Freedom Finance Cyprus Limited

Pillar III Disclosures and Market Discipline for the year ended 31 December 2019

Under Directive DI144-2014-14 and DI144-2014-15 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and according to Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms

July 2020

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1 Introduction

1.1 Corporate Information

These disclosures relate to Freedom Finance Cyprus Limited (the "Company"), which is authorised and regulated by the Cyprus Securities and Exchange Commission ("CySEC") as a Cyprus Investment Firm ("CIF") to offer Investment and Ancillary Services under license number 275/15, dated May 20th, 2015.

The Company is registered in Cyprus since August 5th 2013, with Registration Number HE324220 as a limited liability company under the Companies Law, Cap. 113.

The Company offers a number of investment and ancillary services enabling clients to trade in CFDs on forex, shares, indices, commodities and precious metals. In particular, the Company has the license to provide the following investment and ancillary services, in the financial instruments outlined below:

Investment Services
▪ Reception and transmission of orders in relation to one or more financial instruments. ▪ Execution of orders on behalf of clients. ▪ Dealing on Own Account. ▪ Provision on Investment Advice.

Ancillary Services
▪ Safekeeping and administration of financial instruments, including custodianship and related services. ▪ Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction. ▪ Foreign exchange services where these are connected to the provision of investment services. ▪ Investment research and financial analysis or other forms.

Financial Instruments
▪ Transferable securities; ▪ Money-market instruments; ▪ Units in Collective Investment Undertakings (CIUs); ▪ 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; ▪ Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event; ▪ Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled; ▪ Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6) of this Part and not being for commercial purposes, which have the characteristics of other derivative financial instruments; ▪ Financial contracts for differences;

- Options, futures, swaps, forward-rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF.

1.2 Pillar III Regulatory Framework

The current EU Capital Requirements Directive 2013/36/EU ("CRDIV") and EU Regulation No. 575/2013 (the "Regulation" or the "CRR") set out the regulatory framework (commonly known as Basel III) that governs the amount of capital EU investment firms and banks are required to maintain. This is achieved through the application of common capital adequacy methodologies and by enforcing standardised disclosure requirements that ensure transparency and enable the comparability of solvency results across the region.

The Basel III framework consists of three Pillars:

- Pillar I which sets out the minimum capital requirements firms are required to meet.
- Pillar II requires firms to assess their internal capital requirements.
- Pillar III seeks to improve market discipline by requiring firms to publicly disclose certain details of their risks, capital and risk management.

Following the publication of the CRD IV package, consisting of the CRDIV and the CRR which are applicable since 1 January 2014 and repeal Directives 2006/48/EC and 2006/49/EC, along with CySEC's Directive DI144-2014-14 for the prudential supervision of Investment Firms and Directive DI144-2014-15 on the discretions of the CySEC arising from the CRR, the Company successfully implemented the new prudential provisions in order to fully comply with the current legislature.

Furthermore, the Company has prepared these disclosures (hereinafter the "Pillar III disclosures") in accordance with the requirements of the CySEC's Directives DI144-2014-14 and DI144 2014 15.

The Regulation provides that an investment firm may omit one or more of the disclosures if it believes that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, it has stated this in the document.

The Regulation also permits investment firms to omit one or more of the required disclosures if they believe that the information is regarded as confidential or proprietary. The European Banking Authority ("EBA") defines proprietary as "…if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an investment firm's investments therein less valuable." Furthermore, information is regarded as confidential "if there are obligations to customers or other counterparty relationships binding an investment firm to confidentiality."

Where the Company has omitted information for either of these two reasons, it has stated this in the relevant section.

The information provided in this report is based on procedures followed by the Management to identify and manage risks for the year ended 31 December 2019 and on reports submitted to CySEC for the said year.

1.3 Pillar 3 Disclosure Policy

The Company's policy is to meet all required Pillar III disclosure requirements as detailed in Part Eight of the CRR. The Company will prepare and publish the report on the Company's website www.ffineu.eu on an annual basis, no later than April 30th and submit the external auditors 'audit opinion to CySEC by May 31st . For the year ended 31 December 2019 the deadlines have been extended to 31st July and 31st August 2020 respectively. It is the responsibility of the Board to approve the policy.

