

MAGIC COMPASS LTD.
Disclosure of Information (Pillar 3)
For the year ended December 31st, 2019

August 2020

Contents

1.	Introduction	3
1.1.	REPORTING FREQUENCY	3
1.2.	VERIFICATION.....	3
1.3.	REPORTING DETAILS	3
1.4.	NON MATERIAL, PROPRIETARY OR CONFIDENTIAL INFORMATION	3
2.	Corporate Governance – Board and Committees	4
2.1.	BOARD OF DIRECTORS	4
2.2.	BOARD RECRUITMENT POLICY	5
2.3.	NUMBER OF DIRECTORSHIPS HELD BY THE BOARD MEMBERS	6
2.4.	GOVERNANCE COMMITTEES	6
3.	Risk Management	7
3.1.	RISK APPETITE.....	8
3.1.1.	RISK IDENTIFICATION	8
3.1.2.	RISK ASSESSMENT.....	8
3.1.3.	RISK MANAGEMENT FUNCTION	8
3.1.4.	STRESS TESTING.....	9
3.2.	BOARD DECLARATION - ADEQUACY OF THE RISK MANAGEMENT ARRANGEMENTS.....	11
3.3.	BOARD RISK STATEMENT.....	12
4.	Market Risk	13
5.	Credit Risk.....	14
5.1.	MAXIMUM EXPOSURE TO CREDIT RISK.....	16
6.	Operational Risks	16
7.	Other Risks	17
7.1.	LIQUIDITY RISK	17
7.2.	STRATEGIC RISK	17
7.3.	REPUTATION RISK	17
7.4.	BUSINESS RISK	18
7.5.	CAPITAL RISK MANAGEMENT.....	18
7.6.	REGULATORY RISK.....	18
7.7.	LEGAL AND COMPLIANCE RISK.....	18
7.8.	CONCENTRATION RISK.....	19
7.9.	INFORMATION TECHNOLOGY RISK	19
8.	Leverage Ratio	19
9.	Remuneration Policy	20
10.	Capital Base	21
11.	Capital Adequacy.....	22
11.1.	CAPITAL REQUIREMENTS (BASED ON EXPOSURE TO FIXED OVERHEADS).....	22

1. Introduction

MAGIC COMPASS LTD. (the “Company”) is a Cypriot Investment Firm (“CIF”) regulated by the Cyprus Securities and Exchange Commission (the Commission” or the “CySEC”) with license number 299/16.

Following the implementation of the EU Regulation 575/2013 (the “Regulation”) and the L. 87(I)/2017 LAW WHICH PROVIDES FOR THE PROVISION OF INVESTMENT SERVICES, THE EXERCISE OF INVESTMENT ACTIVITIES, THE OPERATION OF REGULATED MARKETS AND OTHER RELATED MATTERS (the “Law”), the Company is required to disclose information relating to its capital as well as the risks that the Company is exposed to. These disclosures are for the year ended 31 December, 2019. The Company’s policy is to meet all required Pillar III disclosure requirements as detailed in the Capital Requirements Regulations (CRR).

This report is published and will be available on the Company’s website at www.magiccompass.com

1.1. Reporting Frequency

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

1.2. Verification

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

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

1.3. Reporting Details

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

1.4. Non Material, Proprietary or Confidential Information

This document has been prepared to satisfy the Pillar III disclosure requirements set out in the CRR. The Company does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

2. Corporate Governance – Board and Committees

2.1. Board of Directors

The Board has overall responsibility for the business. It sets the strategic aims for the business, in line with delegated authority from the shareholder and in some circumstances subject to shareholder approval, within a control framework, which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are robust, sufficient and adequate, taking under consideration the principle of proportionality. The Board comprises of 2 executive directors and 2 non-executive / independent directors.

Full name of Director	Position/Title / Capacity	Country
Vitalii Bulynin	Executive Director (CEO), “4 eyes”	Cyprus
Maja Savin	Executive Director, “4 eyes”	Cyprus
Ioannis Papazacharia	Non-executive Director	Cyprus
Christophoros Tengeris	Non-executive Director	Cyprus
Mr. Tianxiang Xu	Executive Director	Cyprus

The principal responsibilities of the Board, the Senior Management, the Internal Auditor, the Risk Management Committee and the Risk Management Function in relation to the management of the Company's risks are briefly described in the following subsections.

