NOVOX CAPITAL LTD

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2019

OCTOBER 2020

Contents

1. Introduction

This report has been prepared in accordance with Section 4 (Paragraph. 32) of the Cyprus Securities and Exchange Commission (hereinafter the "CySEC") Directive DI144-2014-14 of 2014 (the 'Directive') for the prudential supervision of investment firms which implements the Regulation 575/2013 (the "Regulation") and the European Directive 2013/36/EU (the "European Directive").The Company publicly discloses all the required information relating to its risk management objectives and policies, its own funds, capital adequacy and its exposure to market risk, credit risk and operational risk.

1.1. Scope of the Application

These disclosures apply to the Company on a solo basis. The Company does not have any subsidiaries and thus does not need to produce any consolidated results.

This Report is prepared annually and is available in electronic format on the Company's official website www.novoxfx.eu . A hard copy is available for collection upon request.

The Capital Requirements Directive (CRD) IV regulatory framework, consisting of the Capital Requirements Directive ("CRD" or Directive2013/36/EU) and the Capital Requirements Regulation ("CRR" or Regulation (EU) No 575/2013) is applicable since 1 January 2014 and repealed Directives 2006/48/EC and 2006/49/EC.

The CRD IV package comprises the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. The CRDIV package is the framework for implementing Basel III in the European Union. Basel III was developed by the Basel Committee on financial institution supervision in response to the global financial crisis.

Basel III comprises of three Pillars:
Pillar 1 – Minimum capital requirements
Pillar 2 – Supervisory review process
Pillar 3 – Market discipline

Pillar 1 sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk faced by a financial institution.

Pillar 2 includes rules to ensure that adequate capital is in place to support any risk exposures and requires appropriate risk management, reporting and governance policies. The second pillar provides a framework for dealing with systemic risk, pension risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk, which the accord combines under the title of residual risk.

Pillar 3 provides disclosures requirements to enable market participants to understand the risk profile of the financial institution, to assess key information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the institution.

The disclosures in this report are relating to the year ended 31st December 2019. The information contained in the Pillar III is audited by the Company's external auditors and published on the company's website www.novoxfx.eu on an annual basis.

1.2. Reporting Frequency

The Company's policy is to publish the disclosures required on an annual basis. Should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements, the frequency of disclosure will be reviewed.

1.3. Verification

The Company's Pillar 3 disclosures are subject to internal review and validation prior to being submitted to the Board for approval. This includes approval by the CEO, the Risk Manager and the Head of Accounting.

The Company's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures, as detailed in Section 9 of this document, have been reviewed by the Board, which has responsibility of the Remuneration Policy in the absence of a Remuneration Committee.

1.4. Reporting Details

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

1.5. 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.

2. Corporate Governance – Board and Committees

2.1. Company's Background

The Company is regulated by the CySEC under License 224/14, and is carrying out the following investment and ancillary services:

<u>Investment Services:</u>

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

<u>Ancillary Services:</u>

- ❖ Safekeeping and administration of financial instruments, including custodianship and related services
- ❖ Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- ❖ Foreign exchange services where these are connected to the provision of investment services

The Company is an Investment Company specializing in online trading services, risk mitigation, and liquidity provision management. By the end of the year 2019 the Company ceased providing Investment Services to Retail Clients and closed all of its online trading platforms.

2.2. Board of Directors

The Board of Directors is responsible for the establishment of an appropriate business risk management environment. The Board of directors should provide appropriate resources to support risk management systems, monitoring potential risks in the company's culture and incentive systems and developing an effective risk dialogue with management.

The persons proposed for appointment to the Board should commit the necessary time and effort to fulfill their obligations. Prior to their appointment, the proposed persons should obtain the approval of the Commission.

The main duties of the Board of Directors of Novox Capital Ltd are:

- Assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law
- Monitoring the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and the prevention of any unlawful transactions
- Identify critical risks
- Review the Risk assessment report prepared by the Risk Manager and take appropriate action where necessary
- Assessing the Compliance function
- Acquire sufficient resources for the organization's operations
- Approving Company's financial Statements
- Evaluating and approving the annual MLCO report
- Ensuring that the Company complies with its legal obligations to CySEC
- Taking decisions on important matters of the company during Board meetings

The composition of the Board during 2019 is presented below:

Full name of Director	**Position/Title**	**Capacity**	**Country**	**Number of Directorships**
Mrs. Eleni Sotiriou:	Director (until March 2019)	Executive Officer	Cyprus	1
Mr. Savvinos Filippou	Director (until August 2019)	Independent, Non - Executive Director	Cyprus	2
Dr. Michalis Simillis	Director (until June 2019)	Executive Officer	Cyprus	1
Mr. Nicos Kezarides	Director (proposed end 2019)	Executive Director	Cyprus	1
Mr. Jiang Nan	Director	Non - Executive Director	China	4

The number of Directors hold directorships in other Companies but there is no conflict of interest and without compromising the quality of work executed within the Company.

