Octa Markets Cyprus Ltd

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

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2018

March 2019

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2018 has been prepared by Octa Markets Cyprus Ltd as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive DI144-2014-14 issued by the Cyprus Securities and Exchange Commission (hereinafter, "CySEC").

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

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

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Contents

1. INTRODUCTION

1.1 INVESTMENT FIRM

Table 1: Company information

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

It should be noted that the Company obtained its license on the 10th of December in 2018, hence there was no activity during the year. The Company plans to begin operations within 2019 offering the services mentioned in the above table.

1.2 PURPOSE

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

In accordance with Regulation (EU) No. 575/2013 (the “Capital Requirements Regulation”, hereinafter “CRR”), which was introduced in 2014, the Company is required to disclose information relating to its risk management, capital structure, capital adequacy, its risk exposures as well as the most important characteristics of the Company’s corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants.

The information contained in the Pillar III Market Discipline and Disclosure report is to be audited by the Company's external auditors and published on its website (www.octafx.eu) on an annual basis.

The Capital Requirements Regulation requirements are based on the Basel framework which consist of the below three pillars:

- **Pillar I** sets the minimum capital requirements comprising of base capital resources requirements; credit, market and operational risk capital requirements.

- **Pillar II** requires firms to undertake an overall internal assessment of their capital adequacy, taking into account all the risks which the firm is exposed to and whether additional capital should be held to cover risks not adequately covered by Pillar I requirements. This is achieved through the Internal Capital Adequacy Assessment Process (hereinafter, "ICAAP"). CySEC may perform a Supervisory Review and Evaluation Process (hereinafter, "SREP") to ensure that CIFs have sufficient capital to support all material risks to which their business exposes them. This level of capital, which may be higher than the capital calculated in the CIF's own assessment (ICAAP), will form the CIF's capital requirement.

- **Pillar III** complements Pillar I and II and improves market discipline by requiring firms to disclose information on their capital resources and Pillar I capital requirements, risk exposures and their risk management framework.

The 2018 Pillar III Disclosure and Market Discipline Report has been prepared based on the relevant requirements in accordance with Part 8 of the CRR and in particular articles 431 to 455, as applicable to the Company.

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

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

The Company has prepared this report on a solo basis as it is a standalone entity.

1.3 REGULATORY (PRUDENTIAL) SUPERVISION

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

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

2. RISK MANAGEMENT

2.1 RISK MANAGEMENT FRAMEWORK

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

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

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

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

- The Company’s risk-taking strategy shall ensure that adequate risk management policies and procedures are established, implemented and maintained in such a way that the level of risk undertaken by the Company can be effectively tolerated. The risk tolerance determines the amount of risk in both qualitative and quantitative terms that the Company is willing to accept. The abovementioned policies and procedures shall be documented and subject to periodic review and adjustment in accordance with the Company’s risk profile and appetite, as well as internal and external norms and best industry practices.

- Processes and systems necessary for ensuring effective and efficient operations, adequate control of risks, and prudent conduct of business, accurate internal and external disclosures, as well as compliance with internal and external rules shall be in place.

- The Company’s risk-taking strategy shall ensure the compliance and monitoring of all transactions in the context of legality, avoidance of conflict of interest, insider dealing and preservation of confidential information. Clearly defined roles and responsibilities shall exist while independence between risk management functions and position/risk taking functions shall be ensured at all cases.

- The Company’s risk-taking strategy shall ensure at all times the determination, evaluation and efficient management of the risks inherent in the provision of the investment services.

