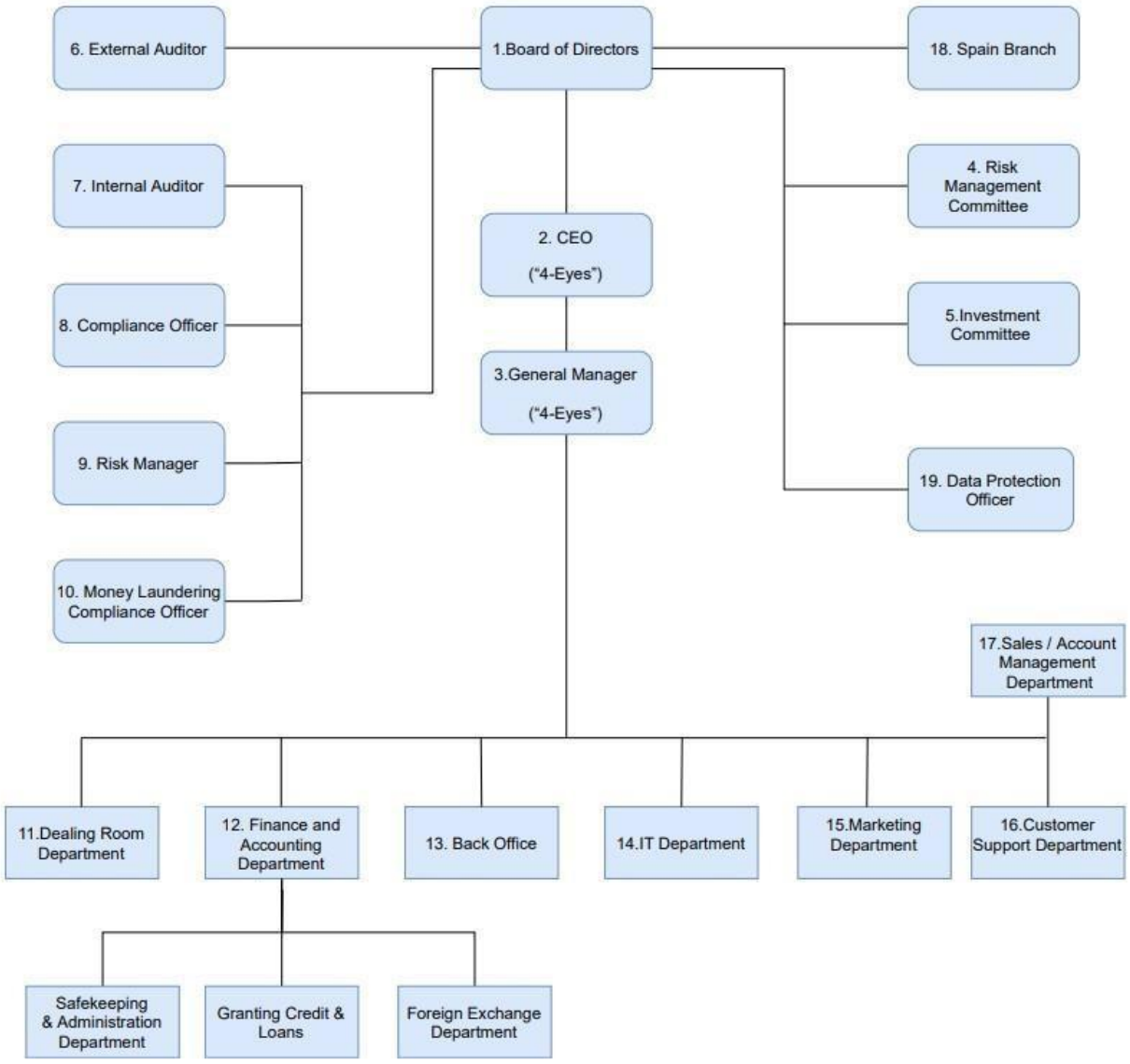
3.1 Non-Material, Proprietary or Confidential Information

This document has been prepared to satisfy the Pillar III disclosure requirements set out in the CRR. The Company does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

4-Corporate Governance

Diagram of Organizational Structure

SM Capital Markets Ltd
ORGANIZATIONAL STRUCTURE
Version 6.3



Board of Directors

The Board assesses and periodically reviews the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law, and to take appropriate measures to address any deficiencies, set the strategy of the Company. The Board is responsible for the monitoring of the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and the prevention of any unlawful transactions, the identification of risks, and the timely and adequately flow of information.