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

2.3. Board 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 fulfill 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 judgement;
- 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.

2.4. Diversity of the Board of Directors

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how 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. This is also documented as best practises in the Corporate Governance Code of many EU countries.

The Company recognizes the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, background, race and gender between directors.

A balance of these differences will be considered when determining the optimum composition of the BoD. In line with regular / ongoing changes in the regulatory reporting framework (CRR), the Company is continuously taking in account a diversity policy in relation to the BoD.

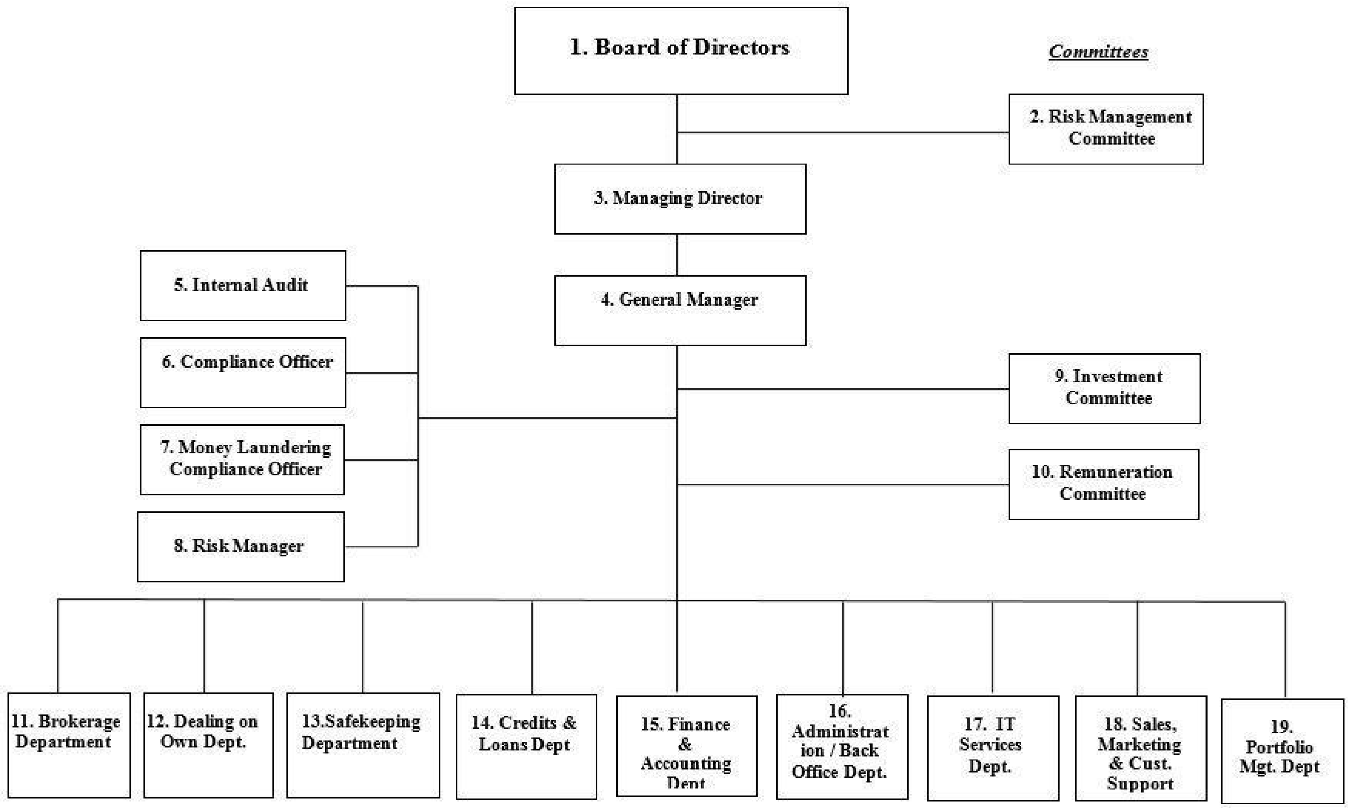
In order to follow better corporate governance practices, the company constructed its BoD with members that have different and various experience, skills, knowledge, information, power, and time to contribute.

2.5. Governance Committees

The Company due to the scale and complexity of its operations has formed a Risk Management Committee to adequately monitor its operational effectiveness and its potential risks.

2.6. Organizational Structure Effectiveness and Departmental Segregation

The Company's organizational structure during the year was comprised by a board of directors of six members, executive members together with the 4-eyes mechanism, and the staff members. The Company also was engaged with professional third party independent service providers to support its day to day operations. Below is the organizational chart:



3. Risk Management

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

Risk management occurs anytime an investor analyses and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction) given their investment objectives and risk tolerance.

