Safecap Investments Limited

Pillar III Disclosures 2019

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1 Introduction, Scope and Purpose of this Document

Safecap Investments Limited ("Safecap" or the "Company") is an investment firm, incorporated in Cyprus as a private limited liability Company under the provisions of the Cyprus Companies Law, Cap. 113. The Company is authorized and regulated by the Cyprus Securities and Exchange Commission ("CySEC" or the "Commission") under license number 092/08 for the conduct of designated investment business in the Republic of Cyprus and other jurisdictions and by the Financial Services Board ("FSB") in South Africa as a Financial Services Provider under license number 43906.

In accordance with the operating license granted by CySec, the Company is permitted to undertake regulated investment services including the reception and transmission of orders in relation to one or more financial instruments, the dealing on own account, the execution of orders on behalf of clients and portfolio management. The Company is also authorised to provide the ancillary services of safekeeping and administration of financial instruments, credit granting and foreign exchange services in relation to the investment services provided, as well as investment research and financial analysis.

The Company is an online financial services provider and acts as the principal and market maker to its customers in Contracts for Differences (CFDs) on a range of financial instruments including Foreign Exchange, Commodities, Indices, Shares and Exchange Traded Funds.

Revenue is mainly generated from trading fees and dealing spreads (bid/ask spread) charged on client trades and to a lesser extend from net gain/losses on trading activity. The level of revenue in any period is driven by the number of active clients and the level of client activity.

1.1 Regulatory context

The Pillar III Disclosures Report (the "Report") has been prepared in accordance with the provisions of Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the "CRR") and paragraph 32(1) of DI144-2014-14 of the CySEC for the prudential supervision of investment firms (the "Directive"), collectively referred to as "CRDIV package".

The disclosures included in this Report are made on a solo basis and are published annually. This Report should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2019. Where "reference date" is mentioned, this refers to 31 December 2019.

Unless stated otherwise, all amounts are in thousands of United States Dollars ("US$" or "USD").

1.2 Pillar III Disclosure Policy

The following provides a summary of certain important items of the Company's Pillar III Disclosure Policy:

Information to be disclosed & frequency

The Company's policy is to meet all required Pillar III disclosure requirements as detailed in Part Eight of the CRR, to a degree that is appropriate to the nature, size, scope and complexity of its operations and its internal organisation. The Company's policy is to publish the disclosures required on an annual basis as per the Company's obligations under the relevant laws and regulations.

Medium and Location of Publication

The Company's Pillar III disclosures are published on an annual basis on Safecap's website (www.markets.com).

Verification

The Company has commissioned its External Auditors to verify its Pillar III Disclosures. The Company in accordance with the provisions of Part Eight of the CRR and paragraph 32(1) of the Directive, has an obligation to publish information relating to risks and risk management on an annual basis at a minimum and to provide a copy of its External Auditor's verification report to CySEC within five months from each financial year-end.

2 Governance and Risk Management Objectives and Policies

2.1 The Board of Directors

The Company's Board of Directors (the "Board") is required to assess and review the effectiveness of the policies, arrangements and procedures put in place for the Company to comply with its obligations under the Investment Services and Activities and Regulated Markets Law of 2017 (the "Law"), as subsequently amended or replaced, as well as the relevant CySEC Directives and the CRR, and to take appropriate measures to address any deficiencies. In particular, when managing and/or assessing risks, the responsibilities of the Board of Directors and Senior Management may be summarized as follows:

- Approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks that Safecap is or might be exposed to, including those posed by the macroeconomic environment in which it operates.
- Ensure that all the Risk Management regulatory requirements are applied, and that appropriate systems and controls are introduced.
- Be actively involved in and ensure that adequate resources are allocated to the management of all material risks, the valuation of assets and the use of external credit ratings and internal models that relate to those risks.
- Review and approve the Annual Risk Management Report and take all action as deemed appropriate under the circumstances to remedy any weaknesses and/or deficiencies identified therein.

At 31 December 2019, the Board of Directors of the Company comprised of two Executive Directors and five Non-Executive Directors.

2.2 Recruitment Policy for the Selection of Members of the Management Body

Recruitment of the Board members combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework in compliance with Article 9(14) of the Law which requires that members of the Board shall at all times be of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board is required to reflect an adequately broad range of experiences.

Nominees are subject to the approval of the Board of Directors, whilst adherence to the requirements of Article 46(2) of the Law pertaining to the number of directorships which may be held at the same time by each director of a significant CIF is also a prerequisite. Regulatory approval from CySEC is coordinated through the Compliance Officer. Review is performed to establish the specific experience and skills needed to ensure the optimum blend of individual and aggregate capability having regard to the Company's long term strategic plan.

2.3 Diversity Policy for the Selection of Members of the Management Body

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy and developing talent at every level within the organization.

2.4 Number of Directorships held by Board Members

The table below provides the number of directorships each member of the management body of the Company (as at 31 December 2019) holds at the same time in other entities. 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. Executive or non-executive directorships held within the same group, are considered as a single directorship.