All the supervisory functions (i.e. Compliance, AML Compliance, Risk Management and Internal Audit) of the Company have an open line of communication with the Board in order to communicate any findings and/or deficiencies they identify in a timely manner and ensure that those will be resolved through the guidance of the management body. In addition, the Risk Management and Investment Committees are communicating their suggestions and findings to the Board, as and if necessary.

Full name of Director	Position/Title / Capacity	Country
Constantinos Shakallis	CEO, Executive Director, "4 eyes"	Cyprus
Jacob Plattner	General Manager, Executive Director, "4 eyes"	Cyprus
Daniel Lawrence	Non-executive Director	Cyprus
Nicolas Kelepeniotis	Non-executive Director, Independent	Cyprus
Mikaella Messiou	Non-executive Director, Independent	Cyprus

Risk Management Function:

The Risk Manager ensures that all the different types of risks taken by the Company are in compliance with the Law and the obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place. The Risk Manager shall report to the Senior Management of the Company.

As an addition to the above, the Company is operating a Risk Management Committee, which is responsible for monitoring and controlling the Risk Manager in the performance of his duties. Also is formed with the view to ensure the efficient management of the risks inherent in the provision of the investment services to Clients as well as the risks underlying the operation of the Company.

Compliance Function:

The Compliance Officer of the Company has the required knowledge and expertise in order to perform his duties effectively. Moreover, the duties of the Compliance Officer are to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, and put in place adequate measures and procedures

designed to minimize such risk and to enable the competent authorities to exercise their powers effectively.

Anti-Money Laundering Compliance Officer

The Anti-Money Laundering Officer reports directly to the Board of Directors and is responsible for:

- Ensuring implementation of the procedures described in the Company's AML Procedures Manual
- Ensuring that Company employees attend training sessions on anti-money laundering and terrorist financing procedures
- Ensuring that all clients' accounts must be opened only after the relevant pre-account opening due diligence and identification measures and procedures have been conducted, according to the principles and procedures set in the AML Manual
- Compliance with high standards of anti-money laundering (AML) practice in all markets and jurisdictions in which the Company operates
- Ensuring the implementation of the "know your client" procedures of the Company
- Gathering information with regards to the new customers of the Company
- Analysing the customers' transactions
- Continuous improvement of the existing control procedures
- Providing a written annual report to the Board of Directors on the matters of own responsibility, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.

Internal Audit Function:

The Internal Auditors review and evaluate the adequacy and effectiveness of the Company's systems of internal controls and the quality of operating performance when compared with established standards on an ongoing basis. The recommendations that the Internal Auditor makes to the Senior Management and the Board regarding the internal controls and the management of the various risks that are associated with the operations, aim to secure a controlled environment in the Company.

The corporate governance of the Company regarding risk management is considered adequate through the establishment of an effective risk oversight structure. The internal organisational controls are in place to safeguard that the Company accelerate the ability to identify, assess and mitigate the relevant risks. Also, the aim of the Company and in general the risk management function is to quickly recognize potential adverse events, be more proactive and forward looking and establish the appropriate risk responses were deemed necessary and at all times to comply with the relevant legislation.

4.1 Recruitment Policy

Recruitment of Board members combines an assessment of both technical capability and competency skills referenced against the Company's regulatory and operational framework. It seeks to resource the specific experience and skills needed to ensure the optimum blend (diversity) of individual and aggregate capability having regard to the Company's long-term strategic plan.

The persons proposed for appointment to the Board should commit the necessary time and effort to fulfil their obligations. Prior to their appointment the proposed persons should obtain the approval of the Commission. Main factors influencing the decision to propose the appointment of potential Directors include:

- Integrity and honesty;
- High business acumen and judgment;
- Knowledge of financial matters including understanding of financial statements and important financial ratios;
- Knowledge and experience relevant to financial institutions;
- Risk Management experience; and
- Specialized skills and knowledge in finance, accounting, law, or related subject.

