



PILLAR III REPORT

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2019

March 2020

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2019 has been prepared by MagnumFX (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").

MagnumFX (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.

*MagnumFX (Cyprus) Ltd is authorized and regulated by CySEC since 4th June 2018, under License number **359/18**, under the Investment Services and Activities and Regulated Markets Law of 2017 (Law 87(I)/2007) and subject to CySEC Rules.*

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1. GENERAL INFORMATION

1.1 INVESTMENT FIRM

Magnum FX (Cyprus) Ltd, is a Cyprus Investment Firm (“CIF”) authorized and regulated by CySEC under the license number 359/18 as of 4th June 2018 and operates in harmonisation with the Markets in Financial Instruments Directive II (MiFID II).

According to the license it holds, the company may provide the following investment services and financial instruments:

Investment Services:

1. Reception and transmission of orders in relation to one or more financial instruments;
and
2. Execution of Orders on Behalf of Clients.

Ancillary Services:

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

Financial Instruments:

1. Financial Contracts for Difference (hereinafter, “CFDs”)

1.2 REGULATORY FRAMEWORK

The present report is prepared by MagnumFX (Cyprus) Ltd in accordance with Regulation (EU) No. 575/2013 (the “Capital Requirements Regulation”, “CRR”) and Directive 2013/36/EU (the “Capital Requirements Directive, “CRD IV”). 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 CRR is based on three pillars:

- **Pillar I** covers the calculation of Risk Weighted Assets (“RWAs”) for Credit Risk, Market Risk and Operational Risk;
- **Pillar II** covers the Supervisory Review and Evaluation Process (“SREP”), which assesses the Internal Capital Assessment Process (“ICAAP”) and provides for the monitoring and self-assessment of the Company’s capital adequacy and internal processes; and
- **Pillar III** covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

The 2019 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. The Company has prepared this report on a solo basis as it is a standalone entity.

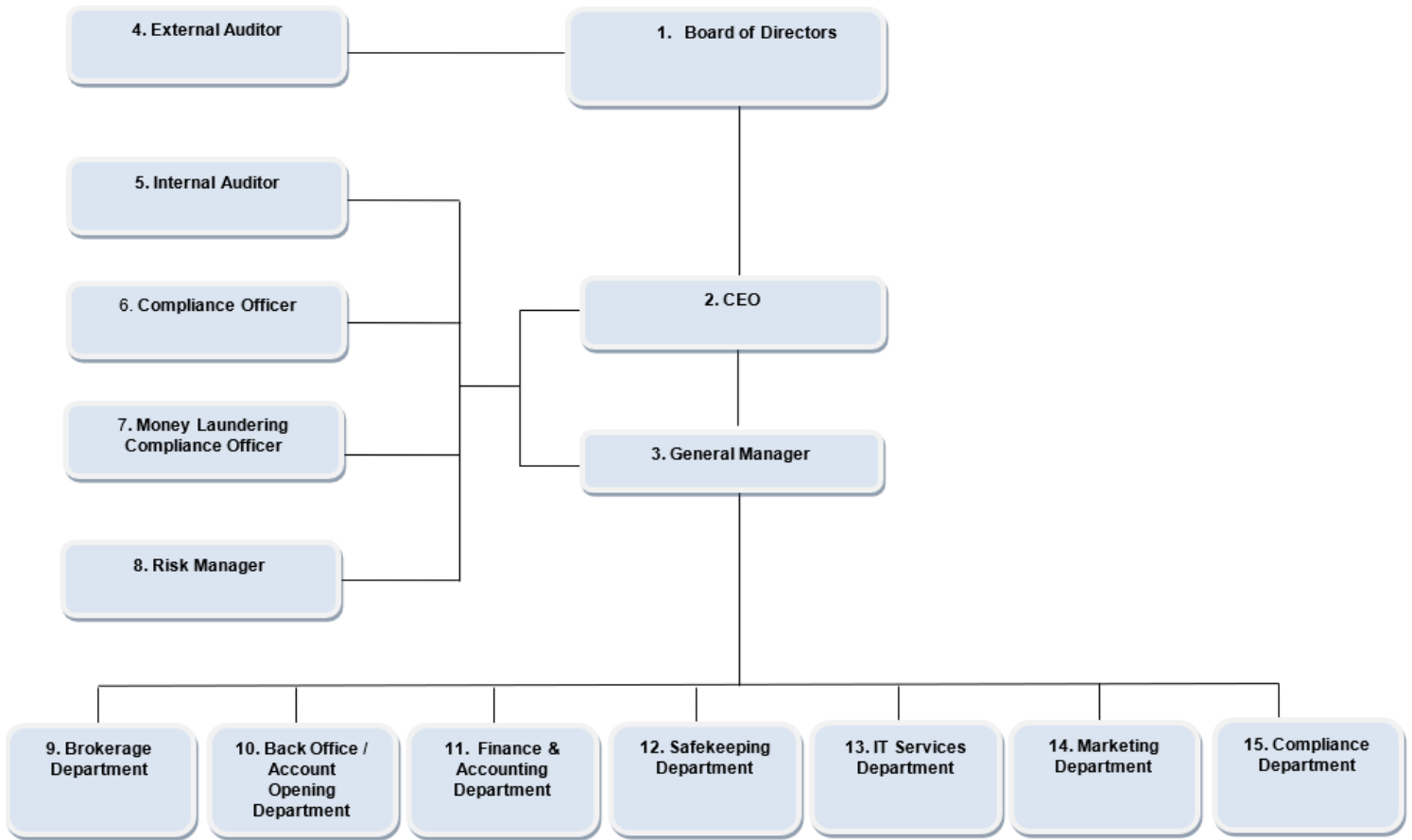
The information contained in the Pillar III Disclosure and Market Discipline Report is to be audited by the Firm’s external auditors and published on the Company’s website magnumfx.eu on an annual basis.