Table 1: Number of directorships held by the Company's Board members including position in Safecap

Name[1]	Position	Number of Executive Directorships	Number of Non-Executive Directorships
Joseph Rundle	Executive Director	1	-
Evagoras Kountouris	Executive Director	1	-
Damien Francis	Non - Executive Director	-	1
Athos Demetriou	Non - Executive Director	1	3
Stelios Prodromitis[2]	Non - Executive Director	1	2
Neil David Offord	Non - Executive Director	1	-
Oren Danziger[2]	Non - Executive Director	1	-

1. The information presented in this table is based only on representations made by the Company.

2. Oren Danziger and Stelios Prodromitis appointed on 26 June 2019.

2.5 Risk Management Policy

Risk is inherent to the Company's business and activities. The Company's ability to identify, monitor and manage each type of risk to which it is exposed is an important factor in its financial stability and performance and for the achievement of its strategic objectives.

The Risk Management Policy is included in the Company's Internal Procedures Manual (hereafter "IPM"). The IPM aims to set out those policies and procedures and to ensure compliance with legislative requirements and with departmental and general procedures.

The Risk Management Policy forms part of the Company's internal control and corporate governance arrangements. It explains the Company's underlying procedures with respect to risk management and documents the roles and responsibilities of the Risk & Compliance Committee, the Risk Manager and other key parties. It also outlines key aspects of the risk management process and identifies the main reporting procedures. In addition, it describes the process followed by the Risk & Compliance Committee to evaluate the effectiveness of the Company's internal control procedures.

Processes and mechanisms are in place to manage the risks, with special consideration to risks arising from the operations of the Dealing Room and the Own Account Trading departments in the process of the reception and transmission of client orders, execution of clients' orders and trading on the Company's behalf.

2.6 Nomination Committee

The main objective of the Nomination Committee is to review the structure, size and composition of the Board and its committees and to make recommendations with regards to any changes considered necessary in the identification and nomination of new Directors, the removal of Directors, the reappointment of existing Directors and the appointment and removal of members of the Board's committees. The Nomination Committee has a responsibility to assess the roles of the existing Directors in office to ensure that balance is maintained in the Board in terms of skills, knowledge, experience and diversity.

As at year end, the Nomination Committee was composed of three Non-Executive Directors, two of which were independent. During 2019, the Nomination Committee formally met 2 times.

2.7 Risk & Compliance Committee

The Board has established a Risk & Compliance Committee to oversee on behalf of the Board all matters relating to risk management and regulatory compliance. The Risk & Compliance Committee's arrangements put in place are proportionate to the size, complexity and risk profile of the Company. The Committee acts independently from the management of the Company.

As at 31 December 2019 the Risk & Compliance Committee comprised of three non-executive directors, of whom two, including the Chairman, were also independent. All members of the Committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy, risk appetite, risk management policies and risk management practices of the Company. During 2019 the Risk & Compliance Committee convened 4 times.

The main objectives of the Risk & Compliance Committee are as follows:

- To ensure that the Company has implemented a risk management framework based on the three pillars of (i) risk strategy and appetite (ii) risk governance and organization and (iii) risk management process.
- To review and assess the integrity and adequacy of the Company's Risk Management framework, including processes, policies, organizational structure and arrangements on an ongoing basis.
- To promote a consistent risk management oversight at Company level.
- To provide an overview of the Company's risk and compliance management arrangements. The Risk & Compliance Committee is required to make suitable arrangements in order to identify any risk management and compliance deficiencies and approves policies that need to be implemented by the relevant departments within the Company.
- To oversee the implementation of risk limits across the different kinds of risks (including credit, market and liquidity risk) and consider/approve any limit excesses based on this risk limit structure and authorities to be in place at the Company.
- To work with the Remuneration Committee to establish a remuneration culture, policy and framework that balance commercial objectives with risk and compliance factors and requirements and support capital and liquidity preservation.
- To review the annual and other reports prepared by the Risk and Compliance functions (including ICAAP and Pilar III disclosures) and make recommendations for remedial and other actions.

2.8 Risk Management Function

The Company operates a dedicated Risk Management function under which the Risk Manager is responsible for implementing the Risk Management Policy, as this is set by the Board of Directors and the Risk & Compliance Committee and ensuring that this is properly followed under the supervision and control of the said Committee.

The Risk Management function is tasked with the following duties and responsibilities:

- Implementing policies on risk management and internal control.
- Identifying and evaluating the fundamental risks faced by the Company for consideration by the Risk & Compliance Committee.
- Providing adequate information in a timely manner to the Risk & Compliance Committee on the status of risks and controls.

- Providing reports to the Risk & Compliance Committee and the CEO, with details of the Company's total exposure across all instruments. These reports include information about clients' positions and the positions opened by the Company as part of its hedging activity.
- Undertaking reviews on the effectiveness of the system of internal control and providing a report to the Risk & Compliance Committee.

2.9 Compliance and Money Laundering Compliance Functions

The Company's Compliance function covers (a) Financial Crime / AML (b) Monitoring and Surveillance (c) Governance, Code of Conduct and Regulatory Compliance and (d) Regulatory Counselling. The Compliance function designs a risk-based annual compliance plan having regard to the areas of material business activity or material business and regulatory risk, with the overall aim of ensuring consistent regulatory compliance at all times.

The Chief Compliance Officer ("CCO") and the Money Laundering Reporting Officer ("MLRO") have direct access to the Board of Directors.