1.4 Scope of Disclosures

As at 31 December 2019, the Company owned the following entities:

Name	Country of incorporation	Principal activities	Holding %	Amount USD$
Freedom Finance Germany TT GmbH	Germany	Investment services	100%	286.467

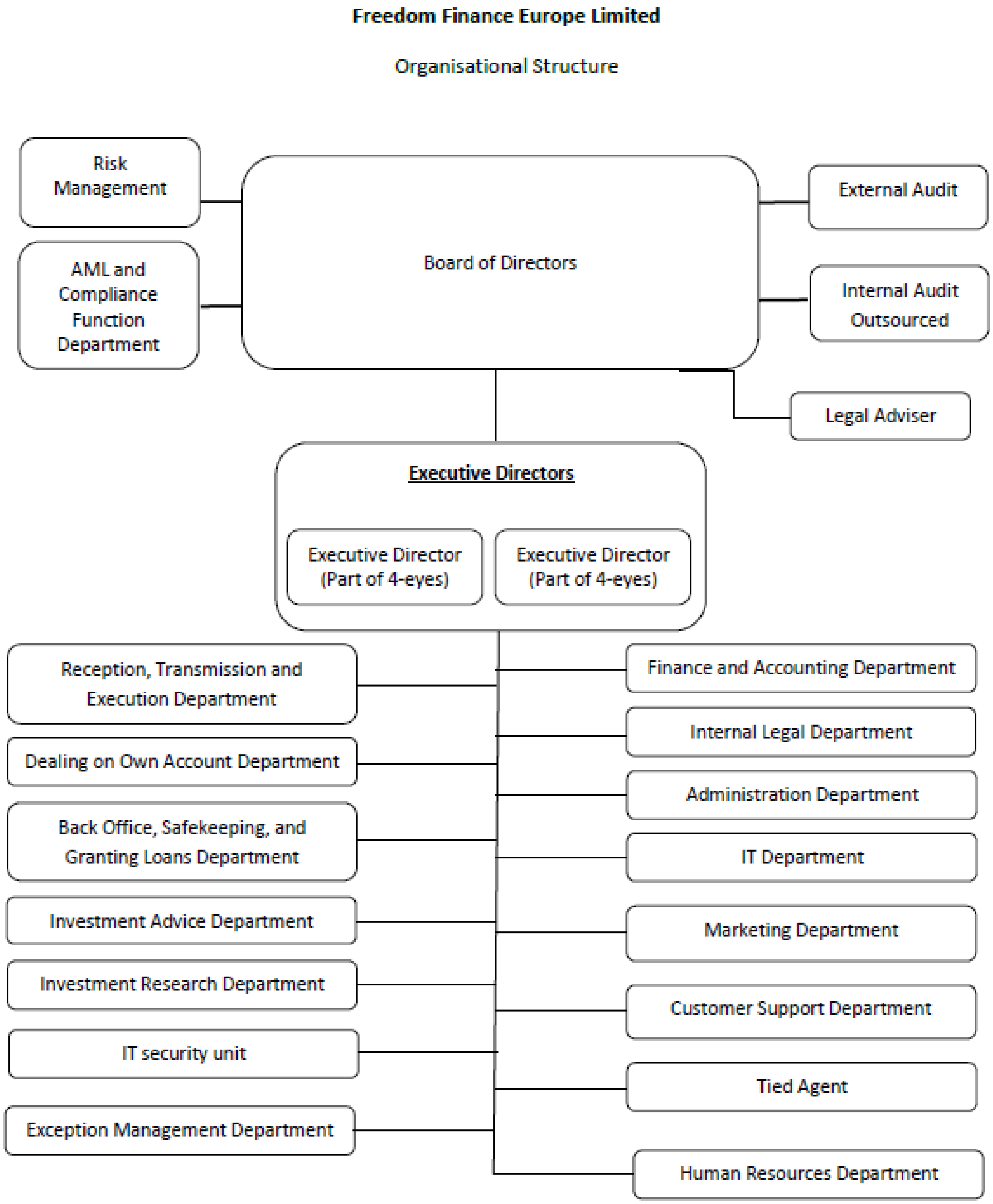
Freedom Holding Corp, a listed entity incorporated in the United States of America and regulated by SEC, holds 100% of the Company's shares and prepares consolidated financial statements under generally acceptable accounting principles in the United States of America which are publicly available on SEC's website.

The Company is not required by the Cyprus Companies Law, Cap.113, to prepare consolidated financial statements because the holding Company publishes consolidated financial statements in accordance with Generally Accepted Accounting Principles in the United States of America and the Company does not intend to issue consolidated financial statements for the year ended 31 December 2019.

During 2018 the Company set up a subsidiary in Germany (i.e. Freedom Finance Germany TT GmbH) to promote its services in German market. Additional contributions to the subsidiary were injected during the current year. The Company periodically evaluates the recoverability of investments in subsidiaries whenever indicators of impairment are present.

The Company is making the Pillar III disclosures on an individual (solo) basis.