Risks should be continuously monitored and reviewed. In addition to that, outcomes and results should be properly reported and set new objectives.

Characteristics of a productive risk management process:

- A culture of risks adjusted in the organization. It embraces a series of values, attitudes and ways of acting towards risks, including taking decisions on change management and strategic, business planning
- Complete approach to all risks; there are risks directly affecting the company and risks that indirectly affect the company. It is very important to report all kinds of risks and to assume and understand the relations between them. The overall calculation should be simplified without affecting the difference of nature, degree of evolution and real possibilities of management and control of each type of risk, adjusting the organization, processes, reports and tools to the features of each one.
- An organizational & control model which is assigned to all risk types.
- Common management instruments among the different departments, without negatively affecting the regulations & requirements of supervisors & the degree of development of each department.

Lastly, it is very important that all risk assessment results should be communicated to all relevant departments with the appropriate consultation given.

Board of Directors Declaration – Adequacy of the Risk Management arrangements
The Board of Directors is ultimately responsible for the risk management framework of the Company. 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.

3.1. Risk Management Objectives/Governance Arrangements

Risk management is an essential part of any organization's strategic management. It is the process whereby organizations methodically address the risks attached to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

Through Risk Management the company is able to assess and periodically review the effectiveness of the policies, arrangements and procedures which identify the risks relating to the Company's activities, processes and systems, and where appropriate, the level of risk tolerated by the Company.

The Risk Management objective is to deliver to the Company's Management a clear viewpoint of the adequacy and effectiveness of the risk management policies and procedures, the level of compliance by its relevant persons and appropriate remedial measures that have been taken in the event of any deficiencies.

Risk management is a continuous and developing process which runs throughout the Company's strategy and the implementation of that strategy. It addresses methodically all the risks surrounding the Company's activities – past, present and in particular, future.

The Company, considering the current nature, scale and complexity of its operations, follows a policy that establishes and applies processes and mechanisms that are most appropriate and effective in monitoring the various activities.

The policy aims to promptly identify, measure, manage, report and monitor risks that affect the achievement of strategic, operational and financial objectives. It includes adjusting the risk profile in line with the Company's stated risk tolerance to respond to new threats and opportunities in order to minimize risks and optimize returns.

The Company's Board of Directors (hereinafter "the Board") is ultimately responsible for the risk management framework of the Company. The Board provided a declaration on the adequacy of the Company's risk management arrangements and provided assurances that the risk management systems in place are adequate in relation to the Company's strategy and risk profile.

3.2. Risk Appetite Framework (RAF)

Risk appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the board and management confidence to avoid risks that are not in line with the strategic objectives. An approved Risk Appetite statement is enclosed in Appendix 1.

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

Furthermore, the Risk Capacity/Tolerance is the maximum amount of risk which the Company is technically able to assume before breaching one or more of its capital base, liquidity, reputational and regulatory constraints.

The risk capacity represents the upper limit beyond which a breach is likely to result in failure.

Taking into consideration the Firm's size, services offered, complexity and operations, the risks that are considered significant and / or material for the Company are credit risk, market risk, operational risk, liquidity risk and large exposures.

In regards to the above, setting the corporate risk appetite without taking into account the risk capacity of the entity may have serious consequences. Risk capacity may be easy to quantify in terms of capital or required funding but it is more challenging to consider the point at which the Company's reputation is beyond repair.

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

The Company has established a Risk Appetite Framework. The Board approves the Risk Appetite which defines the type and amount of risk that the Company is prepared to accept to achieve its objectives. Risk Appetite covers three primary areas:

Risk Area	Risk Types
Financial	• Credit Risk • Market Risk • Liquidity Risk
Reputational	• Conduct Risk • Customer Risk • Regulatory Risk • External Reputational Risk
Operational & People	The risk associated with the failure of key processes or systems and the risks of not having the right quality and quantity of people to operate those processes

The Risk Appetite framework has been designed to create links to the strategic long term plan, capital planning and the Company's risk management framework.

3.2.1 Risk Identification

The Risk Identification process provides guidance on the sources to investigate and research in order to identify new and emerging risks and sets out consistent principles, which should be applied.

3.2.2 Risk Assessment

The Risk Assessment process is the means through which the Company understands and estimates the effect of risk on the business and the processes, systems and controls that mitigate those risks to an acceptable level. This is achieved through the documentation and regular update of a detailed Risk Register /Map where all financial and non-financial risks the Company faces are identified and recorded by the Risk Manager as well as the relevant risk management controls. The Risk Register is discussed and finalised during the Risk Management Committee's meetings.