4.2 Number of Directorships held by members of the Board

As per Article 9(4) of the Law, the numbers of directorships which may be held by a member of the Board of Directors at the same time shall take into account individual circumstances and the nature, scale and complexity of the CIF's activities. Unless representing the Republic, members of the Board of Directors of a CIF that is significant in terms of its size, internal organization and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

a) One executive directorship with two non-executive directorships;
b) Four non-executive directorships

In addition to the above, the following shall count as a single directorship:

a) executive or non-executive directorships held within the same group
b) executive or non-executive directorships held within:
    (i) institutions which are members of the same institutional protection scheme, provided that the conditions set out in Article 113, paragraph (7) of Regulation (EU) No 575/2013 are fulfilled; or
    (ii) undertakings (including non-financial entities) in which the CIF holds a qualifying holding.

The Board members of the Company hold the following directorships to other entities:

Full name of Director	Position / Title / Capacity	# Executive	# Non-Executive
Constantinos Shakallis	CEO, Executive Director, "4 eyes"	N/A	N/A
Jacob Plattner	General Manager, Executive Director, "4 eyes"	7	N/A
Daniel Lawrance	Non-executive Director,dependent	1	4
Nicolas Kelepeniotis	Non-executive Director, Independent		5
Mikaella Messiou	Member of the Board of Management Managing Director	1	1

It is important to note that the Company does not fall into the significant category in terms of its size, internal organization and the nature, the scope and the complexity of its activities.

4.3 Diversity Policy

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how we do 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.

The Company recognizes the benefits of having a diverse Board of Directors 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 Board of Directors.

4.4 Product Governance and Risk Management Committee

The Company, due to its size, scale and complexity has established this Committee in order to better handle the risks that arise from its operations.

The Product Governance and Risk Management Committee is a Committee appointed by the Board of Directors to review the Company's system of risk management and its product governance arrangements. This Committee is formed with the purpose of ensuring the efficient management of the risks inherent in the provision of the investment services to Clients as well as the risks underlying the operation of the Company.

The Committee, which reports directly to the Board of Directors, consists of 4 participants and during 2020 held four meetings.

The role of the Committee is essential to:

- ensure the efficient management of the risks inherent in the provision of the investment services to clients;
- monitor the risks underlying the operation of the Company;
- be responsible for monitoring and controlling the associated risks;
- identifying additional risks that the Company is/may exposed to;
- sets and monitors risk limits and other mitigation measures;
- evaluates the adequacy and effectiveness of controls in place for managing the risks;
- adopts necessary actions;

The Product Governance and Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

4.5 Reporting and Information Flow

The Company has established a risk-related informational flow to the Board of Directors to be in line with the requirements set out in the Law and subsequent Directives. Details of the major reports submitted to the Board are presented in the table below:

Report Name	Report Description	Owner	Recipient	Frequency
Risk Management Report	Annual Risk Management Report	Risk Manager	BoD, CySEC	Annual
Compliance Report	Annual Compliance Review	Compliance Officer	BoD, CySEC	Annual
Internal Audit Report	Annual Internal Audit Review	Internal Auditor	BoD, CySEC	Annual
Financial Statements	Audited financial statements of the Company	External Auditor	BoD, CySEC	Annual
Management Accounts	Management Accounts of the Company	Accounting	BoD	Monthly
Pillar III Report	Disclosures regarding risk management, capital adequacy and risk exposures of the Company	Risk Manager	BoD, CySEC, Public	Annual
ICAAP Report	Internal Capital Adequacy Assessment Process	Risk Manager, Compliance Officer, Head of Accounting	BoD, CySEC	Annual
Capital Adequacy Reports	Capital requirement calculation	Senior Management, Head of Accounting	Senior Management, CySEC	Quarterly
Internal Capital Adequacy Report	Capital requirement calculation	Senior Management, Head of Accounting	Senior Management	Daily

5-Risk Management

Risk Management is "the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analyzing, assessing, treating, monitoring and communicating".

It is an iterative process that, with each cycle, can contribute progressively to organizational improvement by providing management with a greater insight into risks and their impact.

There is a formal structure for monitoring and managing risks across the Company comprising of detailed risk management frameworks (including policies and supporting documentation) and independent governance and oversight of risk.

To ensure effective risk management the Company has adopted the "three lines of defense" model of governance with clearly defined roles and responsibilities.

First line of defense: Managers are responsible for establishing an effective control framework within their area of operations and identifying and controlling all risks so that they are operating within the organizational risk appetite and are fully compliant with Company policies and where appropriate defined thresholds.

Second line of defense: The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company's risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. Risk will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them.