1.5 Organisational Structure



2 Risk Management Arrangements

2.1 Risk Management Objectives and Policies

2.1.1 The Company's Approach to Risk Management

Managing risk effectively in a multidimensional organisation, operating in a continuously changing risk environment, requires strong risk management principles. As a result, the Company has established an effective risk oversight structure and the necessary internal organisational controls to ensure that it identifies and manages its risks adequately, establishes the necessary policies and procedures, sets and monitors relevant limits, complies with the applicable legislation, takes more informed decisions and improves the probability of achieving its strategic and operational objectives.

2.1.2 Risk Management Framework

The Risk Management framework includes the identification, assessment, treatment and reporting of internal and external risks. The following steps of the risk management process are defined:

- **Risk identification** is a sub-process to identify and categorize risks that could affect the Company. The outcome of risk identification is a list of potential risks with a certain structure which the Company is exposed to;

- **Risk assessment** is a sub-process to determine the potential impact of an individual risk assessing both the likelihood that it will occur and the impact if it should occur, and then combining the result according to an agreed rule to give a single measure of potential impact. The Company considers two main elements of risk assessment: risk quantification and estimation of impact of risks;

- **Risk treatment** is a sub-process of selection and implementation of measures to handle the risks and their possible impact. These measures can include avoiding and fully or partially taking the risks and management of their possible likelihood and impact. The Company uses three main techniques to treat the risks: risk limitation and control, risk mitigation and risk monitoring;

- **Risk reporting** is a sub-process to provide the senior management with an overview of the risk profile of business, both at a given point in time and in regard to observing and monitoring trends and developments over an extended time period.

2.1.3 Risk Management Function

The Company maintains a Risk Management Department. The Head of Risk Management Department ranks high in the hierarchy of the Company, reporting only to the General Manager and the Board of Directors ("Board"), ensuring that he/she possesses the requisite authority to ensure compliance with the directions issued by the Department.

The Department is entrusted with the task of the determination, evaluation and efficient management of the risks inherent in the provision of Investment Services by the Company. The Risk Management Department will assess potential risks and evaluate their significance, the likelihood of their occurrence, and how these should be managed. It 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 Risk Management reports directly to the Executive Officers and the Board. The Risk Manager provides annual risk management report covering all types of risks to Senior Management and is responsible for evaluating and managing the Company's risks at all times. Such reports should also be presented to the Board and minutes of such meetings attached to the relevant reports should be submitted to CySEC within twenty (20) days from the day of the meeting, and not later than four months from the end of each calendar year.

The Risk Manager bears the responsibility to monitor and evaluate:

- the adequacy and effectiveness of the risk management policies and procedures that are in place;
- the level of compliance by the Company and its relevant persons with the adopted policies and procedures, in addition to the Company's obligations stemming from the relevant laws;
- 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.

Moreover, the Risk Manager is responsible for making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified, as aforementioned.

2.1.4 Internal Audit

The Internal Audit Function is outsourced. The Internal Auditor reports to the Senior Management and the Board of the Company and is separated and independent from the other functions and activities of the Company.

The Internal Auditor bears the responsibility to:

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

The Internal Auditor has access to the Company's premises, systems, information, personnel and financials.

The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions are taken according to the Board's assessment and prioritization.

2.1.5 Compliance Officer

The Board appoints a Compliance Officer, to head the Compliance Function of the Company in order to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, to put in place adequate measures and procedures designed to minimize such risks and to enable the competent authorities to exercise their powers effectively. The Compliance Officer is independent and reports directly to the Senior Management of the Company, having at the same time the necessary authority, resources, expertise and access to all relevant information.

The Compliance Officer's main responsibilities, inter alia, to:

- monitoring and assessing the level of compliance risk that the Company faces, considering the investment and ancillary services provided, as well as the scope of financial instruments traded and distributed;
- monitoring the adequacy and effectiveness of the measures and procedures of the Company;
- developing, designing and re-designing the appropriate procedures of the Company, to prevent and resolve potential conflicts of interest, ensuring that all the procedures regarding the Company's conflict of interest policy are in place, as well as establishing and maintaining Chinese Walls procedures between the various organizational units of the Company;
- communicating the relevant statutes of the Internal Operations Manual ("IOM") to each employee and notify them of any relevant changes therein that relates to his/her role and responsibilities in the Company.

The Compliance Officer needs to communicate to the Company's Management an annual report on compliance issues raised during the year. The Compliance Officer's annual report must be presented to the Board and discussed.

2.1.6 Anti-Money Laundering Compliance Officer

The Anti-Money Laundering Compliance Officer (hereinafter the "AMLCO"), is responsible to assess the Company's compliance with the relevant legislative requirements, effectiveness of the policies, procedures and controls applied by the Company for the prevention of money laundering and terrorist financing, as well as any measures required for improvement of weaknesses and/or compliance deficiencies. Company's employees should report to AMLCO their knowledge or suspicion of transactions involving money laundering and terrorist financing activities.