3.2.3 Risk Management Function

The Risk Management Function (the "RMF") operates under the leadership of the Risk Management Officer (the "RMO") who reports directly to the Senior Management and the Board. The Risk Management function comprises by individuals with specific expertise and is structured to provide analysis, challenge, understanding and oversight of each of the principal risks faced by the Company.

3.2.4 Stress Testing

Stress testing is a key risk management tool used by the Company to ascertain 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.
- 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, management should make recommendations to the BoD for remedial measures or actions. These may vary depending on the circumstances and include one or more of the following:
- Review the overall business strategy, risk appetite, capital and liquidity planning.
- Review limits.
- Reduce underlying risk positions through risk mitigation strategies.
- Consider an increase in capital.
- Enhance contingency planning.

3.2.5 ICAAP and Approach to assessing adequacy of Internal Capital

In order to evaluate the risks that are not covered by capital requirements (Pillar 1), and according to Pillar 2 requirements the Company is implementing the ICAAP procedure. The ICAAP process considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against them both currently and in the future.

The Company performs a full ICAAP annually with approval provided by the Board. For this purpose, all departments of the organization will complete the Risk Records Charts. After the evaluation of the complete Risk Records charts, Risk Manager creates a Risk Register with Assessments. Financial department prepare Business Plans and Capital Plans for next 3 years based on rolling P&L and Balance Sheet. Risk Manager implements Stress Test of the Capital Plan, based on "What if" approach in each department of the Company. All stress tests are then summarized by the Risk Manager, assessed, identified and submitted as a "Stress Test Register" to Risk Committee and to ICAAP Committee. Financial department prepares stress tests on the Capital Plan based on Stress Test Register. Financial department prepares Budget of the Company, based on stress tested Capital Plan. Financial department compares the calculated Capital Plan and stress tested Capital Plan: Pillar I Risks + Pillar I uncovered Risks + Pillar II Risks.

These measures allow the Management to evaluate Gap Analysis (what we have at hands and what we should have), and to create Action Plan to monitor and mitigate the consequences of the risks in order to make the Board of Directors to be able to assess and approve Action Plan along with outcomes of ICAAP.

3.2.6 Governance Functions

3.2.6.1 Risk Management Committee

The Risk Management Committee is formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general. The Board of Directors is responsible for the appointment of the Risk Manager.
The Risk Management Committee consists of participants and during 2019 held 3 meetings.

The Risk Management Committee's main responsibilities are:

- Identifying and evaluating the risks to which the Company is exposed to
- Recommending to the Board and adopting risk assessment and rating procedures
- Examining and determining the sufficiency of the Company's internal processes for reporting on and managing key risk areas
- Monitoring the Compliance function and its performance
- Supervise the Disaster Recovery Plan
- Addressing control failures and suggesting remedial action

3.2.6.2 Risk Manager's main responsibilities

The Risk Manager's responsibilities are as follows:

- Monitoring of all risks on a continuous basis
- Examining the financial results of the Company
- Requiring sufficient information from all the relevant departments of the Company, as applicable
- Complying and implementing the relevant provisions of the Law, relating to risk management issues
- Prepare an annual risk assessment report, defining any possible deficiencies
- Ensuring that the Disaster Recovery Plan is updated

3.2.6.3 Internal Audit

The Company, taking into account the nature, scale and complexity of its business activities, as well as the nature and the range of its investment services and activities, establishes and maintains an internal audit function through the appointment of a qualified and experienced Internal Auditor. The Internal Auditor is appointed and reports to the Senior Management and the Board of the Company. The Internal Auditor is separated and independent of the other functions and activities of the Company. The Internal Auditor bears the responsibility to:

(a) establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements
(b) issue recommendations based on the result carried out in accordance with point (a)
(c) verify compliance with the recommendations of point (b)
(d) provides timely, accurate and relevant reporting in relation to internal audit matters to the Board of Directors and the Senior Management of the Company, at least annually.

The Internal Auditor is responsible for applying the Internal Control System (hereinafter, the "ICS"), which confirms the accuracy of the reported data and information. Furthermore, the role of the Internal Auditor is the programming, on an at least annual basis (as applicable), of checks on the degree of application of the required ICS.

The Internal Auditor has clear access to the Company's personnel and books. Likewise, the Company's employees have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided.

The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions shall be taken. The Board ensures all issues are dealt with and prioritised according to the Board's assessment.

3.2.6.4 Compliance Officer

Pursuant to the regulatory obligations of the Company and with the view to complement the Internal Governance framework of the Company, the Board has appointed a Compliance Officer, to head the Compliance Function of the Company in order to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, to put in place adequate measures and procedures designed to minimize such risks and to enable the competent authorities to exercise their powers effectively.

The Compliance Officer is independent and reports directly to the Senior Management of the Company, having at the same time the necessary authority, resources, expertise and access to all relevant information.