1.3 REGULATORY SUPERVISION

The Laws and Regulations that govern the operations of Cyprus Investment Firms 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 (hereinafter, “the Law”);
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation (“CRR”);
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation (“EMIR”);
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV (“CRD IV”);
- Directive DI144-2014-14: For the prudential supervision of Investment Firms;
- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013.
- Directive 2014/65/EU on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU – (“MiFiD II” Directive)
- Regulation (EU) No. 600/2014 – Markets in Financial Instruments and amending Regulation (EU) No. 648/2012 (“MiFiR”)

1.4 ORGANISATIONAL STRUCTURE



2. RISK MANAGEMENT FRAMEWORK AND GOVERNANCE

2.1 RISK MANAGEMENT FRAMEWORK

The Company establishes, implements and maintains adequate risk management policies and procedures which identify the risks relating to its activities, processes and systems. Furthermore, the level of risk tolerated by the Company should be set. The Management Body has appointed a Risk Manager to head the Risk Management function to operate independently and be responsible, for implementing the Risk Management Policy of the Company set by the Board of Directors (“BoD”) and ensuring that is properly followed under the supervision and control of the Risk Manager.

The Risk Manager submits reports to the Senior Management and the BoD on a frequent basis, and at least annually, indicating whether the appropriate remedial measures have been taken in the event of any deficiencies.

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

- Board of Directors;
- Risk Manager;
- Internal Audit;
- Compliance Officer; and
- Prevention of Money Laundering and Terrorist Financing Officer (“AML Officer”).

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

The Company's general guiding risk management principles are the following:

- 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 shall establish 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 roles and responsibilities of the main control functions of the Company are thoroughly described in the Company's Internal Operations Manual (the "IOM").
- 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 aims 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 support the implementation of the operating model. In addition, it is ensured that the Company's IT strategy is in line with the operating model at all classes.

- 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.