The Compliance Officer shall report to the Senior Management of the Company and is responsible to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations and put in place adequate measures and procedures designed to minimized such risk and to enable the competent authorities to exercise their powers effectively.

Third line of defense: comprises the Internal Audit Function which is responsible for providing assurance to the Board and senior management on the adequacy of design and operational effectiveness of the systems of internal controls

5.1 Risk Management Process

The Company adopted and implemented its risk management process in order to create a robust and standardized procedure to manage each identified risk. The risk management process is an on-going and cyclical process which enables the Risk Management function to set the risk tolerance levels and also how the risks will be identified, assessed, controlled and managed.

The risk management cyclical process of the Company contains six steps which every one of them has its significance. All the steps need to be considered, in order to apply an appropriate and effective risk management process for each risk exposure.

Continuous Risk Management Process

Step 1 – Set Strategy/Objectives

At the board level, strategic risk management is a necessary core competency. The Company should set, approve and establish risk management strategy/objectives regarding its risk appetite/tolerance levels in order to proceed with the appropriate action for each identified risk exposure. The Senior Management and the Board of Directors should take a proactive approach in order to achieve the Company's goal to further develop the risk management capabilities. By establishing appropriate strategies and objectives regarding risk exposures, the Company will avoid unpleasant events which may harm its operations.

Step 2 – Risk Identification

Without clear objectives it is impossible to identify events that might give rise to risks that could impede the accomplishment of a particular strategy or objective. Risk identification is the most important process in the risk management planning. Risk identification determines which risks might affect the operations of the Company. While each risk captured, it is important for senior management and the Board of Directors to focus and prioritized on the key risks. This prioritization is accomplished by performing the risk assessment. The risk identification process is performed on an-ongoing basis in order to safeguard the operations of the Company to upcoming disrupting events. There are some techniques for identifying risk such as the brainstorming, SWOT analysis, scenario analysis, facilitated workshops etc. The risks that may be identified, include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk.

Step 3 – Risk Assessment

The first activity within the risk assessment process is to develop a common set of assessment criteria to be deployed across business units and corporate functions. Assessing risks consists of assigning values to all the identified risk exposures of the Company. Thus, the risk assessment is performed by considering the probability of a risk occurrence and the impact of this risk on the achievement on the set objectives.

However, risks do not exist in isolation. Often there are risk interactions, which at the beginning a risk exposure may can be seen as insignificant, but as they interact with other events and conditions, they may cause great damage to the Company's operation.

Step 4 – Risk Response

The results of the risk assessment process then serve as the primary input to risk responses whereby response options are examined according to the risk appetite of the Company. The main objective of the Company is to mitigate the risk exposures affecting its operations, whatever their risk category. For example, if the impact of a risk is considered as high, then an immediate action should be taken. For each risk category, there is an appropriate response. Each risk and related response should be assigned to the manager who is responsible for the area affected by the risk. The action taken to respond to a risk exposure should be determined and documented which is an essential part of the risk response process.

Step 5 – Risk Control

Having identified the risk exposures of the Company, assessed them and the appropriate response has been determined, then the Risk Manager has to review the existing controls and all hazards must be managed before harm the operations of the Company. The management of risks in the Company requires mitigating risks so far as reasonably practicable. All risk exposures that have been assessed should be dealt with, in order of priority. The most effective control options should be selected to mitigate risks. The hierarchy of controls is determined by the category of each risk exposure according to the Risk Matrix of the Company (see Table 3). This should be used to determine the most effective controls.

An essential component of the risk assessment is to first set a benchmark for the Company's Risk Appetite. The Company's risk appetite is governed firstly by the regulatory requirements imposing the Company to have at least an 8% Capital Adequacy ratio, and in all cases to have own funds more or equal to the sum of its capital requirements, and more than the Company's initial capital.

The Company accepts risks rated A and B while risks having a score C and D are interpreted as material and are considered to fall outside the Company's Risk Appetite. In such cases, further analysis is undertaken, on whether additional capital or controls are more appropriate to be added, so as for the risk to be mitigated and returned into the Company's risk appetite.

Step 6 – Communicate and Monitor

Risk identification, risk assessment, risk response and control are an on-going process. Therefore, regularly review the effectiveness of Company's risk assessment and control measures is an essential part of the risk management function. The Risk Manager has to ensure that the significant risks remain within the acceptable risk levels that emerging risks and gaps are identified and that risk response and control activities are adequate and appropriate. Indicators that fall outside of acceptable risk levels should be escalated with appropriate action plans to bring the risk back within established risk levels. Those risks that still remain above acceptable risk levels should be considered by the Board for their approval of any necessary resolution strategies. This activity will form the basis for reporting to the Board and on-going monitoring by management.