2.10 Internal Audit Function

The role of the Internal Audit function is the provision of ongoing review and evaluation of the operations and activities of the Company in all respects, as well as the provision of recommendations and advice to ensure that the Company operates at the highest standards and in accordance with best practices while remaining in line with the applicable legal and regulatory framework. The Internal Auditor is an independent and autonomous function with direct reporting line to the Board of Directors.

The key responsibilities of the Internal Audit function include:

- Providing an objective and independent appraisal of all Company activities (financial, operational and others).
- Giving assurance to the Board on all control arrangements, including management and corporate governance.
- Assisting the Board by evaluating and reporting the effectiveness of the controls for which the Board is responsible and issuing recommendations and suggestions.
- Keeping records and books with regards to the internal audit work performed.
- Establishing, implementing and maintaining an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements.
- Submitting the Annual Internal Auditor's report to the Board of Directors over the activities performed by the Internal Auditors.

2.11 Risk Management Strategies and Capital Management

The Company deploys several risk management strategies in order to control its risks, which include maximum overall exposure levels and value at risk indicators. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the regulatory environment. The Capital Management framework of Safecap is designed to manage its capital needs on a permanent basis. The Company has in place internal guidance in order to ensure that the capital adequacy ratio remains well above the regulatory minimum.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit standing and healthy capital ratios in order to support its business and maximize shareholder value.

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.

2.12 Internal Capital Adequacy Assessment Process Report

The Company conducts an Internal Capital Adequacy Assessment Process Report annually. The ICAAP Report reflects: (a) the Guidelines GD-IF-02 for the ICAAP issued by CySEC on 12 July 2012; (b) the ICAAP methodology applied by the Company, and (c) the ICAAP review, assessment and calculation for the reviewed period. Additionally, the ICAAP Report is covering the Company's business background, financial performance and governance arrangements pertaining to Risk Management, and places emphasis on the impact of regulatory developments on business performance, compliance and reputational risks.

The objective of the ICAAP Report is to document the assessment and quantification of Safecap's required capital, how Safecap mitigates and controls risks and how much current and future capital is required.

In addition, the ICAAP Report aims to capture the Company's capital management process and methodologies as stipulated in accordance with the abovementioned CySEC Guidelines. These Guidelines address the distinct components and framework for the implementation of the ICAAP, which is a key part of risk management, providing guidelines on how the provisions in terms of the ICAAP should be interpreted and applied in practice. The Guidelines further prescribe how a Cyprus Investment Firm should develop an integrated and firm-wide risk culture, based on a full understanding of the risks it faces and how they are managed, taking into account its risk tolerance/appetite.

The ICAAP Report is the document submitted to the CySEC, upon the latter's request, explaining how Safecap has implemented and embedded the ICAAP process within its business, describing its risk profile and the extent of risk appetite that Safecap is prepared to accept, as well as the capital that it considers as adequate to be held against all the risks that it is exposed to. The Company has developed stress testing modules, using the scenario-based approach, in order to quantify the financial impact by risk type on the projected financial position of the Company over the following 3 years. The selected scenarios take into account the projected forecasts of the macroeconomic, business and regulatory environment of the CFD sector.

The submission of the ICAAP Report to CySEC serves as the basis for reviewing the ICAAP under the Supervisory Review and Evaluation Process ("SREP"). The CySEC, under the SREP, shall review the arrangements, strategies, processes and mechanisms implemented by the Company to comply with the Directives and the CRR.

2.13 Information Flow on Risk Management to the Board of Directors

The information flow on risk management matters to the Board is achieved through the following means:

- Through the Annual Report of the Risk Manager or other reports and/or communication of risks to the Management and the Board by the Risk Manager in case of emergency and/or once a material risk emerges.
- Through the ICAAP Report.
- Through decisions of the Risk & Compliance Committee which are communicated to the Board.
- Through presentation of the Annual Financial Statements by the external auditors and the CFO.
- Through the Annual Compliance, Anti Money Laundering and Internal Audit reports and other reports and/or communication performed throughout the year once risks and/or deficiencies are identified.
- Through updates to the Management and the Board by the Heads of the Departments.
- Through the Suitability Report by the external auditors.

2.14 Declaration of Management Body

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These controls are designed to manage rather than eliminate the risks of not achieving business objectives and, to the extent possible, prevent fraud, material misstatements and loss.

The Board, taking into consideration the Company's profile and strategy, considers that it has in place adequate controls, and an appropriate selection of mechanisms, skilled to avoid or minimize loss.

2.15 Board Risk Appetite Statement

The Risk Appetite Statement defines the level of risk the Board is willing to take in pursuit of its business objectives and strategic goals. It defines the parameters within which the Company can operate and the relevant risks it can assume, both on an individual as well as on an aggregated basis.

The Risk Appetite Statement includes some high level principles and key risk indicators to alert Management and the Board of Directors of any risk concerns, and triggering appropriate responsive actions. Specific limits are in place, which are embedded in the risk monitoring systems and reporting, to cap the amount of risk the Company will take.

The Board of Directors has identified several categories of principal risk and established policies and procedures that seek to manage them:

- Regulatory Risk
- Operational Risk
- Liquidity Risk
- Credit & Counterparty Risk
- Market Risk

The Board of Directors periodically revises the Risk Appetite Statement and its management framework, analyzing the impact of unlikely but plausible tension scenarios and adopting the pertinent measures to ensure the policies set are met.