2.2 BOARD OF DIRECTORS

The Board of Directors consists of five (5) members. Two (2) Executive Directors and three (3) Non-Executive Directors as per below:

Table 1: Board of Directors

<i>Name of Director</i>	<i>Executive Director/ Independent Non-Executive Director</i>	<i>Number of Directorships in other entities</i>
<i>Eliahu Shirazi</i>	Executive Director	3
<i>Georgios Miltiadou</i>	Executive Director	1
<i>Antonios Antoniou</i>	Non-Executive Director	2
<i>Andreas Matsas</i>	Non-Executive Director	3
<i>Diana Jomantaite- Tehocharous</i>	Non-Executive Director	1

The responsibilities of the Board of Directors, in addition to those implied on by the Law are set out as follows:

- Approve, oversee and review the policies and strategies for taking up, managing, monitoring and mitigating the risks that the Company is or might be exposed.
- Approve the governance structure of the risk management framework.
- Periodically assess and review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law and Directives and to take appropriate measures to address any deficiencies.
- Set the strategy of the Company and ensure the continuing operations of the Company.
- Meet on a frequent basis to ensure that operational and strategic issues are discussed and issue guidance to the Senior Management and heads of the departments.
- Ensure that written reports concerning internal audit, compliance, anti-money laundering compliance and risk management are received on a frequent basis, and at least annually, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.

- Address any issues raised by the regulators and define the actions to be taken in case corrective measures are required.

2.3 RECRUITMENT AND DIVERSITY OF THE BOARD OF DIRECTORS

The Management Body is also responsible to identify, evaluate and select candidates for the Board 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 Company has performed the necessary due diligence in order to safeguard that its Board of Directors has sufficient and adequate experience to manage effectively the operations of the Company. After the conduct of the due diligence, it has been concluded that the overall composition of the BoD has:

- Sufficient good repute;
- Sufficient knowledge;
- Skills; and
- Experience.

The BoD possess adequate collective knowledge, skills and experience and it is able to understand the Company's activities, including main risks. Each member of the BoD is in position to act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the senior management where necessary and to effectively oversee and monitor decision-making.

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how we do business and imperative to commercial success. The Company recognizes the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future.

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

2.4 FLOW OF MANAGEMENT INFORMATION TO THE BOARD OF DIRECTORS

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 to the BoD. Reporting obligations will be delivered in 2020 for the year of 2019 as per below:

Table 2: Reporting obligations

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

2.5 RISK MANAGEMENT MANUAL

The Company's Risk Management Manual 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 Manager. In addition to that, it identifies the main reporting procedures and outlines the processes followed by the Senior Management in order to evaluate the effectiveness of the Company's internal control procedures.

The Risk Manager bears the responsibility of the following:

- the adequacy and effectiveness of the risk management policies and procedures that are in place;
- monitor the level of compliance by the Company and its relevant persons with the adopted policies and procedures (related to risk management), in addition to the Company's obligations stemming from the relevant laws (related to risk management);
- the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures; and
- Provide training to the Company's member of staff in regards to risk management regulatory compliance.

2.6 RISK APPETITE FRAMEWORK

Risk appetite is the level of risk, by type and by business that the Company is prepared to incur given its strategic targets. 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.

The Risk Appetite is one of the strategic oversight tools available to the Management body. The BoD approved the following Risk Appetite Statement proposed by the Management:

2.6.1 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 parameters underly the company's risk appetite:

- The available regulatory capital over the total risk weighted assets for Pillar I risks is targeted to be greater than or equal to 9% (internal limit set in the context of the Risk Management Manual). At the same time, the available regulatory capital of the Company shall, at all times, be higher than the minimum internal initial capital requirement of EUR 126.25K (regulatory minimum initial capital requirement is EUR 125K);*
- Under no circumstances should the regulatory Common Equity Tier 1 ("CET1") capital adequacy ratio fall below the minimum ratio required imposed by CySEC (i.e. 4.5% plus Pillar II capital needs);*
- The Company has zero tolerance towards internal fraud and non-compliance with regulatory requirements. Therefore, all departments are required to operate at all times in compliance with respective regulatory requirements;*
- 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 of EUR 204K as at 31.12.2019.

