Pillar III Disclosures

BCM Begin Capital Markets CY Ltd., Regulated by CySEC – CIF License No. 274/15

YEAR ENDED 31 DECEMBER 2020

April 2021

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DISCLOSURE

The Disclosure and Market Discipline Report for the year 2020 has been prepared by BCM Begin Capital Markets CY Ltd. according to DI144-2014-14 of the Cyprus Securities and Exchange Commission for the prudential supervision of investment firms and Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

BCM Begin Capital Markets CY Ltd. states that any information that was not included in this report was either not applicable on the Company's business and activities or such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine its competitive position.

BCM Begin Capital Markets CY Ltd. is regulated by the Cyprus Securities and Exchange Commission under License 274/15.

1. INTRODUCTION

1.1. Company Information

Company Information	
Company Name	BCM Begin Capital Markets CY Ltd
CIF License Activation Date	18 May 2015
CIF License number	CIF 274/15
Company Registration Date	11 December 2014
Company Registration Number	HE 338839
Investment Services	
Reception and Transmission of orders in relation to one or more Financial Instruments	
Execution of orders on behalf of Clients	
Portfolio Management	
Ancillary Services	
Safekeeping and administration of financial instruments for the account of Clients, including custodianship and related services such as cash/collateral management	
Foreign exchange services, where these are connected to the provision of investment services	
Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	
Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments	

The present report is prepared by BCM Begin Capital Markets CY Ltd (the "Company"), a Cyprus Investment Firm ("CIF") authorized and regulated by the Cyprus Securities and Exchange Commission (the "CySEC", the "Commission") under the license number 274/15 and operates in harmonisation with the Markets in Financial Instruments Directive ("MiFID II").

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

Further to the provisions of the Directive DI144-2014-14 (the "Directive") and specifically Paragraph 23, as well as the provisions of Section 10 of the Law 87(I)-2018 please find in the following sections 3, 4, and 7 information in relation to the Company's governance and remuneration.

1.2. Scope of application

The Pillar III disclosures Report (the 'Report') sets out both quantitative and qualitative information required in accordance with Part 8 of the CRR and in particular articles 431 to 455, which set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure report is audited by the Firm's external auditors and published on an annual basis.

The Report is based on the Annual Audited Financial Statements which are prepared in accordance with IFRS and the provisions of the Cyprus Company Law, Cap. 113.

1.3. Pillar III Regulatory framework

1.3.1. Overview

The Capital Requirements Regulation introduced significant changes in the prudential regulatory regime applicable to banks and investment firms including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of Risk Weighted Assets and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which was fully implemented in 2018. The current regulatory framework comprises three pillars:

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

1.3.2. Disclosure Policy: Basis and Frequency of Disclosure / Location and verification

The Company has a formal policy, approved by the Board, which details its approach in complying fully with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR. According to the Directive, the risk management disclosures should be included in either the financial statements if these are published, or on their websites.

The Pillar III disclosure requirements are contained in Articles 431 to 455 of the Regulation. In addition, these disclosures must be verified by the external auditors of the Company and the Company is responsible to submit the 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.

As per the Article 432(1) of the CRR, institutions may omit one or more disclosures, if such disclosures are not regarded as material, except for the following disclosures:

- Regarding the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved (Article 435 (2) (c)of CRR).
- Own funds (Article 437 of CRR).
- Remuneration policy (Article 450 of CRR).

Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, this was not included in the document.

1.3.3. Disclosures and Confidential Information

The Regulation also provides that institutions may omit one or more disclosures, if such disclosures are regarded as confidential or proprietary. The CRR defines proprietary as if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investments therein less valuable.

Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding the institution to confidentiality. Under the light of the above, the Company avoided to disclose such confidential information in this report.

1.3.4. Frequency

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

1.3.5. Medium and location of publication

Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements. In this respect, the Pillar III disclosures are published on:

https://begincapitalmarkets.com/regulation/

https://www.capitalpanda.com/about-us/license-and-regulation/

https://profitlevel.com/about-us/license-and-regulation/

1.3.6. Verification

The Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. The Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures have been reviewed by the Risk Manager.