The AMLCO reports to the Board and Senior Management of the Company and leads the Company's Anti-Money Laundering Compliance procedures and processes. He has the necessary authority, resources, expertise and access to all relevant information. The AMLCO prepares an annual report to the Senior Management and Board for approval within two months from the end of each calendar year (i.e. the latest, by the end of February), on the matters on his responsibility, indicating whether appropriate remedial measures have been taken in the event of any deficiencies.

During the reported period there were changes in AMLCO in charge of Compliance department, where the AMLCO position changed on 24th June 2019. The AMLCO had complete access to all the relevant systems and documents, during the period under review. It is also noted that, based on AMLCO's assessment, it is recommended that the Company appoints an AMLCO assistant and introduce an automated transaction monitoring system as needed for reinforcing the procedures against money laundering and terrorist financing, taking into consideration the volume and geographical spread of its services and activities.

2.1.7 Board Declaration – Adequacy of the Risk Management Arrangements

The Company has set up risk management systems with regards to the Company's profile and strategy and has established a Board Declaration on the Adequacy of the Risk Management Arrangements.

2.1.8 Risk Appetite Statement

The Company has a low risk appetite in respect to investing and to managing business and operational activities.

By this the Company means that the culture of risk is engrained within the Company's culture. The very nature of business, broking in derivatives, puts risk awareness at the centre of our management controls when conducting business. Management takes a very conservative view in its approach to obtaining new areas of business.

This is reflected in the Company's governance, controls and activities. There is an experienced management team of proven ability to ensure that the business remains tightly controlled within the standards that the Company aspires to.

2.1.9 Internal Capital Adequacy Assessment

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 ("ICAAP") report which follows the requirements under Regulation (EU) No. 575/2013 and relevant guidelines issued by CySEC.

The ICAAP will enable the Company to identify the requirements for any additional capital over and above the capital allocated under Pillar I. The ICAAP report is a key tool for both the Company and the regulator as it approaches the risk assessment from a holistic perspective enabling the Company to assess and match risks as much as possible, reducing its residual risk and enabling more precise future growth planning. The ICAAP is reviewed and updated annually.

Capital Management

The Company manages its capital to ensure that it will be able to continue as a going concern while increasing the return to shareholders by aiming to improve the debt to equity ratio.

The adequacy of the Company's capital is monitored by reference to the provisions of the Capital Requirements Regulation and the CySEC Capital Requirements Directives 144-2014-14 and 144-2014-15 bringing into force the regulatory provisions of Basel III.

The Company adopted the Standardized approach for Credit and Market risk and the Basic Indicator approach for Operational risk.

According to the Standardized approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, according to their characteristics and exposure class to which they belong.

The Standardized measurement method for the capital requirement for market risk adds together the long and short market risk positions according to predefined models to determine the capital requirement.

For operational risk, the Company utilizes the basic indicator approach for the calculation of its operational capital requirement.

2.2 Risk Governance – Board and Committees

2.1.1 Board of Directors

The Board of Directors consists of five (5) members, two (2) of whom are Executive Directors and three (3) Non-Executive Directors (one Non-Executive Director and two Independent Non-Executive Directors). The Board is the management body of the Company and it essentially exercises substantial control over the Company's activities and affairs.

The Non-Executive Directors are persons of reputation, experienced and well known in the business community for their skills and abilities, who can assist the Company to achieve its goals.

The Chairman of the Board is primarily responsible for leading the Board and ensuring its effectiveness. He is responsible for setting the Board's agenda and ensuring the Directors receive information in an accurate, clear and timely manner. He will be responsible for promoting effective decision-making, ensuring the performance of the Board.

The major duties and responsibilities of the Board of Directors are:

- Formulating the Company's future strategy in terms of the development of existing and new services and the Company's presence in the local and international financial markets;
- Governing the Company by broad policies and objectives, formulated and agreed upon by the directors and employees;
- Ensuring that sufficient resources are available to the Company to carry out its operations;
- Reviewing and discussing the written reports prepared by the Risk Manager and identifying the risks faced by the Company.

Furthermore, the Board is responsible to ensure that the Company complies with its obligations under the Law, and all other applicable legislation, directives and regulations as well as for establishing and amending the internal control procedures, where necessary. It also ensures that the Company has sufficient human and technical resources required for the performance of its duties. The Board conducts meetings on a regular basis and at least once in a quarter.

2.1.2 Information flow on risk to the Board of Directors

All risks related to the Company are communicated to the Management body through the following reports which are prepared annually, reviewed and approved by the Board.