The Compliance Officer is responsible, inter alia, to:

a) liaising with all relevant business and support areas within the Company
b) to monitor on a permanent basis and to assess, on a regular basis, the adequacy and effectiveness of the measures, policies and procedures put in place, and the actions taken to address any deficiencies in the firm's compliance with its obligations;
c) monitoring and assessing the level of compliance risk that the Company faces, taking into account the investment and ancillary services provided, as well as the scope of financial instruments traded and distributed
d) monitoring the adequacy and effectiveness of the measures and procedures of the Company
e) advising and assisting the relevant persons responsible for carrying out the investment services to be in compliance with the Law.

3.2.6.5 Anti-Money Laundering Compliance Officer

The Board retains a person to the position of the Company's Anti-Money Laundering Compliance Officer (hereinafter the "AMLCO") to whom the Company's employees report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The AMLCO belongs to the higher hierarchical levels/layers of the Company so as to command the necessary authority. The AMLCO leads the Company's Anti-Money Laundering Compliance procedures and processes and report to the Senior Management and the Board of the Company. Scope and objectives of the AMLCO:

a) The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income
b) To decrease the probability of appearance among the Customers of the Company of any persons/organizations engaged in illegal activity and/or related with such persons/organizations
c) To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing
d) To ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities.

3.2.6.6 Money Laundering & Terrorist Financing Risk

The Legal and Compliance Function (including Anti-Money Laundering and Terrorist Financing) establishes and implements adequate policies and procedures to detect the risk of the Company failing to comply with its regulatory obligations. This function operates independently and monitors and assesses the adequacy and effectiveness of the internal compliance policies and procedures and the actions taken to address any deficiencies. It also acts as an information point to employees with reference to SOX's legislative obligations, and creates reports on compliance and anti-money laundering and terrorist financing.

The areas where the risk of Money Laundering & Terrorist Financing could be the greatest are:

a) Non-face-to-face clients
b) Account in names of companies whose shares are in bearer form
c) Trust accounts
d) 'Client accounts' in the name of a third person
e) "Politically Exposed Persons" accounts
f) Clients from countries which inadequately apply FATF's recommendations
g) Any other Client determined by the Company itself to be classified as such.

In order to minimize the risks as much as possible Novox has excluded the possibility of clients falling under the categories b), c), d) and f) above. Our labels have no corporate clients, no trust account, and no accounts in the name of third persons and client's from FATF countries.

Concerning PEP's, all clients are requested to inform Novox if they are a PEP. Random checks are also exercised on big depositors, to ensure they are not PEPs.

Finally, although non-face-to-face clients are considered high risk in terms of Money Laundering & Terrorist Financing, most of the company's clients are depositing rather smaller and retail sums. Therefore, on the onset the risks are, rather, minimized. Nevertheless, all (non face-to-face clients) undergo enhanced due diligence, and large depositors are screened and monitored to ensure that their trading behavior fits their financial background and experience.

3.2.6.7 Information flow on risk to the management body

Risk information flows up to the Board directly from the business departments and control functions. The Board ensures that it receives on a frequent basis, at least annually written reports regarding Internal Audit, Compliance, Anti-Money Laundering and Terrorist Financing and Risk Management, Risk and Investment Committees (where applicable) and approves the Company's ICAAP report

Furthermore, the Company believes that the risk governance processes and policies are of utmost importance for its effective and efficient operation. The processes and policies are reviewed and updated on an annual basis or when deemed necessary and are approved by the Board.

3.3 Board Declaration - Adequacy of the Risk Management Arrangements

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

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and, as such, offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

3.4 Board Risk Statement

Considering its current nature, scale and complexity of operations, the Company has developed a policy that establishes and applies processes and mechanisms that are most appropriate and effective in monitoring activities.

The aim is to promptly identify, measure, manage, report and monitor risks that interfere with the achievement of the Company's strategic, operational and financial objectives. The policy includes adjusting the risk profile in line with the Company's stated risk tolerance to respond to new threats and opportunities in order to minimize risks and optimize returns.

Risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached. Risks are assessed systematically and evaluated as to the probability of a risk scenario occurring, as well as the severity of the consequences should they occur.

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

Risk Area	Metrics	Comment	Measure as at 31/12/19
Capital	Core Equity Tier1 (CET1), Tier 1 and Total capital ratio	The Company's objective is to maintain regulatory ratios well above the minimum thresholds set by CySEC. It therefore aims to maintain its capital ratios at least 2% points above the required level (regulator's current limit is 8%).	CET1: 27.23% Tier1: 27.23% Total capital ratio: 10.28%
Liquidity	Cash Ratio	The Company aims to keep its Cash Ratio i.e. (Cash & Cash Equivalents/Current Liabilities) at values exceeding 1.0.	Cash Ratio: 5.31
Credit Risk	Exposure to single financial institution	The Company's objective is to minimize the potential loss from counterparties. It thus aims to limit its exposure to a single financial institution at levels of 80% of its overall cash positions or less.	Current exposure: 79.40%

4 Market Risk

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

- Financial Instruments' market prices
- Interest rates
- Currency and foreign exchange rates

Market risk changes in line with fluctuations in market prices, such as foreign exchange rates, interest rates, equities and commodities prices. These market prices affect the Company's income or the value of its holdings of financial instruments.