Board of Directors

The Board of Directors, which carries the ultimate responsibility for the approval of the ICAAP, has unequivocal responsibilities as regards the management of the Company's risks, their internal control and the Company's capital adequacy. With the Board is, at all times, lies the responsibility for defining the Company's risk profile in terms of its risk tolerance and for making the necessary arrangements so as for the Company to operate within this predetermined profile at all times, as well as regarding the adequacy of the Company's capital allocated in proportion to the nature and level of material risks and the respective capital requirements.

The Board holds meetings where the written reports generated by the internal control functions of the Company are reviewed and approved. The BoD is responsible to address any deficiencies identified throughout the said reports at the soonest possible, especially where there is a breach of the regulatory framework which could potentially harm the Company. The said control functions are the Risk Management, the Internal Audit, the Compliance Department and the Money Laundering Compliance Department. In this manner the Board remains up to date with the Company's position as regards the aforementioned functions.

Senior Management

The Senior Management reviews the written reports prepared by the internal control function of the company including the Risk Manager's report, applies the decisions of the Board with respect to risk management and monitors whether all the Company's risk management procedures are followed.

Risk Manager

The Risk Manager is responsible to identify, assess, quantify monitor and manage the Company's financial and non-financial risks ensuring that all the different types of risks assumed by the Company are in compliance with its obligations as those derive from applicable legislation and that all necessary risk management procedures are in place. Further, it is the responsibility of the Risk Manager to make recommendations and indicate whether the appropriate remedial measures have been taken in the event of any deficiencies identified.

Risk Management Committee

The Risk Management Committee ensures that the risks of the Company from the provision of investment and ancillary services to clients are efficiently managed, as well as any other risks underlying the operation of the Company. Moreover, the Committee bears the responsibility to monitor, the level of compliance by the Company and its relevant persons with the policies and procedures adopted in addition to the Company's obligations stemming from the relevant laws. Further it evaluates the adequacy and effectiveness of the risk management policies and procedures that are in place and the measures taken to address any deficiencies with respect to those policies and procedures, including failures by the Company's relevant persons to comply with those policies and procedures.

Internal Auditor

The Internal Auditor evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures with respect to risk management. The Internal Audit function acts independently and is separated from the other functions and activities of the Company, with the internal auditor being appointed by the Board of Directors and reports directly to the senior Management of the Company. The Internal Auditor is responsible for the application of an effective Internal Control System, and the performance at least on annual basis, of checks as these are required by the Internal Control System. The Internal Auditor is provided with access to the Company's personnel and books and any audit issues identified, are considered by the Board when these are presented to it through the appropriate reports.

2.2. Board Recruitment Policy

Recruitment of Board members combines an assessment of both technical capability and competency skills referenced against the Company's regulatory and operational framework. It seeks to resource the specific experience and skills needed to ensure the optimum blend (diversity) of individual and aggregate capability having regard to the Company's long term strategic plan.

The persons proposed for appointment to the Board should commit the necessary time and effort to fulfill their obligations. Prior to their appointment the proposed persons should obtain the approval of the Commission. Main factors influencing the decision to propose the appointment of potential Directors include:

- Integrity and honesty;
- High business acumen and judgement;
- Knowledge of financial matters including understanding of financial statements and important financial ratios;
- Knowledge and experience relevant to financial institutions;
- Risk Management experience; and
- Specialized skills and knowledge in finance, accounting, law, or related subject.

2.3. Policy on Diversity

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 in the organisation.

For this purpose, the Company takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age, cultural and educational background, for the Board appointments.