- Risk Management report
- Internal Audit report
- AML Compliance Officer report
- Compliance Officer report
- Internal Capital Adequacy Assessment Process report
- Financial Statements

2.1.3 Risk Management Committee

Given the Company's small size it does not have a Risk Management Committee, however all the risk management responsibilities are assumed by the Board of Directors.

2.1.4 Recruitment Policy

Along the lines of the changes in the regulatory reporting framework, the Company has established and implement a Staff Recruitment Policy in November 2019 with the aim to identify, evaluate and select candidates as well as ensure appropriate succession. The purpose is when recruiting new members to ensure compliance with the relevant legislation and Company's policies and procedures. Potential member candidates must be qualified with specialized skills, available to commit adequate time and have a sound understanding the Company's activities and the main risks.

2.1.5 Diversity Policy

The Company recognizes the benefits of having a diverse Board of Directors to achieve a variety of views and experiences and to facilitate independent opinions and sound decision-making within the Board. For the purpose of this policy, the Company considers that the concept of diversity incorporates a number of different aspects, therefore all Board appointments are made on merit, in the context of the skills, experience, knowledge, business perspectives, industry or related experience, independence, gender, age, cultural, educational background and more general experience which the Board as a whole requires in order to be effective.

2.1.6 Number of directorships held by members of the Board

The table below provides the number of directorships the members of the Board of the Company hold at the same time in entities other than the Company. Directorships held within the same group of companies are considered as a single directorship. In addition, directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below.

Table 1: Directorships held by members of Board [1]

Name of Director	Position within the Company	Number of Directorships	
		Executive	Non-Executive
Denis Matafonov	Executive Director	1	-
Evgenii Tiapkin	Executive Director	-	-
Timur Turlov [2]	Non-Executive Director	1	-
Charalambos Avaratzis	Independent Non-Executive Director	1	2
Phanos Constantinides	Independent Non-Executive Director	1	-

[1] Note: The information in this table is based only on representations made by the Directors of the Company

[2] Note: Mr. Timur Turlov acts both as an Executive and Non-Executive Director, within the Group to which the Company belongs

3 Own Funds

The Own Funds of the Company as at 31st December 2019 consisted solely of Common Equity Tier 1 ("CET1") Capital and amounted to USD 42.601 thousand. An analysis of the Company's Capital Base is presented in Table 2 below:

Table 2: Composition of Capital Base

Capital Base/Own Funds	31 December 2019 $'000
Common Equity Tier 1 Capital (CET1)	
Share Capital	384
Share Premium	741
Retained Earnings	32.000
Non-reciprocal Shareholder contribution	9.622
Translation Reserve	(47)
Deductions from Own Funds as per CRR	(99)
Total Common Equity Tier 1 Capital	**42.601**
Tier 2 Capital	-
Total Capital (Tier 1 and Tier 2)/Own Funds	**42.601**

Further breakdown of Own Funds is provided in **Appendices I and II**.

Authorized Share Capital

Under its Memorandum the Company fixed its share capital at 300.000 ordinary shares of nominal value of €1 each.

Issued Share Capital

Upon incorporation on 05 August 2013 the Company issued 250.000 ordinary shares of €1 each at par.

On 21 November 2016, the Company issued and allotted to the sole shareholder of the Company additional 50.000 ordinary shares at €1 each at par and a premium of €14 each.

Capital Adequacy Ratio

The Company's objectives when managing capital are:

- To comply with the capital requirements set by the CySEC;
- To safeguard its ability to continue as a going concern;
- To maintain a strong capital base to support the development of its business.

The CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8% for Pillar I risks, plus additional capital buffers as applicable, while it may also impose additional capital requirements for risks not covered by Pillar I. As at 31 December 2019, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus additional capital buffers as follow:

- Capital Conservation Buffer (CCB) of 2,5% as per the transitional implementation provisions for buffers.
- Institution-specific Countercyclical Capital Buffer ("CCyB") for the year 2019 of the Company as at the reporting date was 0%.

Consequently, as at the reference date the Company's overall Minimum Capital Requirement was 10,50%.

The Company's actual Capital Adequacy Ratio for the year ended 31 December 2019 was 67,20% .

4 Large Exposure

As at 31st December 2019, the Company's gross exposure to connected entities of its shareholder(s) was 3,98% of the Company's Own Funds. The said exposures exceeded the 2% large exposure limits set by point(h) of paragraph 61(1) of CySEC Directive 144-2014-14 & 14(A) with regards to a CIF's exposure to its shareholders with more than 10% holding of its share capital, and their connected persons.

The Company is planning to recall the funds (USD 1.7 million) from its connected entities and diverse it within other bank and brokers which are not related with the shareholders, in order to decrease the balances kept within the group.