The monitoring process is an essential part of the risk management activities, which creates a "safety net" on the operations of the Company. Thus, the Risk Management Committee and the Internal Audit of the Company play an important oversight role in confirming that management is monitoring and managing risks in accordance with established levels. The Risk Manager shall communicate to the senior management and the Board of Directors, the findings of each committee regarding the risk exposures in order to mitigate them which is the main objective of the Company.

The level of risk is analyzed by combining estimates of likelihood (table 1) and consequences (table 2), to determine the priority level of the risk (table 3).

The Risk Register is discussed and finalized during a Risk Management Committee's meeting whereby the Senior Management has the opportunity to elaborate on the identified risks and comment on their materiality, as well as the overall methodology of the risk assessment. The Risk Register will be reviewed at least annually by the Risk Management Committee and the Senior Management.

The Company undertakes Sensitivity Analyses and performs Stress Tests on the most significant (i.e. material) risks identified; thus, it obtains a forward looking view of the potential adverse results the risks may potentially have on the Company's Balance Sheet and Income Statement.

The Company has adopted a robust internal governance framework on the basis of which the Company's processes and procedures are governed on a daily basis, and which, combined with additional capital, where deemed necessary, ensures the mitigation of risks within the Company.

Table 1: Probability of Risk Occurring

Score Level	Description	Frequency
6	Certain to occur	Occurs Monthly
5	Expected/likely to occur	At the once Quarterly
4	Frequent	Quarterly to Annually
3	Occasionally	Every 1-5 years
2	Unlikely	Every 5-20 years
1	Rare	Every 20 years or more

Table 2: Financial Impact of Risk

Score Level	Risk Scale	Financial Impact (yearly in USD)
1	Minor/Low/Insignificant	0-10.000
2	Moderate/Medium	10.001-50.000
3	High	50.001-100.000
4	Major	100.001-150.000
5	Critical	150.001-200.000
6	Catastrophic	>200.001

Table 3: Probability/ Impact Matrix

		Impact of Risk					
		1	**2**	**3**	**4**	**5**	**6**
Probability of Risk	**6**	**B**	**C2**	**C3**	**D1**	**D2**	**D3**
	5	**B**	**C1**	**C2**	**C3**	**D1**	**D2**
	4	**B**	**B**	**C1**	**C2**	**C3**	**D1**
	3	**B**	**B**	**B**	**C1**	**C2**	**C3**
	2	**A**	**B**	**B**	**B**	**C1**	**C2**
	1	**A**	**A**	**B**	**B**	**B**	**B**

6-Regulatory Pillar 1 Risk Management

6.1 Credit Risk

Credit Risk arises when counterparties fail to discharge their obligations towards the Company, thus reducing the amount of future cash inflows from the financial assets at hand on the Company's balance sheet. In particular, the Company has specific credit risks arising from its current banking and/or brokerage accounts with credit and other financial institutions, as well as other credit risks stemming from financial (i.e. corporate) assets and assets held under the Investor Compensation fund.

Counterparty credit risk arises from credit exposures arising from open trading positions and is the principle driver of the total credit risk exposure.

Risk Mitigation Policies:

- Ensures that client's and own funds are well diversified;
- Regularly assesses the appropriateness of reallocation of funds where a credit institution fails in quality and there is a lack of belief in its reliability; the company monitors and reviews on systematic basis credit ratings from bond credit rating institutions like Moody's Investors Service;
- Due diligence procedures are followed for all credit institutions, investment firms and payment service providers with whom the Company maintains accounts and ensures that the said providers are licensed/regulated by a competent authority of a Member State or a third country;
- Ensures that clients fund their accounts prior to the commencement of trading in financial instruments and that sufficient cash margin has been deposited before a market position is opened. Also, it monitors all trading accounts through an automated process that highlights trading accounts approaching or entering into a Margin Call and Stop-out.

Credit Risk Analysis

The Company implements the Standardised Approach to quantify the Credit Requirements, which correspond to the credit risks that it faces.