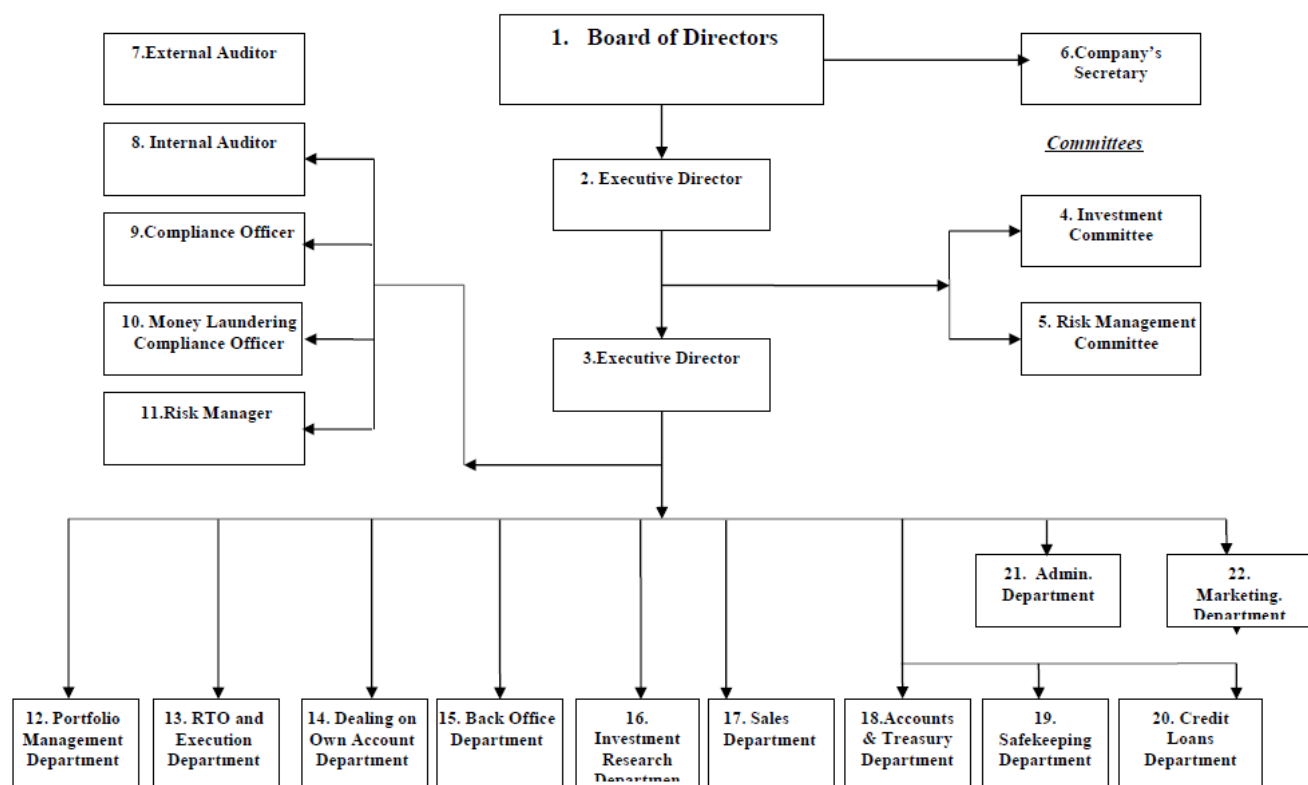
2.4. Number of Directorships Held by the Board Members

Full name of Director	Position/Title	# Executive	# Non-Executive
Vitalii Bulynin	Executive Director (CEO)	1	1
Maja Savin	Executive Director	1	0
Ioannis Papazacharia	Non-executive Director	0	1
Christophoros Tengeris	Non-executive Director	0	2
Mr. Tianxiang Xu	Executive Director	1	0
Mr. George Skordis	Non-executive Director	0	3

2.5. Governance Committees

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

2.6. Organisational Structure



3. Risk Management

There is a formal structure for monitoring and managing risks across the Company comprising of detailed risk management frameworks (including policies and supporting documentation) and independent governance and oversight of risk.

To ensure effective risk management the Company has adopted the “three lines of defense” model of governance with clearly defined roles and responsibilities.

First line of defense: Managers are responsible for establishing an effective control framework within their area of operations and identifying and controlling all risks so that they are operating within the organizational risk appetite and are fully compliant with Company policies and where appropriate defined thresholds.

Second line of defense: The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company’s risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. Risk will leverage their expertise by providing frameworks, tools and techniques to assist management

in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them.