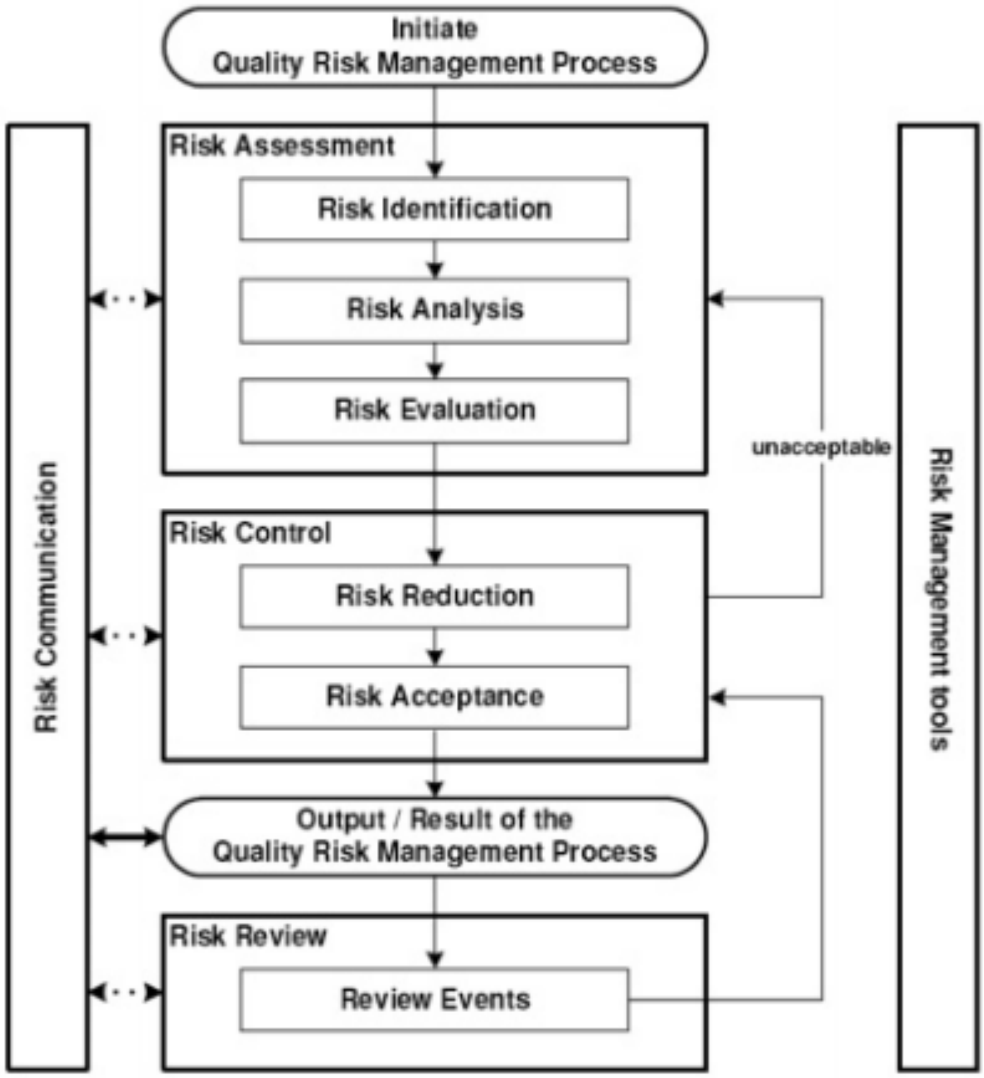
- The Company's strategic planning and capital management shall be based on the Company’s risk-taking appetite and the shareholder return objectives as well as risk adjusted business line performance.

- The Company’s operating model shall aim at the standardization and integration of policies and processes, supporting the improvement of operational competence and the efficient mitigation of operational risks. Adequate, reliable and automated reporting must support the implementation of the operating model. In addition, it shall be ensured that the Company’s IT strategy is in line with the operating model at all classes.

- All new investment activities shall be subject to adequate procedures and controls prior to their introduction, allowing for proper and independent identification of all inherent risks in line with the Company’s risk criteria and limits.

- The Company’s personnel shall be properly trained in order to be aware of the Company’s risk-related issues, understand their responsibilities regarding the management of those risks and have the adequate skills for their management.

The below diagram, illustrates the risk management process:



2.2 RISK MANAGEMENT POLICY

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

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

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

1. **Head of the Risk Management Department**
   Mr. Sebastian Forbes, Executive Director, CFO, part of "Four Eyes", Based in Cyprus

2. **Risk Management Support**
   MNK Risk Consulting Ltd, Based in Cyprus

3. **Risk Management Committee**
   a. Mr. Sebastian Forbes, Executive Director, CFO, part of "Four Eyes", Based in Cyprus; and
   b. Mr. George Xydas, Independent, Non-Executive Director, Based in Cyprus; and
   c. Mr. Demetris Christou, Independent, Non-Executive Director, Based in Cyprus.