2.16 Levels of Defense

The Board has adopted a three (3) level defense model to ensure responsibility is allocated for the identification, management, control and oversight of the principal risks related to the Group's business. The model designates the roles, responsibilities and accountabilities for the risk management of the Company.

- First level: Functions that own and manage risks – the Business Management and Operational Functions.
- Second level: Functions that oversee risks – primarily the Risk Management and Compliance Functions.
- Third level: Functions that provide independent assurance – primarily the Internal and External Audit Functions.

3 Own Funds

The Own Funds (capital base) of the Company as at 31 December 2019 comprised solely of Common Equity Tier 1 Capital ("CET1"). The composition of the Company's capital base is shown in the table below.

Table 2: Composition of the capital base

Capital Base	2019 ($'000)
Eligible Own Funds	
Share capital	2.093
Share premium	17.175
Retained Earnings	22.303
Audited loss for the period	(3.187)
Own Funds Deductions	
Intangible Assets	0
Additional deductions of CET1 Capital due to Article 3 CRR (Contribution to the Investor Compensation Fund)	(260)
Own Funds (Common Equity Tier 1 Capital)	**38.124**
Capital Requirements	
Credit risk	1.449
Credit Valuation Adjustment ("CVA") Risk	59
Market Risk	12.236
Operational Risk	3.647
Total Capital Requirements	**17.391**
Capital Adequacy Ratio	**17,54%**

Capital Adequacy Ratio

As at 31 December 2019, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus (a) a capital conservation buffer of 2,5% (fully phased-in)as per the transitional application provisions for buffers, and (b) a systemic risk buffer of 0,011% for its exposures to Estonia, in response to the decision of the Cyprus Macro-prudential Authority for the capital buffers (i.e. the Central Bank of Cyprus – "CBC") to adopt, via reciprocity, a macro-prudential measure adopted by the relevant Estonian authority, resulting to an overall minimum requirement of 10,5%.

It is noted that for the financial year 2019, the Company was exempted from the Countercyclical Capital Buffer.

The Company's actual capital adequacy ratio for the year ended 31 December 2019 stood at 17,54%, which is above the aforementioned minimum requirement.

Appendix 2 presents the reconciliation of the Company's Balance Sheet with regulatory Own Funds as at 31st December 2019 based on the audited financial statements.

4 Minimum Required Capital

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 Capital Requirement and Risk Weighted Assets ("RWAs") calculated for each category of risk as at 31 December 2019 are shown in the table below.

Table 3: Capital requirement and RWAs by risk category

Risk Type	Capital Requirement ($'000)	RWAs ($'000)
Credit Risk	1.449	18.115
Market Risk	12.236	152.956
of which Equity Risk	*2.385*	*29.815*
of which Commodity Risk	*5.848*	*73.104*
of which Interest Rate Risk	*8*	*101*
of which FX Risk	*3.995*	*49.936*
Operational Risk	3.647	45.592
Credit Valuation Adjustment Risk	59	733
Total	17.391	217.396

4.1 Credit Risk Management

Credit risk relates to the risk of a company's counterparty defaulting and the company not being able to recover assets / amounts due to it. The Company's key counterparties are its retail clients, institutional clients and hedging counterparties as well as other financial institutions with which the Company holds its assets and proprietary funds, such as banks. Client accounts must be funded before trading takes place (ie the clients need to have enough equity in their accounts to maintain their margin requirements). The Company offers a real-time mark-to-market leveraged trading facility where clients are required to deposit collateral (margin) against positions. Any profits and losses generated by the clients are credited and debited automatically to their account.

Liquidation Process - This is the process of closing a client's open positions when the total equity is not sufficient to cover the required margin of the portfolio held. The liquidation process is fully automated and is documented in detail within the Company's Leverage Policy. This process is ultimately aimed to minimize client credit risk exposure. Where clients' required margin decreases as a result of adverse market moves the Company exercises margin calls and stop outs to prevent the account from going into deficit, hence managing credit risk effectively.

Position Limits - Position limits can be implemented both at an instrument and at a client level. The instrument level enables the Company to control the total exposure the Company takes on in a single instrument. At a client level this ensures that the client can only reach a pre-defined size of overall portfolio.

The following table represents the Company's RWAs and minimum capital requirement as at 31 December 2019, broken down by asset class.

Table 4: RWA and capital requirement by asset class

Asset Classes	Risk-weighted amounts ($'000)	Minimum capital requirement ($'000)
Institutions	8.403	672
Corporates	6.577	526
Retail	1.529	122
Other Items	1.606	129
Total	**18.115**	**1.449**

The following table provides information on the average exposures of the Company as at 31 December 2019 broken down by asset class, as well as on the total amount of exposures after accounting offsets.

Table 5: Average exposures and total amount of exposures after accounting offsets

Asset Classes	Original exposure amount, net of specific provisions ($'000)	Average exposure ($'000)
Institutions	34.673	61.247
Regional governments or local authorities	1	2
Corporates	7.221	9.007
Retail	3.528	3.476
Other Items	4.381	1.973
Total	49.804	75.705

The following table provides information on the residual maturity of the Company's credit risk exposures.