The below tables summarize the credit exposure of the Company by asset class and by country as at 31 December 2020:

Table 4: Credit Risk Capital Requirements by Asset Class

Asset Class	Exposure amount (€ amount in thousands)
Corporates (100%)	-
Institutions (20%-100%)	1,500
Other Assets (100%)	74
Regional & Gov Local Authorities	-
Total Credit Risk Exposure (RWE)	**1,574**

6.2 Market Risk

Market risk is the risk associated with the Company's balance sheet positions where the value or cash flow depends on financial and real estate markets. Fluctuating risk drivers resulting in market risk include:

- Equity market prices;

- Real estate market prices;
- Interest rates; and
- Currency exchange rates.

The Company manages the market risk of assets relative to liabilities on an economic total balance sheet basis. It strives to maximize the economic risk-adjusted excess return of assets relative to the liability benchmark taking into account the Company's risk tolerance as well as regulatory constraints.

The Company is not exposed to any risks resulting from price fluctuations on equity securities, real estate or capital markets. Additionally, it is not exposed to any interest rate risk. It may, however, be exposed to Currency risk, that is, the risk of loss resulting from changes in the exchange rates of various currencies in three ways:

a. It may receive income in a currency other than Euro, which is its base currency;
b. It may have expenses denominated in a currency other than Euro; and
c. It may have deposits denominated in another currency other than Euro.

However, considering the current nature, scale and complexity of the Company's operations, the said risk is deemed insignificant and any adverse movement in exchange rates is not expected to materially impact the Company's financials. It will however, be regularly monitored and if deemed necessary corrective actions such as currency hedging will be taken to minimize the effect.

6.3 Operational Risk

Operational risk is defined as the risk of a direct or indirect impact resulting from human factors, inadequate or failed internal processes and systems, or external events. Operational risk includes, inter alia, actual and/or potential losses caused from deficiencies in the Company's set-up of operations, including but not limited to, system integrity and reliability, employee fraud, weaknesses in personnel appointment, organizational structure and internal communication inefficiencies.

The Company's exposure to operational risk is limited to the extent of its current scale and complexity. The Company has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk. Overall planning, coordination, and monitoring is centralized however, most operational risks are managed within the departments in which they arise.

In addition to its overall framework, in order to mitigate operational risks, the Company has specific processes and systems in place to focus continuously on high priority operational matters such as information security, managing business continuity and combating fraud.

According to the Regulation 575/2013 on prudential requirements for credit institutions and investment firms and the amendment of the Regulation (EU) No. 648/2012, the Company has been categorized as an investment firm that falls under Article 95(1) of the CRR. Given its

categorization, the Company has adopted the Fixed Overheads Exposure Risk calculation method to calculate its total risk exposure amount.

The table 6 below shows the Total Risk Exposure which takes into account the exposure to Fixed Overheads. The fixed overheads are based on the fixed overheads of the preceding year adjusted for items listed below:

- fully discretionary staff bonuses;
- employees', directors' and partners' shares in profits, to the extent that they are fully discretionary;
- other appropriations of profits and other variable remuneration, to the extent that they are fully discretionary;
- shared commission and fees payable which are directly related to commission and fees receivable, which are included within total revenue, and where the payment of the commission and fees payable is contingent upon the actual receipt of the commission and fees receivable;
- fees, brokerage and other charges paid to clearing houses, exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions;
- fees to tied agents, where applicable;
- interest paid to customers on client money; and
- non-recurring expenses from non-ordinary activities.

Table 5: Fixed Overhead Requirement

Fixed Overhead Requirement	€000
Fixed Overheads	761
Fixed Overheads Requirement (25% * Fixed Overheads)	190
Fixed Overheads risk exposure amount	2,379
Additional Risk Exposure Amount Due to Fixed overheads	-
Total risk exposure amount due to fixed overheads	**941**

7 - Other Risks not covered in Pillar 1

7.1 Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Company's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions. To achieve this, the Company monitors and

manages its liquidity needs on an ongoing basis. The Company also ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Currently the Company is subject to liquidity risk however it takes all necessary steps to mitigate this risk and meet all its obligations which currently is achieved.

7.2 Strategic Risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy. A strategy is a long-term plan of action designed to allow the Company to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans;
- Improper implementation of strategic plans; or
- Unexpected changes to assumptions underlying strategic plans.

Risk considerations are a key element in the strategic decision-making process. The Company assesses the implications of strategic decisions on risk-based return measures and risk-based capital in order to optimize the risk- return profile and to take advantage of economically profitable growth opportunities as they arise.