Third line of defense: comprises the Internal Audit Function which is responsible for providing assurance to the Board and senior management on the adequacy of design and operational effectiveness of the systems of internal controls.

3.1. Risk Appetite

Risk Appetite limits the risks which the business can accept in pursuit of its strategic objectives. Risk Appetite is formally reviewed annually and is monitored on an ongoing basis for adherence. The Company's strategy, business plan and capital and liquidity plans are set with reference to Risk Appetite.

The Board approves the Risk Appetite, which defines the level of risk that the Company is prepared to accept to achieve its strategic objectives and is translated into specific risk measures that are tracked, monitored and reported to the Board. The Risk Appetite framework has been designed to create clear links to the strategic long-term plan, capital planning, stress testing and the Company's risk management framework. The review and approval process is undertaken at least annually. The Company's Risk Appetite covers three core areas, financial risk, reputational risk and operational risk.

The Board approves the Company's business plans, budget, Internal Capital Adequacy Assessment Process (the "ICAAP") and also monitor's the Company's risk profile and capital adequacy position.

3.1.1. Risk Identification

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

3.1.2. Risk Assessment

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

3.1.3. Risk Management Function

The Risk Management Function (the "RMF") operates under the leadership of the Risk Management Officer (the "RMO") who reports directly to the Senior Management and the Board. The Risk Management function comprises by individuals with specific expertise and is structured

to provide analysis, challenge, understanding and oversight of each of the principal risks faced by the Company.

3.1.4. Stress Testing

Stress Testing is the process by which the Company's business plans are subjected to severe stress scenarios in order to assess the impact of those potential stresses on the Company's business including the projected capital and liquidity positions.

The Company is required to prepare and make available upon request periodic ICAAP reports which set out future plans, their impact on capital availability and requirements and the risks to capital adequacy under potential stress scenarios.

3.1.5. ICAAP and Approach to assessing adequacy of Internal Capital

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

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

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

3.1.6. Governance Functions

3.1.6.1. Internal Audit

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

Company. The Internal Auditor is separated and independent of the other functions and activities of the Company. The Internal Auditor bears the responsibility to:

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

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

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

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

3.1.6.2. Compliance Officer

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

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

The Compliance Officer is responsible, inter alia, to:

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

3.1.6.3. Anti-Money Laundering Compliance Officer

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

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

3.1.7. Information flow on risk to the management body

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

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

3.2. Board Declaration - Adequacy of the Risk Management Arrangements

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

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

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

3.3. Board Risk Statement

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

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

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

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

Risk Area	Metrics	Comment	Measure as at 31/12/19
Capital	Core Equity Tier1 (CET1), Tier 1 and Total capital ratio	The Company's objective is to maintain regulatory ratios well above the minimum thresholds set by CySEC. It therefore aims to maintain its capital ratios at least 2% points above the required level (regulator's current limit is 8%).	CET1: 107.04% Tier1: 107.04% Total capital ratio: 107.04%
Liquidity	Cash Ratio	The Company aims to keep its Cash Ratio i.e. (Cash & Cash Equivalents/Current Liabilities) at values exceeding 1.0.	Cash Ratio: 2.36
Credit Risk	Exposure to single financial institution	The Company's objective is to minimize the potential loss from counterparties. It thus aims to limit its exposure to a single financial institution at levels of 80% of its overall cash positions or less.	Current exposure: 25.28%

4. Market Risk

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

- Equity market prices;
- Real estate market prices;
- Interest rates; and
- Currency exchange rates.

The Company manages the market risk of assets relative to liabilities on an economic total balance sheet basis. It strives to maximize the economic risk-adjusted excess return of assets relative to the liability benchmark taking into account the Company's risk tolerance as well as regulatory constraints.