Table 6: Residual Maturity of credit risk exposures, broken down by asset class

Asset Classes	Up to 3 months ($'000)	More than 3 months ($'000)	Total ($'000)
Institutions	30.784	3.889	**34.673**
Regional governments or local authorities	-	1	**1**
Corporates	4.758	2.463	**7.221**
Retail	3.528	-	**3.528**
Other Items	-	4.381	**4.381**
Total	39.070	10.734	49.804

The table below illustrates the geographic distribution of the Company's credit risk exposures.

Table 7: Geographic Distribution of exposures

Exposures per Asset Class per Country of incorporation of Counterparty ($'000)	Cyprus	Switzerland	United Kingdom	Australia	Seychelles	Other	Total
Institutions	3.141	13.306	11.818	2.338	-	4.070	**34.673**
Regional governments or local authorities	1	-	-	-	-	-	**1**
Corporates	121	-	798	63	523	5.716	**7.221**
Retail	9	42	670	28	-	2.779	**3.528**
Other Items	4.044	-	-	-	-	337	**4.381**
Total	**7.316**	**13.348**	**13.286**	**2.429**	**523**	**12.902**	**49.804**

The following table presents the distribution of the Company's exposures by industry segment.

Table 8: Distribution of exposures by industry

Asset Classes	Financial services ($'000)	Other ($'000)	Total ($'000)
Institutions	34.673	-	**34.673**
Regional governments or local authorities	-	1	**1**
Corporates	5.770	1.451	**7.221**
Retail	3.528	-	**3.528**
Other Items	-	4.381	**4.381**
Total	**43.971**	**5.833**	**49.804**

Use of External Credit Assessments for the Determination of Risk Weights

For the purposes of determining the risk weights of its credit risk exposures when applying the Standardised Approach, the Company uses credit ratings from three nominated External Credit Assessment Institutions ("ECAIs") which include Fitch Ratings, Standard and Poor's Rating Services and Moody's Investor Service. As at 31 December 2019, the Company used credit assessments to determine the risk weight for its exposures to institutions, except in the cases where the preferential treatments applied, as set out by the CRR. Furthermore, all corporate counterparties of the Company were unrated, hence in accordance with Article 122(2) of the CRR, the credit assessment of the corporate's central government was used to derive the relevant exposure's risk weight. The Company has used the credit step mapping table below to map the credit assessment to credit quality steps.

Table 9: Mapping of ECAI credit assessments to Credit Quality Steps

Credit Quality Step ("CQS")	Fitch	Moody's	S&Ps
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

Exposure Before and After Credit Risk Mitigation

The exposure before and after Credit Risk Mitigation ("CRM") associated with each credit quality step as at the year-end was as follows:

Table 10: Breakdown of credit risk exposures by CQS

Credit Quality Step	Exposure values before credit risk mitigation ($'000)	Exposure values after credit risk mitigation ($'000)
CQS 3	17.679	17.679
CQS 4	20	20
CQS 5	107	107
Unrated	20.095	18.771
N/A	11.903	10.414
Total	**49.804**	**46.991**

Table 11: Funded Credit Protection by Asset Class

Asset Classes	Total Funded Credit Protection Amount recognized ($'000)
Institutions	679
Corporates	644
Retail	1.489
Total	**2.812**

Counterparty Credit Risk

The Company's key counterparties are its retail clients, institutional clients and hedging counterparties. The Company applies the Mark-to-Market Method to calculate its Counterparty Credit Risk exposure with clients and hedging/liquidity providers. As at the year end, the Company used the trading margin of its clients to reduce the Counterparty Credit Risk arising from its open trades.

Table 12: Counterparty Credit risk

Type of Exposure	Positive Fair Value ($'000)	Negative Fair Value ($'000)	Nominal Value ($'000)	Exposure Amount before CRM ($'000)	Exposure Amount After CRM ($'000)	Risk Weighted Assets ($'000)	Capital Requirements ($'000)
FX CFDs	453	-84	28.344	1.727	1.413	865	69
Gold CFDs	94	-21	2.402	233	145	97	8
Commodity CFDs	764	-202	43.270	2.597	1.852	1.100	88
Equity CFDs	1.977	-606	117.994	6.052	4.388	2.685	215
Bonds	1	-	56	4	3	2	-
Total	**3.289**	**-913**	**192.066**	**10.613**	**7.801**	**4.749**	**380**

Wrong-Way Risk Exposures

Wrong way risk occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty, i.e. changes in market rates (interest rates, FX or other rates which are the main underlying factors of the Company's derivatives transactions) have an adverse impact on the probability of default of a counterparty. This risk is not considered to be significant given the existence of cash collateral/margin for almost all derivative transactions, which significantly reduce Counterparty Credit Risk.

Credit Risk Adjustments

The Company applies the past due and impaired exposures definition as per IFRS and CRR/CRDIV. There were no past due or impaired exposures as at the reference date.

Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Credit Valuation Adjustment ("CVA") Risk

CVA risk is the risk of loss caused by changes in the credit spread of a counterparty due to changes in its credit quality. CVA is an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty which reflects the current market value of the credit risk of the counterparty to the institution. The Company has adopted the Standardised Approach for the calculation of its CVA risk.