7.3 Reputation Risk

Reputational risk can arise from direct Company actions or by actions of third parties that it may or may not have a relationship with. Such Company actions may include internal security breaches, employee fraud, client misinformation, mistakes in handling client requests and any other actions that can lead to significant negative public opinion and subsequently loss of business and income. Third party actions can include problems with the provision of the outsourced services that can lead to operational interruptions, database hosting and security, spreading of rumors and unsubstantiated information.

The Company strives to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of the Company, which includes integrity and good business practice. The Company centrally manages certain aspects of reputation risk, for example communications, through functions with the appropriate expertise. It also places great emphasis on the information technology security which is one of the main causes of such reputational risk manifestation.

7.4 Business Risk

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. These are analyzed and taken into consideration when implementing the Company's strategy.

7.5 Capital Risk

This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company.

The Company is further required to report on its capital adequacy on a regular basis and has to maintain at all times a minimum capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements, however this is not achieved at all times on time but at a later stage.

7.6 Regulatory Risk

This may arise as a result of negligent actions by the Company's Senior Management and / or staff members, and may lead to fines, loss of license and / or other form of disciplinary action by the regulatory authority. As a result, the Company's reputation will be adversely affected.

The Company maintains strong compliance / internal audit departments, which perform frequent inspections on the Company's processes and procedures. Should a non-compliance issue arise, all appropriate measures are immediately taken to rectify the issue. Both the compliance officer and the internal auditor are qualified and well trained, and remain abreast with any new regulatory developments. The potential of such risk arising is considered low.

7.7 Legal and Compliance Risk

The Company may, from time to time, become exposed to this type of risks, which could manifest because of non- compliance with local or international regulations, contractual breaches or malpractice.

The probability of such risks manifesting is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews performed by the compliance officer. Additionally, the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the Board meets regularly to discuss such issues and any suggestions to enhance compliance are implemented by management. From the Company initiation until the date of this report no legal or compliance issues arose. Any changes to local, EU and third country Regulations, Directives, and Circulars are being constantly monitored and acted upon ensuring that the Company is always compliant with them.

7.8 Concentration Risk

This includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc. No such concentration risk exists.

7.9 Information technology Risk

Information technology risk could occur because of inadequate information technology security, or inadequate use of the Company's information technology. For this purpose, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, as well as use of both hardware and software intrusion aversion measures such as (but not limited to) firewalls, anti-virus software, use of security keys, access restrictions, network fencing, and encryption techniques. Materialization of this risk has been minimized to the lowest possible level given the Company's current complexity of its operations and the services it offers to its clients.

8 - Capital Requirements

The Company's objectives in managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company is required to report on a quarterly basis its capital adequacy and has to maintain at all times a minimum capital adequacy ratio which is at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. The Senior Management and the Accounting Department monitor the reporting obligation and put in place policies and procedures in order to meet the relevant regulatory requirement.

The company under Article 95(2) is excluded from CRD IV definition therefore the capital requirements are based on Fixed Overheads, Credit & Market risk are measured using the Standardized approach.

The Company calculates the capital adequacy ratio on a quarterly basis and monitors its direction in order to ensure its compliance with externally imposed capital requirements.

The total Capital Requirements as at 31 December 2020 are shown in the table 6 below:

Table 6: Capital Adequacy Ratio

Fixed Overhead Requirement	**€000**
Risk Weighted Assets Exposure:	
Credit Risk	915
Other Risk (due to Position, Foreign Exchange and Commodities Capital Requirements)	26
Additional Risk Exposure Amount due to Fixed overheads	1,438

Total Risk Exposure amount	**2,379**
Total Eligible Own Funds	**182**
Capital Adequacy Ratio	**8%**
Minimum Capital Adequacy Ratio	**8%**

The Capital Adequacy ratio of the company for the year ended 31 December 2020 is 8%.

The Company's Eligible Own Funds includes only Original Own Funds (Tier 1 Capital). Tier 1 capital is a core measure of a Company's financial strength from a regulator's point of view. It is composed of share capital, share premium and reserves (excluding revaluation reserves) including the profits and losses brought forward as a result of the application of the final profit or loss.

Based on the audited results and change of the FOR based on the 2020 audited financials, it resulted in an increase in capital requirements. The Company proceeded with a Capital injection on 5th January 2021 for EUR250,000 and increased its Capital Ratio to 20%.