Essential indicators for determining the Risk Appetite and their adaptations are regularly supervised over the year in order to detect any events that may result in unfavourable developments on the Company's risk profile.

2.7 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.

2.8 DECLARATION OF THE BOARD OF DIRECTORS

The BoD is responsible for reviewing the efficiency of the Company's risk management arrangements and systems of financial and internal control, which are designed to mitigate the risks that the Company is exposed to. The BoD collectively considers that it has in place adequate systems, mechanisms and controls with regards to the Company's profile and strategy while the Company's personnel is considered properly resourced and skilled, to avoid or minimise loss.

2.9 STRESS TESTING

Stress testing is a key risk management tool used by the Company to evaluate the impact on its current and future profitability and capital adequacy, as well as, to assess and quantify risks using forward looking stress testing scenarios.

Stress tests 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 from risks not covered or not adequately covered under Pillar I;
- 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; and
- 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; and
- Enhance contingency planning.

2.10 INTERNAL CAPITAL ADEQUACY ASSESSMENT

Further to the requirements of Pillar I, a more granular approach on managing risks is achieved through the Internal Capital Adequacy Assessment process (“ICAAP”) under Pillar II of Regulation (EU) No. 575/2013 and relevant guidelines issued by CySEC.

The ICAAP comprises of all the procedures and measures adopted by the Company, with the purpose of ensuring the following:

- i) the appropriate identification and measurement of risks;
- ii) the appropriate level of internal capital in relation to the Company’s risk profile; and
- iii) the application and further development of suitable risk management and internal control systems.

In performing its ICAAP, the Company has adopted the “Pillar I Plus” approach, under which Pillar I capital requirements serve as a starting point and thereafter an assessment is conducted to investigate the possibility whether additional capital cushion should be set aside for:

- Pillar I risk (namely, credit risk, operational risk and market risk) that may not be adequately covered by the calculated regulatory capital requirements; and
- Pillar II risks that lie beyond the scope of the regulatory capital requirements calculated under Pillar I.

The outcome of the ICAAP process is then being documented in an ICAAP Report, which is reviewed and updated annually.

3. REMUNERATION POLICY AND PRACTISES

The Cyprus Securities and Exchange Commission Directive DI144-2007-05 (“Directive”) in its Article 11 of Annex VI, namely “Remuneration Policies” incorporates the requirements of the European Union (“EU”) Capital Requirements Directive 2013/36/EU (“CRD IV”), 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 reviewed and approved by the Board of Directors and sets out the principles governing the Company’s Remuneration systems in such a way that allows to strengthen Client’s protection by improving the implementation of the conflicts of interest and conduct of business requirements under the Law in the area of remuneration and of course to improve the services provided by the Company.

The Company implemented remuneration policies and practices under appropriate internal procedures with a view to ensuring that Clients are treated fairly and their interests are not impaired by the remuneration practices adopted by the firm in the short, medium or long term. Senior Management is responsible for the day-to-day implementation of the remuneration policy and the monitoring of compliance risks related to the policy.

The remuneration policy is not based on quantitative commercial criteria and takes fully into account appropriate qualitative criteria reflecting compliance with the applicable regulations, the fair treatment of Clients and the quality of services provided to Clients. A balance between fixed and variable component of remuneration is maintained at all times, so that the remuneration structure does not favor the interests of the Company or its relevant persons against the interests of any Client.

It should be noted that the Company did not offer any variable remuneration or bonus to its Board of Directors in 2019.