The Company is not exposed to any risks resulting from, real estate or capital markets. Additionally, it is not exposed to any interest rate risk. It may, however, be exposed to price fluctuations on commodities, equity securities and currency risk, that is, the risk of loss resulting from changes in the exchange rates of various currencies in five ways:

- a. It may receive income in a currency other than US Dollar, which is its base currency;
- b. It may have expenses denominated in a currency other than US Dollar;
- c. It may have deposits denominated in another currency other than US Dollar;
- d. It may hold clients' exposures through the maintenance of a trading book as the Company holds a Dealing on Own account license; and
- e. It may engage in Proprietary trading with Company's own funds as it holds the relevant license

The Company has policies in place to monitor and manage such risks through the implementation of appropriate techniques that include hedging strategies, and determination of internal exposure limits.

The capital requirements of the Company corresponding to market risk are calculated through the implementation of the Standardised Approach and are presented below

	Maximum exposure to market risk	Risk weight
	2019 (\$000)	2019 (\$000)
Currencies other than the reporting currency of the Company	473	33

5. Credit Risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. Generally, credit risk can be derived from the following areas:

- Cash and cash equivalents;
- Debt securities;
- Receivables; and
- Derivatives.

The Company's objective in managing credit risk exposures is to maintain them within parameters that reflect the strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Company has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Company uses the ratings assigned by external rating agencies to that counterparty and where not possible the country ratings assigned to the jurisdiction the counterparty maintains its base. This is primarily emphasized on the credit institutions where the Company maintains its corporate and clients' accounts.

The Company is exposed to the credit risk arising from cash and cash equivalents, as it has a significant exposure with a European Bank. In order to mitigate risks related to cash and cash equivalents, the Company utilizes European Banks with lower default risks. In addition, the Company reviews a list of acceptable cash counterparties based on current ratings and outlook, taking into account analysis of fundamentals and market indicators.

Exposures to institutions of a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight that is one category less favorable than the preferential risk weight, as described in Article 114(4) to (7) of the CRR, assigned to exposures to the central government in which the institution is incorporated in accordance with Table 1 below.

Credit Quality Step	1	2	3	4	5	6
Risk Weight	0%	20%	50%	100%	100%	150%

Exposures to Member States' central governments and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk weight of 0%.

Until 31 December 2019, the same risk weight shall be assigned in relation to exposures to the central governments or central banks of Member States denominated and funded in the domestic currency of any Member State as would be applied to such exposures denominated and funded in their domestic currency.

According to Article 119 of the CRR, exposures to institutions for which a credit assessment by a nominated ECAI is available shall be risk-weighted in accordance with Tables 2 and 3 below.

Table 2 - Exposures to institutions with a residual maturity of more than three months:

Table 2						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	50%	50%	100%	100%	150%

Table 3 - Exposures to an institution of up to three months residual maturity:

Table 3						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	20%	20%	50%	50%	150%

Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be 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 are assigned in accordance with Table 4.

Table 4						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	100%	150%

Given the above, the Company uses a nominated ECAI to derive to the following Risk weighted exposure on Cash and cash equivalents of residual maturity of less than 3 months and of residual maturity of more than 3 months (both rated and unrated).

Credit Quality Steps	Risk Weight			Moody's Credit Rating	Exposure amount			Risk weighted
	Less than 3 months maturity	More than 3 months Rated	More than 3 months Unrated		€000	€000	€000	
CQS1	0%	20%	20%	Aaa to Aa3	-	-	-	-
CQS2	20%	50%	50%	A1 to A3	786	-	-	157
CQS3	50%	50%	100%	Baa1 to Baa3	124	-	-	62
CQS4	100%	100%	100%	Ba1 to Ba3	-	-	-	-
CQS5	100%	100%	100%	B1 to B3	25	-	-	25
CQS6	150%	150%	150%	Caa1 and below	-	-	-	-
Total Risk								252

5.1. Maximum Exposure to Credit Risk

The table below shows the maximum exposure to credit risk

	Maximum exposure to credit risk	Risk weight
	2019 (\$000)	2019 (\$000)
Risk weighted assets:		
Cash	935	244
Fees Receivable & Other Assets	3	3
Other Credit Risk (incl Fixed Assets)	168	167
Total risk weighted assets	1,106	415

6. Operational Risks

Operational risk is defined as the risk of a direct or indirect impact resulting from human factors, inadequate or failed internal processes and systems, or external events. Operational risk includes, inter alia, actual and/or potential losses caused from deficiencies in the Company's set-up of operations, including but not limited to, system integrity and reliability, employee fraud, weaknesses in personnel appointment, organizational structure and internal communication inefficiencies.