As at 31 December 2019 the Company was subject to CVA risk as a result of its open positions in OTC derivatives (CFDs) with financial counterparties, for which the minimum capital requirement was approximately $59 thousand.

4.2 Market Risk Management

Market risk is defined as the risk that the Company's income or the value of its holdings of financial instruments will change due to a change in market risk factors (market prices, non-trading book interest rates, non-trading book interest rates, non-trading book foreign exchange rates). The Company's operational model means than not all client exposures are hedged hence the Company may have a residual position in any of the underlying CDFs it offers. Exposure to market risk at any point in time depends primarily on short term market conditions and the levels of client activity. The Company deems market risk as the highest risk that the Company incurs.

The Company has established market position limits and actions that reflect its risk appetite, for each financial instrument or markets in which the Company's clients can trade. These limits are determined based on the trading levels, volatilities and the market liquidity of the underlying financial product or asset class.

The Company acts as a market maker in CFDs where the underlying instruments are FX, Commodities, Indices, Exchange Traded Funds, Equities and Bonds. There Is a high degree of natural hedging in the trading of clients across instruments and asset classes. This mitigates significant single instrument concentration risk within the Company's trading portfolio and reduces the Company's net market risk exposure.

The Company has implemented a real-time market position monitoring system. This enables the Company to continually monitor its market exposure against these limits so that relevant action is initiated. This can include hedging the excess exposure using hedging accounts maintained with other broker or limit locks, without any more exposure being accepted.

The Company does not take proprietary positions based on an expectation of market movements.

4.3 Operational Risk Management

The Company is primarily exposed to operational risks regarding potential system / trading platform failures or delays, inadequate or failed internal processes, people, systems or external events as well as other risks such as fraud, legal, physical and environmental risks. The Company is partially dependent on third parties, including its own Group, for the key technological systems, infrastructure suppliers, data providers and data sources.

The Company's operations are highly dependent on technology and advanced information systems. The Company's ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of its business. This dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that where possible multiple providers and data routes are utilized. To remain competitive, the Company continues to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

The Company has business continuity procedures and policies in place which are designed to allow the Company to continue trading in its core markets. The Company's systems are designed to mitigate the risk of failure of any component, enabling the Company to continue to function in the event of an incident, adverse event or business disruption.

Moreover, the Company has developed and implemented an operational risk portal through which any operational risk incidents are reported, evaluated and mitigated in a timely manner. Furthermore, the Company has developed a Key Risk Indicators' framework for each business and functional area, enabling it to monitor at regular intervals its performance versus key operational risk areas.

For the calculation of the capital requirements for operational risk, the Company applies the Basic Indicator Approach. The Net Income from activities for 2017, 2018, 2019 and the Capital Requirements as at 31st December 2019 is shown below:

Table 13: Operational risk

Operational Risk (Basic Indicator Approach)	2017 ($'000)	2018 ($'000)	2019 ($'000)	Average ($'000)	31 Dec 2019 Capital Requirements ($'000)
Net Income from activities	35.911	26.877	10.160	24.316	**45.592**

4.4 Liquidity Risk Management

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's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its financial liabilities when due, under both normal circumstances and stressed conditions. The company has no long term debt.

In order to manage its liquidity risk, the Chief Financial Officer and the Board monitor rolling forecasts of the company's liquidity requirements based on expected cash flows in order to ensure that the company has sufficient cash to meet its operational needs, under normal and abnormal (stressed) market conditions. The company ensures that sufficient cash is available on demand to meet any operational expenses that arise.

In accordance with the CySEC clients' money rules, the Company holds in segregated, clearly designated as clients' money bank accounts, all the funds of its clients. Therefore, the Company considers liquidity risk in relation to all clients' trading activity to be significantly low.

4.5 Regulatory Risk Management

Regulatory Risk comprises of the risk that legal or regulatory changes which may be imposed by EU regulatory and/or supervisory bodies or by the CySEC, adversely affect the results and financial position of the Company. Increased regulatory scrutiny of the industry in which the Company operates could adversely affect the Company's revenue, business and profitability. Changes to the EU regulatory framework, current and proposed EU regulations and directives could restrict the Company's business. The implementation of necessary changes to comply with the increased regulatory requirements could potentially result in significantly additional demand on the Company's resources.

To mitigate Regulatory and Compliance Risk, the Compliance and Risk Management functions keep abreast of regulatory developments, participate in material regulatory consultations, and aim to anticipate regulatory issues by providing advice to the Company's Board of Directors and the business on such matters on an ongoing basis. External legal advice is obtained on new regulations affecting the CFDs sector in the jurisdictions in which the Company operates. Relevant actions are then initiated by the Company to ensure comprehensive and consistent compliance at all times. The Company manages its capital to ensure that it will be able to continue as a going concern while increasing the return to shareholders through striving to improve the Equity and Capital Adequacy Ratio. The Company's overall strategy remains unchanged since last year.

5 Leverage Ratio

The Leverage ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62. The Company calculates its Leverage ratio on a quarterly basis. The minimum recommended requirement for the purposes of the Leverage ratio is currently assessed to 3%. The Company's Leverage ratio as at the reference date is 76,55%.