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.

5 Credit Risk

Credit risk is the risk of loss that the Company would incur if any counterparty to the Company fails to perform its contractual credit obligations. In order to minimize that risk the Company monitors and reviews the performance of these counterparties regularly, deposits its funds in reputable financial institutions and establish mechanisms to limit the amount of credit exposure to any financial institution.

Credit risk could arise for the Company primarily as a result of the following activities:
a) Own and Client funds held at banks;
b) Own funds held at counterparty financial institutions for hedging purposes; and,
c) Credit or loans provided to investors/clients

The Company uses the Standardized Approach for the calculation of the minimum capital requirements for the credit risk. The following table illustrates the allocation of credit risk by exposure class:

Exposure Classes and Minimum Capital Requirements:

Exposure Class	As at 31/12/2019		
	Total Exposure Value € (Thousands)	RWA € (Thousands)	Capital Requirements € (Thousands)
Corporate	135	135	11
Institution	369	209	17
Other Items	9	9	1
Public Sector Entity	0	0	0
Retail	78	59	5
Total	**591**	**412**	**34**

The table below gives information concerning the Company's credit risk exposures by residual maturity:

Exposure Classes and Residual Maturity:

Exposure Class	As at 31/12/2019		
	Residual Maturity ≤ 3 months	Residual Maturity > 3 months	Total
	Exposure Value € (Thousands)	Exposure Value € (Thousands)	
Institutions	209	0	209
Corporates	135	0	135
Other Items	9	0	9
Public Sector Entities	0	0	0
Retail	0	59	59
Total	**353**	**69**	**412**

The table below presents the geographic distribution of the Company's exposures.

Exposure Classes by Country:

As at 31/12/2019 **Exposure Class**	**Total** **Exposure Value € (Thousands)**
Austria, AT	0
Denmark, DK	0
Finland, FI	0
France, FR	0
Germany, DE	0
Italy, IT	0
Netherlands, NL	0
Norway, NO	0
Poland, PL	0
Romania, RO	0
Spain, ES	0
Sweden, SE	0
Switzerland, CH	0
United Kingdom, GB	0
Canada, CA	0

6 Operational Risks

Operational risk results from inadequate or failed internal processes, people and systems, or from external events. Operational risk could arise from natural disasters, employee's errors/behavior, information technology errors, system failures, and/or conflicts of interests. In order to mitigate the risks, the Directors are monitoring the function of each department separately on a continuous basis. An effective business continuity policy succeeds the timely recovery and continuation of the main operations and functions.

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.

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

- Internal Fraud – misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees.
- External Fraud – theft of information, hacking damage, third – party theft and forgery.
- Compliance – Brand impairment, Complaint handling, third country regulator retaliation, E-commerce global taxation matters.
- Clients, Products & Business Practice – market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.

Risk identification, Measurement, Control and Reporting

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

- To minimize 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, in all levels, in order to facilitate decision making for risk control activities.

- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives.
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.
- Established a "four-eyes" structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management and a Risk Management Committee. The 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

Following the recent implementation of the Regulation 575/2013 on prudential requirements for credit institutions and investment firms and the amendment of the Regulation (EU) No. 648/2012 ('the Regulation'), the amendments in the Investment Services and Activities and Regulated Markets Law (October 30, 2017) and the issuance of Directives DI2014-144-14 and DI2014-144-15, 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 Company calculates its capital requirements for operational risk using the Basic Indicator Approach. Based on the audited figures of the Company for the last three years, (2019, 2018, 2017) the total risk weighted exposure with respect to Operational Risk is **EUR 1,217 thousand** which requires a capital of **EUR 97 thousand**.

7 Other Risks

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. It also monitors the Company's exposures and diversification avoiding high concentration risk. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Currently the Company is not subject to any liquidity risk as it maintains own funds in cash deposits with reputable institutions and its liquidity (or cash ratio) and own fund ratios are extremely high.

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 Management

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. This is achieved through the preparation on a monthly basis of Company's Management Accounts to monitor the financial and capital position of the Company.

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. The Company offers and intends to continue offering its services to a large number of EU and third countries/markets for which favourable legal, opinions have been secured, targeting bother retail and professional clients. However mostly due to the Company's Middle Eastern orientation, the Company currently bears some degree of concentration risk. as a result of its current concentration both to a small group of countries from the Middle East and Gulf region and to a small group of clients from such region. Such exposure to concentration risk is expected to be mitigated as the Company grows slowly but steadily.