The Company's exposure to operational risk is limited to the extent of its current scale and complexity. The Company has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk. Overall planning, coordination, and monitoring is centralized, however, most operational risks are managed within the departments in which they arise.

In addition to its overall framework, in order to mitigate operational risks, the Company has specific processes and systems in place to focus continuously on high priority operational matters such as information security, managing business continuity and combating fraud.

Following the recent implementation of the Regulation 575/2013 on prudential requirements for credit institutions and investment firms and the amendment of the Regulation (EU) No. 648/2012 ('the Regulation'), the amendments in the Investment Services and Activities and Regulated Markets Law (October 30, 2017) and the issuance of Directives DI2014-144-14 and DI2014-144-15, the Company has been categorized as an investment firm that falls under Article 95(1) of the CRR. Given its categorization, the Company has adopted the Fixed Overheads Exposure Risk calculation method to calculate its total risk exposure amount.

The Company calculates its capital requirements for operational risk using the Basic Indicator Approach. Based on the audited figures of the Company for the last three years, (2019, 2018, 2017) the total risk weighted exposure with respect to **Operational Risk is USD 0** and there is no requirement for additional capita.

7. Other Risks

7.1. Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due or would have to incur excessive costs to do so. The Company's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions. To achieve this, the Company monitors and manages its liquidity needs on an ongoing basis. It also monitors the Company's exposures and diversification avoiding high concentration risk. The Company also ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Currently the Company is not subject to any liquidity risk as it maintains own funds in cash deposits with reputable institutions and its liquidity (or cash ratio) and own fund ratios are extremely high.

7.2. Strategic Risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy. A strategy is a long-term plan of action designed to allow the Company to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans;
- Improper implementation of strategic plans; or
- Unexpected changes to assumptions underlying strategic plans.

Risk considerations are a key element in the strategic decision-making process. The Company assesses the implications of strategic decisions on risk-based return measures and risk-based capital in order to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

7.3. Reputation Risk

Reputational risk can arise from direct Company actions or by actions of third parties that it may or may not have a relationship with. Such Company actions may include internal security breaches, employee fraud, client misinformation, mistakes in handling client requests and any other actions that can lead to significant negative public opinion and subsequently loss of business and income. Third party actions can include problems with the provision of the outsourced services that can lead to operational interruptions, database hosting and security, spreading of rumors and unsubstantiated information.

The Company strives to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of the Company, which includes integrity and good business practice. The Company centrally manages certain aspects of reputation risk, for example communications, through functions with the appropriate expertise. It also places great emphasis

on the information technology security which is one of the main causes of such reputational risk manifestation.

7.4. Business Risk

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. These are analyzed and taken into consideration when implementing the Company's strategy.

7.5. Capital Risk Management

This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company.

The Company is further required to report on its capital adequacy on a regular basis and has to maintain at all times a minimum capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of Company's Management Accounts to monitor the financial and capital position of the Company.

7.6. Regulatory Risk

This may arise as a result of negligent actions by the Company's Senior Management and / or staff members, and may lead to fines, loss of license and / or other form of disciplinary action by the regulatory authority. As a result, the Company's reputation will be adversely affected.

The Company maintains strong compliance / internal audit departments, which perform frequent inspections on the Company's processes and procedures. Should a non-compliance issue arise, all appropriate measures are immediately taken to rectify the issue. Both the compliance officer and the internal auditor are qualified and well trained and remain abreast with any new regulatory developments. The potential of such risk arising is considered low.

7.7. Legal and Compliance Risk

The Company may, from time to time, become exposed to this type of risks, which could manifest because of non-compliance with local or international regulations, contractual breaches or malpractice.

The probability of such risks manifesting is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews performed by the compliance officer. Additionally, the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the Board meets regularly to discuss such issues and any suggestions to enhance compliance are implemented by management. From the Company initiation until the date of this report no legal or compliance issues arose. Any changes to local, EU and third country Regulations, Directives, and Circulars are being constantly monitored and acted upon ensuring that the Company is always compliant with them.