5 Capital Requirements

The Company follows the Standardized Approach for the measurement of its Pillar I Capital Requirements for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The Risk Weighted Assets ("RWAs") and Capital Requirement calculated for each category of risk as at 31st December 2019 are presented in the table below:

Table 3: RWAs and Capital Requirement by risk category

31 December 2019	Minimum Capital Requirements $'000	Risk Weighted Assets ("RWAs") $'000
Risk Category		
Credit Risk	1.351	16.883
FX Risk	280	3.503
TDI risk	12	151
Operational Risk	3.429	42.861
Total Capital Requirement	**5.072**	**63.398**

Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate.

For calculating its Credit risk capital requirement, the Company uses the Standardized Approach. The following table represents the Company's RWAs and Minimum Capital Requirement for Credit risk as at 31st December 2019, broken down by asset class:

Table 4: Credit Risk summary table

Asset Classes	RWA $'000	31 December 2019 Minimum Capital Requirement $'000
Corporates	7.347	588
Institutions	6.949	556
Retail	-	-
Items associated with particular high risk	-	-
Other Items	2.587	207
Total	**16.883**	**1.351**

Use of External Credit Assessments Institutions' ("ECAIs") Credit Assessments for the determination of Risk Weights

The Company discloses the names of the nominated ECAIs and the exposure values along with the association of the external rating with the credit quality steps. In determining risk weights for use in its regulatory capital calculations, the Company uses Moody's as External Credit Assessment Institution (ECAI).

Table 5: ECAI Association with each Credit Quality Step

Credit Quality Step	Moody's Rating
1	Aaa to Aa3
2	A1 to A3
3	Baa1 to Baa3
4	Ba1 to Ba3
5	B1 to B3
6	Caa1 and below

Exposures to rated institutions are risk weighted based on the credit assessment of the institution itself and the residual maturity of the exposure as per Article 120 of CRR. Exposures to unrated institutions are assigned a risk weight according to the Credit Quality Step to which exposures to the central government of the jurisdiction in which the institution is incorporated, as specified in Article 121 of CRR. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favorable risk weight of 20% if specific conditions are met.

As at 31 December 2019, all Company's exposures to Corporate asset class were unrated, of which some were incorporated at Ukraine where its Credit Quality Step at the time was 6. Therefore as per Article 122 of CRR, the Corporate exposures domiciled in Ukraine were risk weighted by a risk factor of 150% while all the other exposures by a risk factor of 100%.

Finally, the Other Items category as at year end included property, plant and equipment, cash in hand and various other local prepayments. A risk weight of 100% was applied to Other Items, with the exception of cash in hand, for which a 0% risk weight factor was assigned as per Article 134(3) of CRR.

Risk Weighted Assets and Credit Quality Steps

For the credit ratings of institutions the Company made use of the ratings of Moody's and mapped them to the corresponding Credit Quality Step ("CQS").

An analysis of the exposure by counterparty CQS is provided in the table below:

Table 6: Exposure to Institutions before and after Credit Risk Mitigation by CQS

31 December 2019 **Credit Quality Step**	**Exposure values before Credit Risk Mitigation $'000**	**Exposure values after Credit Risk Mitigation $'000**
CQS 1	-	-
CQS 2	-	-
CQS 3	111	111
CQS 4	-	-
CQS 5	-	-
CQS 6	-	-
Unrated	42.616	42.616
Total	**42.727**	**42.727**

Counterparty Credit Risk

The Company has no exposure to counterparty credit risk as it does not have any positions in derivative credit exposures.

Expected Credit Loss (ECL) Assessment

To estimate ECLs on receivables from brokerage transactions, the Company uses probability of default and exposure given default rates based on credit ratings of the banks where the clients' funds are deposited since the Company has right to withdraw commissions charged to the clients at its own discretion.

The Company estimates that it is not exposed to ECLs on margin lending provided to clients because it is fully securitised by the clients financial assets and the Company has right to sell clients' financial assets in order to prevent net liability position of client's account. Due to this, the estimated loss given default is virtually zero.

Securitisations

The Company is not an active participant in the origination of securitisations (meaning pooled assets with tranched risk), and accordingly detailed Pillar III disclosures are not made.

Residual Maturity of exposures

Table 6 below displays the residual maturity of the Company's Credit Risk exposures, broken down by exposure class, as at 31st December 2019.