Table 14: Reconciliation of accounting assets and Leverage ratio exposures

	Applicable Amounts ($'000)
Total assets as per published financial statements	**39.415**
Adjustments for derivative financial instruments	**7.323**
Other adjustments	**3.066**
Total Leverage ratio exposure	**49.804**

Table 15: Breakdown of the exposure measure by exposure type

	CRR Leverage ratio exposures ($'000)
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	39.451
(Asset amounts deducted in determining Tier 1 capital)	-260
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	39.191
Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	3.290
Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	7.323
Total derivative exposures	10.613
Tier 1 capital	**38.124**
Total Leverage ratio exposures	**49.804**
Leverage ratio (%)	**76,55%**

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

	CRR leverage ratio exposures ($'000)
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**39.451**
Banking book exposures, of which:	39.451
Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	1
Institutions	30.816
Corporate	3.993
Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	4.641

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 by incorporating processes for setting margin limits, consistent with the Company's risk appetite at least on a quarterly basis and ensures that is always well above the current threshold of 3%.

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 37,31% and 76,55% with an average rate of 49,97%. This is due to the fluctuation of the volume of open CFD positions and the exposure measure.

6 Remuneration Policy

The Remuneration Policy sets out the Company's policy for remuneration practices in compliance with regulations and the corporate objective of balancing risk and performance through hiring and retaining competent and committed executives for the longer term. In addition, it outlines the internal control processes and procedures implemented within the Company and its Branches, with respect to having in place risk-focused remuneration controls and procedures which are consistent with and promote a code of conduct that ensures the avoidance of conflicts of interest that might lead to outcomes detrimental to the Company and its clients.

Internal governance processes provide oversight and control over remuneration policies and risk management to ensure that remuneration decisions are aligned with the risk appetite of the Company and the Group, premised on the mapping of potential conflicts. The internal governance of remuneration is managed primarily by the Board of Directors and the Remuneration Committee of the Board ("REMCO"). REMCO is supported in this respect by the Compensation Committee ("COMPCO") comprising of executives of the Company. REMCO and COMPCO receive input from the respective Business Heads as well as crucially from the Compliance, Risk, Audit, and HR Management functions.

Remuneration Committee

Role and Responsibilities

The main objective of the REMCO is to determine and apply a Remuneration Policy on behalf of the Board and to ensure compliance with best practice in the area of remuneration and reward. The REMCO is required to make suitable arrangements in order to achieve prudent recognition of any deficiencies identified in terms of remuneration within the Company and approves remuneration policies that may need to be implemented, from time to time, by the respective relevant departments within the Company.

The role and remit of the REMCO, in conjunction with the Risk & Compliance Committee, focuses on the remuneration practices of Directors, Senior Management, risk takers, Sales executives and all other employees of the Company that receive (or may in the future receive) any form of variable pay. Additionally, the remit of the REMCO includes ensuring that the Company has in place a Remuneration Policy that addresses all regulatory requirements.

The REMCO is comprised of three Non-Executive members of the Board, of whom two are also independent. The REMCO convened twice during 2019.

Management Committee and Compensation Committee

The COMPCO of the Company, acting at the direction of the REMCO, oversees the implementation of the overall Remuneration Policy framework for the remuneration practices with respect to employees. The subsequent implementation of the practices is the responsibility of the operating units with the oversight from the Legal, Compliance, HR and Internal Audit Departments.

With respect to employees, employment agreements and financial terms are in line with the agreed Company policy, which includes terms that avoid conflicts of interest, short termism or other outcomes to the detriment of clients or undue risk taking by the Company.

Recommendations regarding variable and performance related employee remuneration practices and payouts are reviewed by the Company's COMPCO, which includes the CEO or designate, the HR Manager, the Head of Risk Management and the Chief Compliance Officer.

The COMPCO has regard to the overall Remuneration Policy and objectives and makes recommendations to REMCO for any changes in practices as well as the variable pay pools, taking into consideration the Company's financial results, individual department performance and individual employee performance. In addition, in reaching its recommendations COMPCO considers:

- Feedback received from the Risk Management division with respect to the breaches of risk limits and operational risk incidents, capital adequacy ratios, liquidity ratios and capital preservation requirements.
- Feedback received from the Compliance division with respect to the number, nature and value of complaints and relevant employees/division, client risk profiles, compliance reaches and their recommendation as to whether the variable remuneration of any employee should be accordingly affected as a result.

All remuneration decisions are in line with the stated risk appetite (including conduct risk) and framework of the Company as well as the Company's regulatory obligations.

Fixed and Variable Remuneration

Compensation Mix

The REMCO and COMPCO take into account, when determining remuneration awards, the need to ensure an appropriate ratio between fixed and variable pay so that the Company and the Group are able to operate a fully flexible incentive policy under a hybrid remuneration model. This includes the ability to pay no bonuses or other incentive pay, should performance of the Company, the Group and/or an individual require this.

Fixed Remuneration

Fixed remuneration serves to compensate employees according to their qualifications, experience and skills, as well as the requirements, significance and scope of their work. Specifically, it includes the contractually agreed monthly recurring salary.

The appropriate amount for an employee's fixed remuneration shall be determined based on a market comparison of his/her role, general salary levels within the Company, the labor market situation in the industry and at the respective location and the regulatory requirements for the structures applicable to total remuneration. Competitive fixed remuneration plays an important role in attracting and retaining employees. This guarantees that the Company and the Group have the competencies required to meet their strategic goals. The Company's employees are awarded with a fixed monthly remuneration.