7.8. Concentration Risk

This includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc.

7.9. Information Technology Risk

Information technology risk could occur because of inadequate information technology security, or inadequate use of the Company's information technology. For this purpose, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, as well as use of both hardware and software intrusion aversion measures such as (but not limited to) firewalls, anti-virus software, use of security keys, access restrictions, network fencing, and encryption techniques. Materialization of this risk has been minimized to the lowest possible level given the Company's current complexity of its operations and the services it offers to its clients.

8. Leverage Ratio

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

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

ANNEX VI – Summary of reporting requirements

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

For the Calculation of the leverage ratio of the Company the fully phased in definition of Tier 1 capital is used. As at 31st of December 2019, the leverage ratio of the Company was equal to 80.35%

9. Remuneration Policy

The purpose of the Company's Remuneration Policy is to ensure the consistent implementation of the MiFID conflicts of interest and conduct of business requirements in the area of remuneration.

The remuneration policy and practices of the Company are designed in such a way to avoid exposing the Company into excessive or undue risks. Moreover, they are targeted to avoid creating incentives that may lead relevant persons to favor their own interest, or the firm's interests, to the potential detriment of clients. The Company has set up adequate controls for compliance with the regulatory requirements on the remuneration policy and practices. The controls are implemented throughout the Company and subject to periodic review. These address all relevant factors such as:

- the role performed by relevant persons;
- the type of products offered;
- the methods of distribution;
- the fixed and variable components of the total remuneration are appropriately balanced; and
- Appropriate criteria to assess the performance of relevant persons (financial (quantitative) and non-financial (qualitative) criteria).

The Board of Directors is responsible for determining and approving the Company's remuneration policy and practices. The Board of Director's is also responsible to monitor the Company's compliance towards the approved policy and to identify and work towards any deficiencies. The

Board of Directors meets at least once a year, and whenever the need arises, to discuss issues and to reformulate the policy where this is necessary on account of changes and developments, whether internal to the Company or external in its market environment. Any changes in the Company's remuneration policy can be brought about only as a result of a decision of its Board of Directors.

The Company's annual remuneration to senior management and staff members for 2019 was as follows:

	Total Remuneration for 2019
	\$000
Senior Management and other staff members	422
<i>Total Remuneration</i>	422

10. Capital Base

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

The Company throughout the year under review managed its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities. During the year under review, the Company complied fully with its capital requirement (i.e. \$792,000) and fulfilled its obligations by successfully submitting, on a quarterly basis, the CRD IV CoRep Forms.

Tier 1 & Tier 2 Regulatory Capital

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

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

	Capital Base 2019 (\$000)
Share Capital	1201
Retained Earnings	(2,802)

Share Premium	2582
Common Equity Tier 1 Capital Total	981
Deductions from CET 1 Capital	(92)
Additional Tier 1 Capital	0
Tier 2 Capital	0
Total Own Funds	889

11. Capital Adequacy

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

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

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

According to the Regulation and the Law, the minimum capital adequacy ratio is 8% plus the 2% buffer and the minimum own capital is \$792thousand. As at 31 December, 2019, the Company's total risk exposure amount was \$831 thousand resulting in a capital adequacy ratio of 107.04 %, higher than the minimum required of 8%. The Company's total eligible capital was \$889 thousand, above the minimum threshold.

Additionally the Company's total eligible capital stated above covers the Operational Risk Requirement of \$0 thousand.

	\$000
<i>Total Capital (Own Funds)</i>	889
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	415
Total risk exposure amount for settlement/delivery	0
Total risk exposure amount for position, foreign exchange and commodities risks	416

Total risk exposure amount for operational risk (OPR)	0
Additional risk exposure amount due to fixed overheads	0
Total risk exposure amount for credit valuation adjustment	0
Total risk exposure amount related to large exposures in the trading book	0
Other risk exposure amounts	0
<i>TOTAL RISK EXPOSURE AMOUNT</i>	831
<i>CET1 Capital ratio</i>	107.04%
<i>T1 Capital ratio</i>	107.04%
<i>Total capital ratio</i>	107.04%

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

Publication of disclosures

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