Table 7: Residual Maturity of Credit Risk exposures by Asset Class

Allocation of exposures by residual maturity				**31 December 2019**
Asset Classes	**Up to 3 months**	**More than 3 months**	**N/A**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Corporates	1.539	3.564	286	5.389
Institutions	34.745	-	-	34.745
Other Items	1.663	247	683	2.593
Total	**37.947**	**3.811**	**969**	**42.727**

The following table presents the geographic distribution of the Company's exposures to which each exposure class is concentrated:

Table 8: Geographic distribution of exposures

Exposure Classes by Country						**31 December 2019**
Asset Classes	**UK**	**Ukraine**	**Cyprus**	**Russia**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Corporates	-	3.916	-	1.187	286	5.389
Institutions	34.057	-	573	-	115	34.745
Other Items	-	-	2.593	-	-	2.593
Total	**34.057**	**3.916**	**3.166**	**1.187**	**401**	**42.727**

Table 9 below analyses the distribution of the Company's counterparties by industry:

Table 9: Distribution of exposures by Industry Segment

Exposures by Asset Class by Industry Segment			**31 December 2019**
Asset Classes	**Financial**	**Other**	**Total**
	$'000	**$'000**	**$'000**
Corporates	5.389	-	5.389
Institutions	34.745	-	34.745
Other Items	-	2.593	2.593
Total	**40.134**	**2.593**	**42.727**

The table below presents the total amount of Credit risk exposures after accounting offsets and without taking into account the effects of Credit risk mitigation as at 31 December 2019, as well as information on the average amount of Credit risk exposures over 2019, broken down by asset class:

Table 10: Total amount of exposures after accounting offsets and Average amount of exposures

		31 December 2019
Asset Classes	**Original exposure amount, net of specific provisions**	**Average Exposure**
	$'000	**$'000**
Corporates	5.389	1.643
Institutions	34.745	11.743
Retail	-	1.463
Items associated with particular high risk	-	3.175
Other Items	2.593	14.824
Total	**42.727**	**32.848**

Operational Risk

Operational risk is the risk that derives from the deficiencies relating to the Company's information technology and control systems as well as the risk of human error and natural disasters. The Company's systems are evaluated, maintained and upgraded continuously.

Capital Requirements

For the calculation of operational risk in relation to the capital adequacy reports, the Company applies the Basic Indicator Approach. The following table shows the calculation of the capital requirements for Operational Risk:

Table 11: Capital Requirement for Operational Risk under Basic Indicator Approach

Operational Risk (Basic Indicator Approach)	2017 $'000	2018 $'000	2019 $'000	Average $'000	Capital Requirements 31 Dec 2019 $'000
Net Income from Activities	(30)	11.910	33.809	22.859	3.429

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro, Russian Rubles and Ukrainian Hryvnia. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

Compliance risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

Reputation risk

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company by Clients, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company’s key directors, the loss of large Clients, poor Client service, fraud or theft, Client claims, legal action, regulatory fines and from negative publicity relating to the Company’s operations whether such fact is true or false.

The Company applies procedures to minimize this risk.

6 Remuneration Policy and Practices

The Company remuneration policy is set by the Board of Directors. The level of remuneration offered by the Company to management and staff is established based on skills, knowledge, individual performance and the remuneration offered by other companies that are similar in size and range of activities.

The remuneration structure offered by the Company to management and staff comprises solely of a fixed salary cash component. The Company's remuneration policy does not include any variable pay component (cash or non-cash).

Directors or employees of the Company do not receive performance-based remuneration. Bonuses and other remunerations are not based or linked to sales targets (sale of specific financial instruments or of a specific category of financial instrument), or the value of transactions, or the value of clients' deposits, or on retention of clients, or on the number of new clients attracted, or on any other clients' connected performance.

The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role. Staff engaged in control functions is independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control. The remuneration is also set in comparison with standard market practices employed by the other market participants/competitors.

The table below provides aggregate quantitative information on remuneration, broken down by Senior Management (including Non-Executive Directors) and members of staff whose actions have a material impact on the risk profile of the Company:

Table 12: Quantitative information on remuneration

Aggregate Remuneration as at 31st December 2019 (USD)				
	No. of beneficiaries	**Fixed Remuneration $'000**	**Variable Remuneration $'000**	**Total Remuneration $'000**
Senior Management	4	275	20	295
Other Staff	7	339	22	361
Total	**11**	**614**	**42**	**656**

One member of the Board is not remunerated by the Company. The fees of Non-Executive Directors include fees payable to them as members of the Company's Board as well as for being members of the Board's Committees. They include the fees for the period that they serve as members of the Board.

Table 13: Quantitative information on remuneration per Business Area

Business Area	As at 31st December 2019 (USD)			
	No. of beneficiaries	Fixed Remuneration $'000	Variable Remuneration $'000	Total Remuneration $'000
Control Functions	4	196	-	196
Reception, Transmission & Execution, Dealing on Own Account and Sales, Customer Support, Back Office	4	301	30	331
Other Functions (including Sales, Marketing, Accounting, Legal)	3	117	12	129
Total	**11**	**614**	**42**	**656**

During 2019 the Company did not award any non-cash remuneration benefits, outstanding deferred remuneration or sign-on payments.