Table 3: Remuneration of directors

Remuneration as at 31st December 2019	No. of Directors during 2019	Annual Remuneration (EUR)		
		Fixed	Variable	TOTAL
<i>Executive directors</i>	2	72,992	0	72,992
<i>Non-executive directors</i>	3	102,900	0	102,900
Total	5	175,892	0	175,892

4. CAPITAL MANAGEMENT AND ADEQUACY

4.1 CAPITAL REQUIREMENTS

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.

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 regulatory 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%, Tier 1 to 6%, and Overall (Tier 1 and Tier 2) to 8%.

In line with the above, the Company is obligated to calculate and report on a quarterly basis, under CRD, its credit risk, market risk and fixed overhead requirements (the capital requirement for the Company is calculated as the higher of total fixed overhead requirement and the sum of the total credit risk and market risk requirements) the result of which, i.e. solvency/capital ratio, needs to be above 8% at all times.

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.

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

	31.12.2019
	EUR
Total Equity as per Financial Statements	
Share Capital (paid-up)	4,005
Share Premium	961,326
Less Previous Years Retained Earnings	-604,211
Less Intangible Assets	-110,000
Less Contribution to Investor Compensation Fund	-46,815
Total Common Equity Tier 1 (CET1)	204,305
Additional Tier 1 Capital	0
Total Tier 1 Capital	204,305
Tier 2	0
Total Eligible Own Funds	204,305
Surplus over Minimum Initial Capital Requirement of EUR 125K	79,305

The Company's Own Funds, Capital Requirements and Capital Adequacy Ratio as at 31st of December 2019, were the following:

Table 5: Capital Requirements and Capital Adequacy Ratio as at 31.12.2019

	Risk weighted assets
	EUR
Credit Risk	1,352,705
Market Risk	622,417
Additional Risk Exposure amount due to fixed overheads	0
Credit Valuation Adjustment Risk	0
Total Risk Exposure Amount	1,975,122
CET1 Capital Requirement (4.5%)	88,881
T1 Capital Requirement (6%)	118,507
Total Capital Requirement (8%)	158,010
Available Total Eligible own funds	204,305
CET1 Capital Ratio	10.3%
T1 Capital Ratio	10.3%
Total Capital Ratio	10.3%
CET1 surplus over minimum CET1 Capital Requirement of 4.5%	115,424
T1 surplus over minimum T1 Capital Requirement of 6%	85,798
Total surplus over minimum Total Capital Requirement of 8%	46,295
Surplus over the Minimum Initial Capital Requirement (EUR 125K)	79,305

5. CREDIT RISK MANAGEMENT

5.1 DEFINITION

Credit Risk corresponds to the risk that a borrower or counterparty will default on any type of debt owed to the firm by failing to make required payments, or failure to deliver, or deliver on time, an instrument owed to the firm. This risk also includes lost principal and interest and disruption to cash flows. The Company follows the Standardized Approach under Pillar I for calculating its Credit Risk Capital Requirements as specified in CRR. It categorizes the assets in respect to their exposure class and uses the Credit Quality Step (“CQS”) methodology to determine its respective Risk Weights (RW).

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 2019 arises:

- From the Company’s deposits in Financial institutions (i.e. credit institutions, payment institutions and investment firms/brokers); and
- Other Assets (i.e. fixed assets, prepayments, cash in hand, etc.)

Concentration Risk

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 to directors and shareholders only, as stipulated by Regulation (EU) No. 575/2013, in regards to their credit exposure to any particular counterparty.

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

- Carry out an evaluation with the scope of determining the credit risk limits of the Company by taking into consideration the current and the potential risks that the

Company may face. This is achieved through the monitoring of the Company’s credit risk exposures.

- Review the credit risk data and ensure that the parameters are adequate and data values are correct, updated and complete.
- Prepare independent, ongoing assessment of the credit risk management processes by Internal Audit, particularly covering the credit risk systems/models employed by the Company.
- Ensure that exposures lie within the set limits.

5.3 CREDIT RISK ANALYSIS

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;
- Exposures to corporates.