2.3 RISK MANAGEMENT COMMITTEE

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

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

The Risk Management Committee meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager.

The duties and responsibilities of the Risk Management Committee include:

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

2.4 RISK APPETITE FRAMEWORK

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

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

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

Risk appetite statement

The Company's risk appetite is determined by its BoD, following the recommendations of the Risk Manager and taking into account the Company's risk bearing capacity.

Risk appetite determines the maximum risk that the Company is willing to assume in order to meet its business targets. To ensure coherence between the Company's strategic considerations as regards risk taking and the day-to-day decisions, Management reviews and when deemed necessary updates the Company's risk appetite statement.

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

- *The available regulatory capital over the total risk weighted assets (hereinafter, "RWAs") for Pillar I risks is targeted to be greater than or equal to 13%. In parallel, the available regulatory capital of the Company shall, at all times, be higher than the minimum regulatory initial capital requirement of EUR 730k;*
- *Should the regulatory common equity Tier 1 capital adequacy ratio fall below the minimum ratio, plus applicable buffers, the company will take immediate measures to bring back the ratio according to regulatory requirements imposed by CySEC (i.e. 4.5% plus applicable buffers plus Pillar 2 capital needs);*
- *All departments are required to operate at all times in compliance with their respective regulatory requirements, laws and regulations. In the case that a regulatory breach is identified, the department manager is required to take action to remedy the breach and inform the board of directors at the next meeting. Regulatory client leverage limits are to be monitored and the relevant manager to ensure that they remain within the stated regulatory limits. In the case that there is a breach, the source of the breach is to be identified (technological, human interference etc.) and a report is to be prepared for the directors' attention, always taking into consideration individual client circumstances.*

- *The Company has limited tolerance towards operational risks / losses, such as internal fraud, unauthorized trading limit excesses, data security and General Data Protection Regulation (hereinafter, "GDPR"). Operational risks inherited in the business operations of the Company are managed proactively.*

The Company's risk bearing capacity is defined as the ability of the Company's available capital to absorb adverse risk. The Company's available paid-up capital currently consists solely of CET 1 capital (i.e. at EUR 735k as at 31.12.2018), calculated after relevant deductions.

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

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

2.5 RISK CULTURE

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

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

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

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

2.6 STRESS TESTING

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

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

- Understanding the risk profile of the Company;
- Evaluating of the Company's capital adequacy in absorbing potential losses under stressed conditions from risks not covered or not adequately covered under Pillar I. This takes place in the context of the Company's ICAAP;
- Evaluating the Company's strategy: Senior Management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows Senior Management to determine whether the Company's exposures correspond to its risk appetite;
- Establishing or revisioning of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

The ultimate responsibility and ownership of the Company's stress testing policy rests with the BoD. If the stress testing scenarios reveal vulnerability to a given set of risks, management should make recommendations to the BoD for remedial measures or actions. These may vary depending on the circumstances and include one or more of the following:

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

2.7 INTERNAL CAPITAL ADEQUACY ASSESSMENT (the "ICAAP")

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

The ICAAP process helps the Company to determine the additional, to Pillar I, capital needed to cover all risks and to maintain an adequate surplus in respect to the minimum capital requirements under Pillar I. The ICAAP is conducted in accordance to the CySEC's guidelines and the results are communicated to CySEC, the BoD and the General Management.

The first ICAAP report will be prepared during 2020 based on the 31.12.2019 cut-off, after gathering at least one year's worth of historical data. For the preparation of the ICAAP Report, the Company will implement the Circular C026 (previously Guidelines GD-IF-02) issued by CySEC.

The Company will be preparing the ICAAP Report on a solo basis as it is a standalone entity, i.e. it has neither a parent undertaking nor a subsidiary, and as such, it is not required to produce a consolidated report.
According to the criteria set by the aforementioned Guidelines, the Company is considered 'large' and / or 'complex' for the purposes of the ICAAP as it is authorised to deal on own account. Nonetheless, it is noted that at present the Company does not meet any of the other criteria under this classification as it is neither authorised to underwrite financial instruments, nor to operate a multilateral trading facility. Furthermore, the Company does not make use of any advanced methods to calculate its capital requirements. Finally, it is reminded that the Company's CIF authorisation was activated by CySEC in December 2018.