7 Leverage ratio

The Leverage ratio is defined as the capital measure (i.e. the Company's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014 amending the CRR with regards to the Leverage ratio.

The Company's Leverage ratio as at the reference date 31st December 2019 was 99,47% which is maintained well above from the minimum regulatory requirement of 3%.

The table below provides a reconciliation of accounting assets and Leverage ratio exposures:

Table 14: Summary reconciliation of accounting assets and Leverage ratio exposures

		Applicable Amounts $'000
1	Total assets as per published financial statements	42.918
4	Adjustments for derivative financial instruments	-
7	Other adjustments	(91)
8	**Total Leverage Ratio Exposure**	**42.827**

The following table provides a breakdown of the exposure measure by exposure type:

Table 15: Leverage ratio common disclosure

		CRR Leverage ratio exposures $'000
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	42.926
2	(Asset amounts deducted in determining Tier 1 capital)	(99)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**42.827**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**-**
Securities financing transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	-
Other off-balance sheet exposures		
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	-
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	Tier 1 capital	42.601
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**42.827**
Leverage ratio		
22	**Leverage ratio**	**99,47%**

The table below provides a breakdown of total on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by asset class:

Table 16: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR Leverage ratio exposures $'000
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**42.827**
EU-2	**Trading book exposures**	**100**
EU-3	**Banking book exposures, of which:**	**42.727**
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	-
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
EU-7	Institutions	34.745
EU-8	Secures by mortgages of immovable properties	-
EU-9	Retail exposures	-
EU-10	Corporate	5.389
EU-11	Exposures in default	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2.593

Description of the processes used to manage the risk of excessive leverage

In order to manage the risk of excessive leverage, the Company monitors its Leverage ratio on a monthly basis and ensures that it is always above the current 3% limit.

Factors that had an impact on the Leverage Ratio during the period

The Leverage Ratio of the Company over the financial year 2019 ranged between 36,85% to 99,47% (in December 2019 based on audited figures), with an average rate of 58,04%. The main reason for this fluctuation is the increase in the Company's Tier 1 Capital as a result of audited profits included in the last quarter of the year.

8 The Impact of COVID-19 pandemic on the Company

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain, and in many jurisdictions, now delay, the spread of the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and ''locking-down'' cities/regions or even entire countries. These measures will slow down both the broader Cyprus and world economies and the operations of the Company may be affected as its clients may decrease their investing activities resulting in decrease of the Company's revenue. The potential financial effect cannot be estimated reliably at the moment, nevertheless the management expects that it would not have a significant negative impact on the Company's operating activities and its business continuity.

9 Appendices

Appendix I – Balance Sheet Reconciliation

Table 17: Balance Sheet Reconciliation

Balance sheet reconciliation	31 December 2019 $'000
Share Premium	741
Share Capital	384
Retained Earnings	32.000
Non-reciprocal Shareholder contribution	9.622
Translation Reserve	(47)
Deductions from Own Funds as per CRR	(99)
Total Own Funds	**42.601**

Appendix II – Own Funds Disclosure Template

Table 18: Transitional and Fully Phased-in Own Funds Calculation

At 31 December 2019	Transitional Definition $'000	Full - phased in Definition $'000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	1.125	1.125
Retained earnings	79.275	79.275
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(47.322)	(47.322)
Funds for general banking risk	9.622	9.622
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**42.700**	**42.700**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional deductions of CET1 Capital due to Article 3 CRR	(70)	(70)
Intangible assets (net of related tax liability)	(29)	(29)
Total regulatory adjustments to Additional Tier 1 (AT1) capital	**(99)**	**(99)**
Common Equity Tier 1 (CET1) capital	**42.601**	**42.601**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**42.601**	**42.601**
Tier 2 (T2) capital before regulatory adjustments	**-**	**-**
Tier 2 (T2) capital: regulatory adjustments	-	-
Total regulatory adjustments to Tier 2 (T2) capital	**-**	**-**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**42.601**	**42.601**
Total Risk Weighted Assets	**63.398**	**63.398**
Capital Ratios:		
Common Equity Tier 1	67,20%	67,20%
Tier 1	67,20%	67,20%
Total Capital	67,20%	67,20%

Definitions:

The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total Risk Weighted Assets for covering Pillar I risks.

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total Risk Weighted Assets for covering Pillar I risks.

The Total Capital ratio (TC) is the Own Funds of the Company expressed as a percentage of the total Risk Weighted Assets for covering Pillar I risks.