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

Table 6: ECAI and Credit Quality Step association

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

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

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

The ECAs 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 exceptions apply (for example exposures to EU institutions in domestic currency with remaining maturity up to 90 days). An analysis of the exposure by counterparty CQS below as at 31.12.2019 is provided in the table below.

Table 7: Classification of Original Exposures in EUR as at 31.12.2019

<i>Credit Quality Step</i>	<i>Corporates</i>	<i>Institutions</i>	<i>Public Sector Entities</i>	<i>Other Assets</i>	<i>Retail</i>	<i>Total</i>
CQS 1						-
CQS 2						-
CQS 3		1,938,976				1,938,976
CQS 4						-
CQS 5		227,889				227,889
CQS 6						-
Unrated		1,409,670				1,409,670
N/A				387,913	3,988	391,901
Total	-	3,576,535	-	387,913	3,988	3,968,436

The tables below show the exposure to credit risk as at 31 December 2019:

Table 8: Credit Risk Summary Table

	31.12.2019
	EUR
Risk Weighted Assets:	
Institutions ¹ (20% risk weighted)	620,853
Institutions ¹ (50% risk weighted)	131,171
Institutions ¹ (100% risk weighted)	209,929
Retail exposures (75% risk weighted)	2,991
Other assets and receivables	387,761
Total Credit Risk Weighted Assets ("RWAs")	1,352,705
Credit Risk Capital Requirement (=8% x RWAs)	108,216

Note 1: Institutions for the purpose of credit risk weighting include (i) credit institutions, investment firms (Article 4 (3) of the CRR) within the EU or in an EU equivalent third country; and (ii) electronic/payment institutions (Article 119 (5) and Article 4 (26) of the CRR) within the EU

Table 9: Credit Risk Exposure by Industry

Credit Risk Capital Requirements by Industry	31.12.2019		
	Banking/Financial Services	Other	Total
	EUR	EUR	EUR
Exposures by Asset Class by Industry Segment			
Risk Weighted Assets:			
Institutions ¹	961,953	0	961,953
Corporates	0	0	0
Retail	0	2,991	2,991
Other items	0	387,761	387,761
Total Credit Risk Weighted Assets (RWAs)	961,953	390,752	1,352,705
Capital Requirement (=8% x RWAs)	76,956	31,260	108,216
Total Available Eligible Capital (equals to CET1)			204,305

Note 1: Institutions for the purpose of credit risk weighting include (i) credit institutions, investment firms (Article 4 (3) of the CRR) within the EU or in an EU equivalent third country; and (ii) electronic/payment institutions (Article 119 (5) and Article 4 (26) of the CRR) within the EU

Table 10: Credit Risk Exposure by Residual Maturity

Credit Risk Capital Requirements by Maturity	31.12.2019
	EUR
Risk Weighted Assets:	
Up to 3 Months	604,255
More than 3 Months	748,449
Total Credit Risk Weighted Assets (RWAs)	1,352,705
Capital Requirements (=8% x RWAs)	108,216
Total Available Eligible Capital (equals to CET1)	204,305

Table 11: Credit Risk Exposure by Country

Credit Risk Capital Requirements by Maturity	31.12.2019
	EUR
<i>Risk Weighted Assets:</i>	
EU	
- Cyprus	781,630
- Germany	446,989
- Lithuania	32,514
- United Kingdom	16,598
Non-EU	
- Australia	74,972
Total Credit Risk Weighted Assets (RWAs)	1,352,705
Capital Requirements (=8% x RWAs)	108,216
Total Available Eligible Capital (equals to CET1)	204,305

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.

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 (“FX 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.

6.2 RISK IDENTIFICATION, MEASUREMENT, CONTROL AND REPORTING

The Company establishes and maintains adequate policies and processes for the measurement and management of all material sources and effects of market risk, including:

- Appropriately assessing the effect of market risk factors’ changes. Market risk exposures must be quantified in a reliable and consistent manner.
- If and where applicable, setting operating limits and other practices that maintain exposures within the levels consistent with internal policies.
- Ensuring that all information on market risk is reliable, sufficiently detailed and up-to-date.