3. CORPORATE GOVERNANCE

3.1 BOARD OF DIRECTORS

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

Table 2: Board of Directors

Name of Director	*Executive Director/ Independent Non-Executive Director*	*Number of Directorships in other entities*
Sebastian Forbes	Executive Director	0
George Pantzis	Executive Director	0
George Xydas	Independent Non-Executive Director	1
Dimitris Christou	Independent Non-Executive Director	0
Pavel Prozorov	Non-Executive Director	3

3.2 RECRUITMENT POLICY

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

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

3.3 DIVERSITY POLICY OF THE BOARD OF DIRECTORS

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success. The Company recognizes the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practices in the Corporate Governance Code of many EU countries.

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

3.4 INFORMATION OF FLOW ON RISK TO MANAGEMENT BODY

In line with the requirements set out in the Law and subsequent Directives, the Company has made arrangements to be able to maintain a good information flow on risk to the management body. Reporting obligations will be delivered in 2019 for the year 2018 as per below:

Table 3: Reporting obligations of Octa Markets Cyprus Ltd

Report Name	Owner	Recipient	Frequency	Due Date
Annual Compliance Report	**Compliance Officer**	**BoD, CySEC**	**Annual**	**30/04/2019**
Annual Internal Audit Report	**Internal Auditor**	**BoD, CySEC**	**Annual**	**30/04/2019**
Annual Risk Management Report	**Risk Manager**	**BoD, CySEC**	**Annual**	**30/04/2019**
Annual Anti-Money Laundering Report	**Anti-Money Laundering Compliance Officer**	**BoD, CySEC**	**Annual**	**31/03/2019**
Pillar III Disclosures (Market Discipline and Disclosure)	**Risk Manager**	**BoD, CySEC, Public**	**Annual**	**30/04/2019**
Financial Reporting	**External Auditor**	**BoD, CySEC**	**Annual**	**30/04/2019**

4. CAPITAL MANAGEMENT AND ADEQUACY

4.1 CAPITAL REQUIREMENTS UNDER PILLAR I

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

The fundamental pillar of the capital adequacy framework, Pillar I, is based on the fact that the Company must have minimum own funds which are at all times more than or equal to the sum of its capital requirements. In addition to the Pillar I minimum capital requirements, the Company's eligible own funds must at all times exceed the EUR 730k minimum initial capital requirement as specified under the Article 28 (2) of the CRD IV.

In line with the CRR, Pillar I sets out the minimum regulatory capital requirements of firms to cover credit risk, market risk and operational risk. The minimum capital adequacy ratio an investment firm is required to maintain is set at 8%. Moreover, with the introduction of Basel III/CRR, the capital quality requirements have become more stringent: Common Equity Tier 1 ratio has increased to 4.5%, plus applicable additional buffers as described in Section 2.4 of this Report, Tier 1 to 6%, and Overall (Tier 1 and Tier 2) to 8% plus any additional capital buffers (including the countercyclical capital buffer) and any SREP add-on.

The Management Body, as well as the Risk Manager, monitor the reporting requirements and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company. The Company manages its capital structure and makes adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

The Company's Own Funds, Capital Requirements and Capital Adequacy Ratio as at 31st of December 2018, were the following:

Table 4: Own Funds, Capital Requirements and Capital Adequacy Ratio

Available Capital Level	*31/12/2018*
	€ '000
Common Equity Tier 1 (CET 1)	*735*
Additional Tier 1 Capital (AT 1)	*0*
Total Tier 1 Capital	*735*
Tier 2	*0*
Total Eligible Own Funds	***735***

	Risk Weighted Assets	*Pillar 1 Capital Requirement at 8%*[1]
	€ '000	*€ '000*
Credit Risk	*176*	*14*
Market Risk	*0*	*0*
Operational Risk	*1,013*[2]	*81*
Credit Valuation Adjustment Risk	*0*	*0*
Total Risk Exposure Amount	***1,189***	***95***
CET1 Capital Ratio	***61.9%***	***Surplus: 682***
T1 Capital Ratio	***61.9%***	***Surplus: 664***
Total Capital Ratio	***61.9%***	***Surplus: 640***

Notes: *[1] Excludes Capital Buffers.*

[2] Based on financial projections submitted to CySEC with the license application. Additional details on calculation of Operational RWAs can be found in Section 7 of this Report.