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. Leverage Ratio

The leverage ratio is a new monitoring tool which will allow the competent authorities to assess the risk of excessive leverage in their respective institutions. According to the CRR, the investment firms have to report all necessary information on the leverage ratio and its components.

According to the CRR, the requirement for institutions to start disclosing the leverage ratio from 1 January 2015, depends on the category of the institution. Please refer to the table below.

ANNEX VI – Summary of reporting requirements

Category	Minimum initial capital	Form 144-14-06.1	Form 144-14-07	Form 144-14-08.1	Form 144-14-08.2	Form 144-14-08.3	Form 144-14-09
Full scope [1]	€730.000	submit	submit	submit	submit	submit	Submit
Under art. 95(1) of CRR[2]	€125.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	exempted
Under art. 95(2) of CRR [3]	€50.000	Submit (calculation based on FOH)	exempted	exempted	exempted	exempted	exempted
Under art. 96(1) (a) of CRR	€730.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	submit
Under art. 96(1) (b) of CRR	€730.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	submit
Exempted under art. 4(1) (2) of CRR [4]	€50.000	exempted	exempted	exempted	exempted	exempted	exempted

For the Calculation of the leverage ratio of the Company the fully phased in definition of Tier 1 capital is used. As at 31st of December 2019, the leverage ratio of the Company was equal to 74.82%.

9. Remuneration Policy

The Board of Directors is responsible for determining an attractive remuneration policy for its current and potential employees. This policy is reviewed on annual basis.

NVX Remuneration policies and practices are aligned with the effective conflicts of interest management duties and conduct of business risk management obligations and their aim is to ensure that our Client's interests are best protected where effective corporate governance is promoted.
At the annual performance and appraisal interview, the individual employees and managers evaluate and document performance in the past year and set new goals. When evaluating the performance, qualitative as well as quantitative criteria are used. Decisions on adjustment/s, if any, of the employee's fixed salary or on annual performance-based pay are made on the basis of this appraisal.

Based on the Directive, Section 4, Paragraph 32 (Article 450 of Regulation 575/2013), the following is applicable with regards to the Company's remuneration system:
- fixed remuneration (including fixed supplements)
- performance-based remuneration (variable salary)
- pension schemes, where applicable
- other benefits in kind, where applicable
- redundancy payment, where applicable

The fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, responsibility, job complexity and local market conditions.
The performance-based remuneration motivates and rewards high performers who significantly contribute to sustainable results, perform according to set expectations for the individual in question, strengthen long-term customer relations, and generate income and shareholder value. The Company's policy is to determine the variable remuneration based on quantitative and qualitative criteria with emphasis on the qualitative criteria that encourage the employees to act in the best possible interest of the Clients and in compliance with the conduct of business rules.
Performance-based remuneration is based on an assessment of the Company's results and a number of Key Performance Indicators (KPIs) reflecting the Company's strategic key priorities. e.g. the KPIs could cover the following aspects:

- profit before tax
- assessment of risk-adjusted return
- costs
- customer satisfaction
- compliance with internal business procedures

The contribution of each employee towards the achievement of the Company's goals is assessed against the above listed KPIs, where the Compliance Officer view and input are required on the assessment process, and more specifically on the employee's performance related to the customer satisfaction and compliance with internal policies and procedures. In 2019 remuneration consisted of fixed monthly salaries and not any variable cash or non-cash compensation.
The following table presents the 2019 annual gross remuneration of Management body and other staff.

Aggregate Remuneration by Senior Management & Executive Directors and other staff:

Personnel	**As at 31st December 2019**			
	No. Of Staff during 2019	**Fixed (€ Thousands)**	**Variable (€ Thousands)**	**Total (€ Thousands)**
Senior Management, Executive Directors, & other staff	6	212	0	212
Total	6	212	0	212

10. Capital Base

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

The Company throughout the year under review managed its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities. During the year under review, the Company complied fully with its capital requirement (i.e. €730,000) and fulfilled its obligations by successfully submitting, on a quarterly basis, the CRD IV CoRep Forms.

Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information relating to their own funds. Furthermore, institutions shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution. In this respect, the Company's Tier 1 capital is wholly comprised of Common Equity Tier 1 Capital and other reserves.

At 31st of December 2019 the Capital base of the Company was as follows:

Original Own Funds (Tier 1)	**As at 31/12/2019 € (Thousands)**
Share Capital	2
Share Premium	1398
Retained Earnings	-445
Audited Income/(Loss) for the year	-252
Deductions from Own Funds	
Intangible Assets	-1
ICF Contributions	-83
Total Eligible Own Funds after Deductions	**619**

10.1. Issued of Share Capital

On 26 July 2019, the Company issued to its existing shareholder 1 odinary share of par value €1 at a premium of €399.000.