Variable Remuneration

The Company employs two types of variable remuneration:

- Annual discretionary performance-related bonus. All employees are eligible to receive such a bonus following the year under review.
- Commission based on First Time Deposits ("FTDs") and/or spread share, paid to specific employee categories.

Qualitative and quantitative criteria are taken into account in the determination of variable remuneration. These criteria reflect the desired conduct of the employees to act in the best interest of the clients and in a manner that has regard to focusing on the long term sustainable performance of the Company versus short term risk taking or malpractices. Variable remuneration also has the benefit that it can differentiate performance results and promote practices by means of suitable incentive systems, which in turn affect the corporate culture.

The maximum variable remuneration payable to employees is limited to 100% of their fixed remuneration, as per the respective policy of Playtech PLC ("Playtech"). Up to 100% of the total variable and performance related remuneration may be subject to malus and clawback arrangements.

Bonus Pool Determination (including risk adjustment)

The discretionary annual bonus pool for the employee remuneration is suggested by the COMPCO to the REMCO for its consideration and evaluation. The REMCO makes final recommendations to the Board of Directors, which has the responsibility for the final sign off. The work of all relevant committees is based on an assessment of the financial performance for each financial year against targets and a quantitative and qualitative assessment of the risks taken during each financial year, as well as matters relating to capital management and regulatory compliance. The Board of Directors reviews the annual bonus pool to ensure (a) that all relevant business risks have been assessed and taken into account and (b) that sufficient amounts are allocated to ensure the Company and the Group are able to maintain a robust capital base.

Performance Management Approach

The Company and the Group operate an annual appraisal process which establishes objectives for all staff covering both financial and non-financial metrics, specific behavioral competencies, including compliance and risk management behaviors with regards to the Company's and the Group's values, Code of Conduct, policies and procedures.

Performance against non-financial metrics has a significant influence on the overall performance rating and poor performance against non-financial metrics will result in a reduction of an employee's annual incentive award. Annual performance ratings are independently reviewed (and challenged where appropriate) and calibrated at a Company and Group-wide level to ensure that ratings have been applied consistently and performance has been effectively differentiated.

Under the remuneration framework, remuneration decisions are made based on a combination of business results, performance against objectives set out in performance scorecards, general individual performance of the role and adherence to the Company's values, Code of Conduct, policies and procedures.

The aggregate remuneration of the Company's personnel whose actions had a material impact on the risk profile of the Company for the year ended 31 December 2019, broken down by business area, was as follows:

Table 17: Aggregate Remuneration by Business Area

Business Functions[1]	Total Remuneration ($'000)
Control Functions	448
Other Business Areas	852
Total	**1.300**

1. Non-executive directors are not remunerated by the Company.

The table below provides information on the remuneration of Senior Management and other staff whose activities have a material impact on the risk profile of the Company, broken down by fixed and variable cash remuneration.

Table 18: Aggregate Remuneration of Senior Management and Other Staff

Fixed and Variable Remuneration of Senior Management and Other Staff[1]	No. of Persons	Fixed ($'000)	Variable ($'000)	Total Remuneration ($'000)
Senior Management	2	518	96	614
Other Staff	13	622	65	686
Total	**15**	**1.140**	**161**	**1.300**

1. Non-executive directors are not remunerated by the Company.

During 2019 the Company did not provide any non-cash benefits. In addition, the Company did not make or award any severance or sign-on payments, or any deferred remuneration.

7 Appendices

Appendix 1: Own Funds Disclosure

Table 19: Transitional and Fully Phased-in Definition of Own Funds

31 December 2019	Transitional Definition ($'000)	Fully - Phased in Definition ($'000)
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	19.267	19.267
Retained earnings	19.117	19.117
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**38.384**	**38.384**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(0)	(0)
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(256)	(256)
(-) Value adjustments due to the requirements for prudent valuation	(4)	(4)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(260)**	**(260)**
Common Equity Tier 1 (CET1) capital	**38.124**	**38.124**
Additional Tier 1 (AT1) capital	**0**	**0**
Tier 1 capital (T1 = CET1 + AT1)	**38.124**	**38.124**
Tier 2 (T2) capital before regulatory adjustments	**0**	**0**
Tier 2 (T2) capital: regulatory adjustments	**0**	**0**
Tier 2 (T2) capital	**0**	**0**
Total capital (TC = T1 + T2)	**38.124**	**38.124**
Total risk weighted assets	**217.396**	**217.396**
Capital ratios		
Common Equity Tier 1	**17,54%**	**17,54%**
Tier 1	**17,54%**	**17,54%**
Total capital	**17,54%**	**17,54%**

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.

Appendix 2: Balance Sheet Reconciliation

Table 20: Balance sheet reconciliation with regulatory Own Funds calculation

Balance sheet Description	31 December 2019 ($'000)
Total Equity as per Audited Accounts	
Share capital	2.093
Share premium	17.175
Retained Earnings	19.116
Total Equity as per Balance Sheet	38.384
Regulatory Adjustments	
Intangible Assets	0
(-) Additional deductions of CET1 Capital due to Article 3 CRR	260
Regulatory Own Funds (CET1 Capital)	38.124