4.2 FINANCIAL INFORMATION

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

Table 5: Regulatory Capital (Eligible Own Funds for Solvency Purposes as defined in CRR)

	31/12/2018
	EUR '000
Total Equity as per Financial Statements	
Share Capital (paid-up)	1317
Share Premium	0
Less Reserves[1]	-522
Less Intangible Assets	0
Less Contribution to Investor Compensation Fund	-60
Total Common Equity Tier 1 (CET1)	***735***
Additional Tier 1 Capital	***0***
Total Tier 1 Capital	***735***
Tier 2	***0***
Total Eligible Own Funds	***735***
[1] Note: Reserves include 2017 retained losses (i.e. EUR 28K) and current year (2018 – i.e. EUR 493K) losses.	

4.3 CAPITAL BUFFERS

It is noted that the 8% minimum regulatory capital requirements referred to in this report exclude the additional capital buffers, namely:

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

Currently only the CCB and CCyB apply to the Company. The CCB and CCyB buffers must be covered by Common Equity Tier 1 Capital and it is calculated in accordance with Article 92(3) of the CRR [par. 52 of the Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms].

The CCB buffer is set at 1.875% for the period 01/01/2018 to 31/12/2018 and will be increased to 2.5% from 01/01/2019 and onwards.

On the other hand, the CCyB is a variable buffer depending on the Company's exposures to each geographical region. In particular, the CCyB is calculated as the total RWAs multiplied by the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the Company are located.

The Company's total Pillar I capital requirement plus additional buffers totaled to 9.875% as of end-December 2018, comprising of: (i) a minimum 8% Pillar I capital requirements; (ii) a 1.875% CCB buffer; and (iii) a 0.000% CCyB buffer.

5. CREDIT RISK MANAGEMENT

5.1 DEFINITION

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

5.2 RISK IDENTIFICATION, MEASUREMENT, CONTROL AND REPORTING

Credit Risk arises when failures by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets in hand, at the balance sheet date. The Company's Credit Risk for 2018 arises, from the Company's exposure in:

- deposits in Financial institutions; and
- Other Assets (i.e. fixed assets, prepayments and cash in hand).

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

5.3 CREDIT RISK ANALYSIS

a. Overall Credit Risk Exposure and Capital Requirements

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

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

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

Table 6: ECAI and Credit Quality Step association

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

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

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

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

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

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

The classification of original exposures as at 31/12/2018 in the table below follows the information above.

Table 7: Classification of Original Exposures

Credit Quality Step	Corporates	Institutions	Public Sector Entities	Other Assets	Total
1				1	1
2					
3					
4					
5		796		16	812
6					
Total		**796**		**17**	**813**

The table below shows the exposure to credit risk as at 31 December 2018:

Table 8: Credit Risk

	31/12/2018
	Euro '000
Risk Weighted Assets:	
Institutions (20% risk weighted)	*159*
Institutions (100% risk weighted)	*1*
Other assets and receivables	*16*
Total Credit risk exposure amount	*176*
Credit Risk Capital Requirement (8% of total risk weighted assets)	*14*

Table 9: Credit Risk Exposure by Industry

Credit Risk Capital Requirements by Industry	*31/12/2018*
	EUR '000
Risk Weighted Assets:	
Financial institutions	*160*
Non-financial institutions	*0*
Equity	*0*
Retail	*0*
Other	*16*
Total Risk Weighted Assets (RWAs)	*176*
Capital Requirements (=8% x RWA)	*14*
Capital Requirements plus applicable buffer (=9.875% x RWAs)	*17*
Total Available Eligible Capital (equals to CET1)	*735*

Table 10: Credit Risk Exposure by Residual Maturity

Credit Risk Capital Requirements by Maturity	*31/12/2018*
	EUR '000
Risk Weighted Assets:	
Up to 3 Months	*159*
Greater than 9 months up to 10 months	*0*
Greater than 11 months up to 12 months	*0*
Greater than 5 years up to10 years	*0.6*
Undefined maturity	*16*
Total Risk Weighted Assets (RWAs)	*176*
Capital Requirements (=8% x RWA)	*14*
Capital Requirements plus applicable buffer (=9.875% x RWAs)	*17*
Total Available Eligible Capital (equals to CET1)	*735*