The table 7 below presents the Company's capital base as at 31 December 2020:

Table 7: Eligible own Funds

As at 31 December 2020:	**€**
Share Capital	11
Share Premium	2,988
Accumulated losses	(1,381)
Total Equity	**1,618**
Other Deductions:	
Investment in Subsidiary	(1,394)
Investors Compensation Fund	(40)
Additional deductions	(2)
Total Deductions	**(1,436)**
Total Eligible Own Funds	**182**

9-Disclosure regarding the remuneration policy and practices

The Company's Board of Directors is responsible for the adoption, periodic review and implementation of the Company's Remuneration Policy. The Board of Directors has approved, at its meeting which took place on the 13th of December 2020, the updated Remuneration Policy that

has been drafted by the Senior Management of the Company based on Part Eight of Regulation (EU) No 575/2013 of the European Parliament.

The Company's Remuneration Policy fulfils the Company's obligation under Part Eight of Regulation (EU) No 575/2013 of the European Parliament. Responsible body for the implementation of the Company's Remuneration Policy shall be the Board of Directors. The responsibility of the Board is to prepare the decisions regarding the Remuneration Policy, including those which have implications for the risk and risk management of the Company and to table the said decisions or proposals for final deliberation. Additionally, the Compliance Officer of the Company is advising the Board regarding remuneration matters in order to ensure that any developments in the regulation will be implemented by updating the remuneration policy of the Company accordingly to comply with the provisions of the relevant legislation.

During the year 2020, the remuneration of staff consisted of a fixed component and a variable element. The remuneration of each individual varies and depending from position, education, experience, performance, accountability and responsibility. Variable remuneration is allocated to Relevant Persons based on their individual performance. The variable elements of the remuneration are always according to the principles of the Company's Remuneration Policy.

The company's information for the year is presented below:

a) Aggregate quantitative information on remuneration, broken down by business area

Table 8: Remuneration by Business Area

Business Area	No. of Beneficiaries	Fixed Remuneration €	Variable Remuneration €
Control Functions (Internal Audit, Compliance, Risk, Finance)	**4**	**89,600**	**14,300**

b) Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investing firm, indicating the following:

Table 9: Remuneration by Position/Role

Position/Role	No. of Beneficiaries	Fixed Remuneration €	Variable Remuneration €
1. Senior Management	11	412,171	29,600

Mr. Constantinos Shiakallis - CEO Mr. Jacob Plattner,- General Manager Mr. Daniel Lawrance – Non-Executive director Mr. Nicolas Kelepeniotis – Independent Non-Executive Director Mrs.Mikaella Messiou - Independent Non-Executive Director 2. Head of Departments Mr. Soteris Hadjidemetriou - Compliance Officer & AMLCO Mr. Stavros Ioannides- Risk Manager Mr. Fanos Kyriakou- Dealing Room Department Mrs. Natalie Akl Back Office/Account Opening Department Mr. Constantinos Pavlou – Finance Department			
Other Staff whose actions have a material impact on the risk profile of the institution	-	-	-
Total	**11**	**412,171**	**29,600**

10-Additional events after the reporting period

There is uncertainty about the consequences of the so-called COVID-19 pandemic (Coronavirus) that started in China, but its spread to other countries, and the impact it may have on the global economy contributed to the deterioration of the global assets and the increase in global financial volatility.

In this regard, various national and supranational authorities are taking measures to mitigate its effects. Among others, on March 12, 2020, the EBA and ECB have announced transitional measures to mitigate the impacts of COVID-19 on the European banking sector.

ESMA, in its initial statement on the COVID-19 pandemic on 11 March, made among others the following recommendations to financial market participants:

a. Business Continuity Planning – All financial market participants, including infrastructures should be ready to apply their contingency plans, including deployment of business continuity measures, to ensure operational continuity in line with regulatory obligations;

In general, the overall future economic outlook of the economy remains unstable due to the recent developments on the outbreak of Coronavirus (COVID-19).

In particular and following the outbreak of COVID-19 in Cyprus, the Firm has taken the required measures to ensure that its employees have access to its technology infrastructures necessary for the completion of their tasks and that additional system for critical functions are being provided. In this respect, the Business Continuity Plan has been amended accordingly. Furthermore, the Company is closely monitoring the impact of COVID-19 on its financial position in order to be able to take proactive measures.