As at 31 December 2019, the Company had a total issued share capital of 2.001 nominal shares at a total premium of €1.398.000, combining the total value of the issued capital to €1.400.001.

11. Capital Adequacy Ratio

Based on the Company's authorization, quarterly Capital Adequacy Reports are prepared and submitted to the CySEC. The Capital Adequacy Reports is prepared on a solo basis and the reporting currency is Euro.

The table below shows the summary Capital Adequacy Reports Submitted to CySEC during 2019.

Quarter 2019	**Capital Adequacy Ratio**	**Own Funds (EUR)**
Quarter I (Jan – March)	23.2%	439
Quarter II (April – June)	20.9%	436
Quarter III (July – September)	28.2%	700
Quarter IV (October – December)	**27.2%**	**619**

12. Capital Requirements

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and maximize shareholders' value.

According to the Regulation and the Law, the minimum capital adequacy ratio is 8% and the minimum own capital is €730 thousand. As at 31 December, 2019, the Company's total risk exposure amount was €2.275 thousand resulting in a capital adequacy ratio of 27.2 %, higher than the minimum required of 8%. The Company's total eligible capital was €619 thousand, above the minimum threshold.

Additionally, the Company's total eligible capital stated above covers the Operational Risk Requirement of €96 thousand.

The total capital requirements of the company as at 31st December 2019 were €154 Thousand and are analyzed at table below:

Table 2: Capital Requirements

Risk Category	**As at 31/12/2019** **Minimum Capital Requirements (€000)**	**Risk Weighted Assets**
Credit Risk	33	412
Market Risk	24	306
Operational Risk	97	1,217
Total	**154**	**1,935**

12.1. Capital Requirements (based on exposure to fixed overheads)

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and maximize shareholders' value.

According to the Regulation and the Law, the minimum capital adequacy ratio is 8%. As at 31 December, 2019, the Company's total risk exposure amount was €2.420 thousand resulting in a capital adequacy ratio of 27.23%, higher than the minimum required of 8%.

Label	Amount in thousands
OWN FUNDS	**EUR**
COMMON EQUITY TIER 1 CAPITAL	**659**
ADDITIONAL TIER 1 CAPITAL	0
TIER 1 CAPITAL	0
TIER 2 CAPITAL	
TOTAL OWN FUNDS	**659**
TOTAL ELIGIBLE CAPITAL	**659**
RISK WEIGHTED EXPOSURES	
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	913
TOTAL RISK EXPOSURE AMOUNT FOR SETTLEMENT/DELIVERY	0
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	290
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	1.217
ADDITIONAL RISK EXPOSURE AMOUNT DUE TO FIXED OVERHEADS	0
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	0
TOTAL RISK EXPOSURE AMOUNT RELATED TO LARGE EXPOSURES IN THE TRADING BOOK	0
OTHER RISK EXPOSURE AMOUNTS	0
TOTAL RISK EXPOSURE AMOUNT	**2.420**
CET1 Capital ratio	**27,23%**
T1 Capital ratio	**27,23%**
Total capital ratio	**27,23%**

Label	Amount in thousand in EURO - €
Minimum Common Equity Tier 1 Capital:	
Common Equity Tier 1 Capital to meet Art. 92 of CRR	109
Combined buffer capital requirement	61
Pillar 2 adjustment	0
Highest of €2m or 2% RWA	0
Total Minimum Common Equity Tier 1 capital required at the reporting date	**170**
Actual Common Equity T1 Capital (in euro) at the reporting date	**659**

Under the Law, Own Funds consists mainly of paid up share capital, retained earnings less any proposed dividends, translation differences, investor compensation fund and un-audited current year losses. Current year profits are not added to own funds unless these are audited.

Publication of disclosures

According to the CySEC Directive, the risk management disclosures should be included in either the financial statements of the investment firms if these are published, or on their websites. In addition, these disclosures must be verified by the external auditors of the investment firm. The investment firm will be responsible to submit its external auditors' verification report to CySEC. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures have been made by the external auditors and sent to CySEC.

Appendix 1 – Risk Appetite statement

Risk appetite is focused on the pursuit of risk and the parameters that the Company must employ in deciding if to take on the risk. It defines what types of risks a company will pursue; which types of markets, products, services, clientele and customers it will target.

This Risk Appetite Statement is reviewed annually, or whenever there is a significant change to the Company's operating environment.

According to Company's risk profile the main risk appetite statements are the following:

- Under no circumstances should the regulatory capital adequacy ratio fall below the minimum required of 8% imposed by Cysec.
- Zero tolerance to any kind of internal fraud and non-compliance with company's and regulatory requirements.
- Limit and terminate any operational activity that could harm company's reputation
- Zero tolerance to any deviation from Business Continuity plan
- Zero tolerance towards operational losses