Table 11: Credit Risk Exposure by Country

Credit Risk Capital Requirements by Country	*31/12/2018*
	EUR '000
Risk Weighted Assets:	
EU	*176*
Non-EU	*0*
Total Risk Weighted Assets (RWAs)	*176*
Capital Requirements (=8% x RWA)	*14*
Capital Requirements plus applicable buffer (=9.875% x RWAs)	*17*
Total Available Eligible Capital (equals to CET1)	*735*

6. MARKET RISK MANAGEMENT

6.1 DEFINITION

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

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

Equity Position Risk: It refers to the probability of loss associated with a particular trading (long or short) position due to share price changes.

Interest Rate Risk: The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

Foreign Exchange Risk: It is a financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the Company. The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

6.2 RISK IDENTIFICATION, MEASUREMENT, CONTROL AND REPORTING

The Company's Market Risk mainly arises from:

- Foreign exchange fluctuations which affect the Company's assets or liabilities denominated in foreign currencies as well as from positions held during forex trading.

Market risk shall be effectively managed by setting and monitoring selected risk limits to be agreed with the Management.

6.3 MARKET RISK ANALYSIS

Currently the Company has not commenced operations. In addition, the equity capital as well as the operating expenses are all denominated in EUR. Therefore, the Company has had nil exposure to market risk, FX risk inclusive.

Going forward, regardless of the trading activity of the Company, it shall be subject to FX risk capital requirements, that shall be calculated by the Standardized Approach as specified in the CRR, provided the aggregate net open FX position exceeds the 2% of own funds.

7. OPERATIONAL RISK MANAGEMENT

7.1 DEFINITION

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

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

- Internal Fraud – unauthorized trading limit excess with intend, misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees;

- External Fraud – theft of information, hacking damage, third-party theft and forgery, data security;
- Compliance – Brand impairment, Complaint handling, third country regulator retaliation, E-commerce global taxation matters, GDPR;
- Clients, Products and Business Practice – market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.
- Execution, delivery and process management – wrong execution of orders, data entry mistakes when transmitting orders, trade miscapturing.

7.2 RISK IDENTIFICATION, MEASUREMENT, CONTROL AND REPORTING

Being a new Company there is some operational risk exposure. The Company recognises that the control of Operational Risk is directly related to effective and efficient management practices and high standards of corporate governance.

To that effect, the management of Operational Risk is geared towards:

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

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

- The development of Operational Risk awareness and culture;
- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities;
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives;
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value;
- Established a "four-eyes" structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management and a Risk Management Committee. The BoD further reviews any decisions made by the Management while monitoring their activities; and
- Comprehensive business contingency and disaster recovery plan.

7.3 OPERATIONAL RISK ANALYSIS

For the calculation of Operational Risk in relation to the capital adequacy returns, the Company uses the Basic Indicator approach. Based on the relevant calculations in the Company's capital requirements, the figures calculated show the Company's exposure to Operational Risk, as at 31st December 2018:

Table 12: Operational Risk

Operational Risk Capital Requirements	*31/12/2018*
	EUR '000
Gross Income as specified in CRR:	
Last 3 years average (based on working-assumptions)	*540*
Operational Risk Capital Requirement	
(15% of 3-year average Gross Income)	*81*
Total Risk Weighted Assets equivalent	*1013*

Note 1: *Last 3 years' average Gross Income is calculated based on last 2 years' actual Gross Income (2017 and 2018 unaudited results) while 3rd year represents a forecasted Gross Income based on the Company's submitted to CySEC Business Plan (as part of the license application).*

7.4 NEGATIVE BALANCE PROTECTION

The Company ensures that the maximum loss for the Clients at any point in time never exceed the Clients' available funds. Negative balance protection (hereinafter, "NBP") shall be provided on a per trading account basis. This measure ensures an overall guaranteed limit on retail client losses.

The Company adequately manages the risks emanating from the Negative Balance Protection (that may arise in exceptional cases) in order to comply with CySEC's requirements imposed by virtue of the Circular 168 and in the context of the ESMA product intervention measures.