- Adequate information systems and processes for measuring, monitoring, controlling, and reporting any market risk exposures. Relevant reports shall be provided on a timely basis to the Senior Management and the BoD.

Furthermore, the Company had adopted the Standardised Approach for calculating its minimum capital requirements.

6.3 MARKET RISK ANALYSIS

As at 31.12.2019, the Company was only exposed to FX risk deriving from on-balance sheet assets (i.e. accounts with banks and brokers) that were denominated in other currencies (i.e. USD and GBP). FX RWAs comprised 38% of the Company's total RWAs as at 31.12.2019.

Table 12: Market Risk Exposures

Market Risk Capital Requirements	31.12.2019
	EUR
<i>Risk Weighted Assets:</i>	
<i>Traded Debt Instruments</i>	N/A
<i>Equity</i>	N/A
<i>Foreign Exchange ("FX")</i>	622,540
<i>Commodities</i>	N/A
<i>Total Market Risk Weighted Assets (RWAs)</i>	622,540
Capital Requirements (=8% x RWAs)	49,803
Total Available Eligible Capital (equals to CET1)	204,305

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.

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

- Internal Fraud – unauthorized limit excess with intent, misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees.
- External Fraud – theft of information, hacking damage, third – party theft and forgery;
- Compliance – Brand impairment, Complaint handling, third country regulator retaliation, E-commerce global taxation matters.
- 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.

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

- Operational Risk is managed proactively (e.g. by improving the effectiveness of internal controls) and reactively (e.g. through the use of risk impact mitigates)

depending on the nature of the identified operational risk. High frequency low impact risks (e.g. incorrect execution of payment orders) are usually managed proactively since their cause can be identified and prevented, whilst low frequency high impact risks (e.g. damage to physical assets) are usually managed reactively.

- The Company conducts an annual review of its operational risk exposures as part of the ICAAP process.
- Any new procedures should be communicated to Risk Manager for an operational risk assessment.
- All operations and procedures across the Company are consistently and adequately covered by fully documented and adhered-to policies and controls, in accordance with the Company's IOM which the Company's employees must sign that they have read and understood.
- The Company has in place business continuity and disaster recovery plans sufficient to ensure the ability to operate on an on-going basis, aiming to minimise any risks arising from systems malfunctions or data theft.

7.3 OPERATIONAL RISK ANALYSIS

Due to the limited authorisation of the Company, the Company falls under Article 95(1) of CRR and therefore the calculation of the capital requirements for operational risk is based on the fixed overheads of the preceding financial year. Under this method, the Company calculates its total Risk Weighted Assets as the higher of the following:

- a. Sum of risk weighted assets for credit and market risk
- b. Operational Risk Weighted Assets based on preceding year fixed overheads

The figures calculated shows that the Company's exposure due to Fixed Overhead, as at 31st December 2019:

Table 13: Fixed Overheads

	31.12.2019
	EUR
<i>Fixed overheads (based on 2018 Audited Financial Statements)</i>	411,281
<i>Fixed overheads Requirement (25% * Fixed Overheads)</i>	102,820
<i>Fixed overheads risk exposure amount</i>	1,285,253
<i>Total credit risk exposure amount</i>	1,352,705
<i>Total market risk exposure amount</i>	622,540
<i>Additional Risk Exposure Amount due to Fixed Overheads</i>	0

8. 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:

- The adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing risks faced by the Company.
- The adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing risk.
- Setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents from independent and reliable sources, third party information).
- Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction.
- Monitoring and reviewing the business relationship or an occasional transaction with Clients and potential Clients of high-risk countries.
- Ensuring that the Company's personnel receive the appropriate training and assistance.

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