In accordance with the CySEC letter on the implications of Negative Balance Protection and on the Adequacy of Risk Transferring Arrangements, an investment firm may collaborate with Liquidity Providers (hereinafter, "LPs") without an additional buffer if the Liquidity Providers are:

i. Credit Institutions or Investment Firms domiciled in a third country for which there is an equivalent decision for the purposes of Article 107(4) of Regulation (EU) No 575/2013. The relevant articles in the Commission Implementing Decision 2014/908/EU are:
   - Article 1 for Credit Institutions,
   - Article 2 for Investment Firms.

   The annexes of the Commission Implementing Decision are amended from time to time. However, amendments are only relevant if they concerned either Article 1 or Article 2 of the Commission Implementing Decision. It is provided that in order for CIFs to not be required to maintain an additional Common Equity Tier 1 (hereinafter, "CET 1") capital buffer, there must be an equivalent decision in relation to the specific type of entity they collaborate with (e.g. specifically for investment firms if they collaborate with an investment firm).

or

ii. EEA regulated entities (Credit Institutions of Investment Firms) or

iii. Credit Institutions or Investment Firms domiciled in a member of G20.

For this purpose, the Company has in place an LP Contractual Agreement with a UK-based brokerage firm regulated by the Financial Conduct Authority and is a member of the G20 list; therefore, is not required that the Company maintains a minimum additional capital buffer as per CYSEC guidelines.

8. FUNDING LIQUIDITY RISK

Funding liquidity risk is the possibility that, over a specific horizon, the Company will be unable to raise cash and meet its financial obligations.

Liquidity Risk is the risk that the Company will not be able to meet its liabilities when they come due without incurring abnormal costs for doing so. In periods of abnormal fluctuations in market conditions or financial crisis, Liquidity Risk can expose the Company to a shortfall of liquidity and limit its access to the capital markets resulting in damages. Liquidity shortages expose the Company to the risk of not having enough cash to fulfil its duties against creditors/ debtors that can eventually cause regulatory sanctions and loss of business/ reputation.

To minimize its exposure to Liquidity Risk, the Company shall establish a liquidity risk management framework incorporating the following principles:

- Having in place robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, in order to ensure that the Company maintains adequate level of liquidity buffers;
- Developing methodologies for the identification, measurement, management and monitoring of funding positions, including current and projected material cash flows arising from assets, liabilities and off-balance sheet items;
- In addition to the assessment of funding requirements under normal circumstances, a scenario-based stress testing framework shall be deployed for the analysis of the Company's liquidity profile under abnormal stress conditions related to the marketplace or the Company;
- Actively managing its market access, in particular the establishment and maintenance of strong relationships with liability holders;
- Contingency plans for handling liquidity disruptions/crises shall exist and determine explicit processes for restoring cash flow short falls in a timely and cost-effective manner;
- Carrying out daily monitoring of the future expected monetary flows from the Clients, counterparties and from its own operations in the frame of the assets and liabilities management.

9. COMPLIANCE MONEY LAUNDERING TERRORIST FINANCING RISK

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

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

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

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

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

10. LEVERAGE

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

As at 31 December 2018, the leverage ratio of the Company was equal to 90.4% using a fully phased-in definition, as per the table below:

Table 13: Leverage Ratio

Leverage Ratio	*31/12/2018*
	EUR '000
Exposure Values	
On Balance Sheet	*813*
Off Balance Sheet	*0*
Derivatives / REPOs	*0*
Total Exposure	*813*
Total Own Funds	*735*
Leverage Ratio	*90.40%*

11. REMUNERATION POLICY AND PRACTICES

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

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

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

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

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

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

It should be noted that the Company didn't offer any variable remuneration or bonus in 2018.

Table 14: Directors Annual Remuneration (in EUR)

Remuneration as at 31st December 2018	No. of Directors during 2018	Annual Remuneration (EUR)		
		Fixed	Variable	TOTAL
Executive directors	2	159,000	0	159,000
Non-executive directors	3	25,798	0	25,798
Total	**5**	184,798	0	184,798

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

12. ANNEX I – ORGANISATIONAL STRUCTURE