1.4. Risk management objectives and policies

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

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

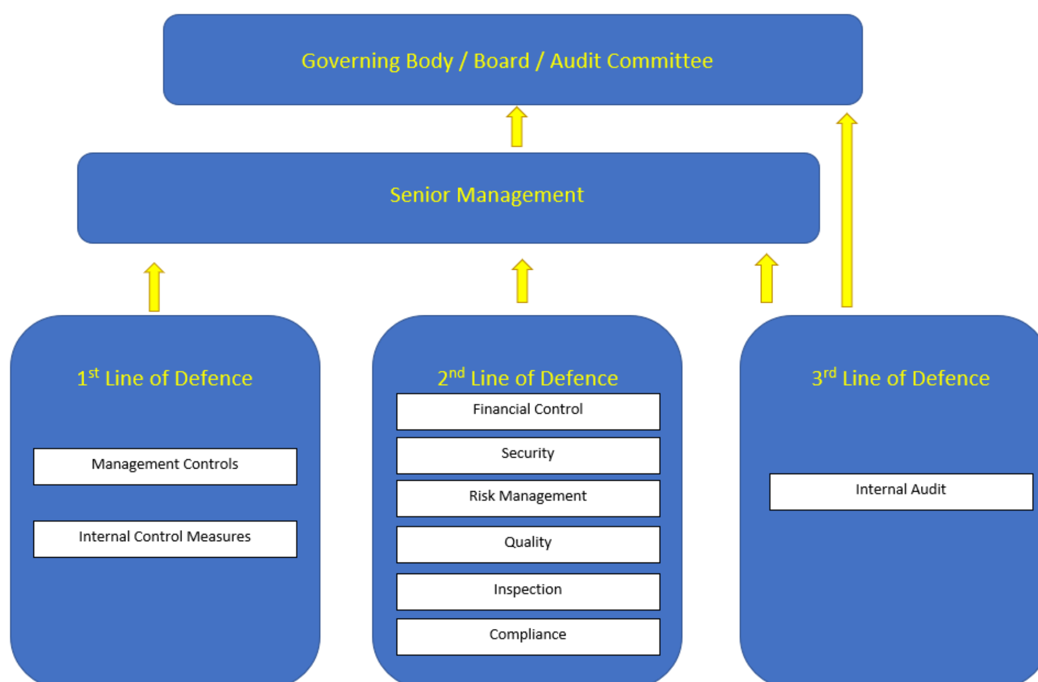
The Risk Manager ensures that all different types of risks taken by the Company are monitored and reported to the Senior Management and the Board. Moreover, the Risk Manager is responsible for making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified, as aforementioned.

To ensure effective risk management, the Company has adopted the Three Lines of Defence model, with clearly defined roles and responsibilities.

First Line of Defence: Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organisational risk appetite and are fully compliant with policies and where appropriate defined thresholds. First Line of Defence acts as an early warning mechanism for identifying (or remedying) risks or failures.

Second Line of Defence: The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the 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. The Risk Management Function 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. Integral to the mission of Second Line of Defence is identifying risk areas, detecting situations/activities, in need of monitoring and developing policies to formalise risk assessment, mitigation and monitoring.

Third Line of Defence: Comprises by the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of design and operational effectiveness of the systems of internal controls. Internal Audit undertakes on-site inspections/visits to ensure that the responsibilities of each Function are discharged properly (i.e. soundly, honestly and professionally) as well as reviews the relevant policies and procedures. Internal Audit works closely with both the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.



1.4.1. Risk Management Framework

Managing risk effectively in a Company operating in a continuously changing risk environment requires a strong risk management culture. As a result, the Company has established an effective risk oversight structure and the necessary internal organisational controls to ensure that the Company undertakes the following:

- The adequate risk identification and management
- The establishment of the necessary policies and procedures
- The setting and monitoring of the relevant limits and
- Compliance with the applicable legislation

The Board meets on a regular basis and receives updates on risk and regulatory capital matters from management. The Board reviews regularly (at least annually) written reports concerning compliance, risk management and internal audit policies, procedures and work as well as the Company`s risk management policies and procedures as implemented by Management.

As part of its business activities, the Company faces a variety of risks, the most significant of which are described further below. The Company holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk.

1.4.2. Risk Statement

The Company`s activities expose it to a variety of risks, and in particular to credit risk, market risk, operational risk, compliance risk, regulatory risk, reputational risk, group risk, strategic

risk, liquidity risk, conduct risk etc. The Company, through its operations, has significant exposure to the economies and financial markets.

Even though the global economy has recorded growth in the latest year after overcoming the latest economic recession, the overall future economic outlook of the economy remains unstable due to the recent developments on the outbreak of Coronavirus (COVID-19).

In particular and following the outbreak of COVID-19 in Cyprus, the Firm has taken the required measures to ensure that its employees have access to its technology infrastructures necessary for the completion of their tasks and that additional system for critical functions are being provided. In this respect, it has taken the required measures to ensure that its employees have access to its technology infrastructures necessary for the completion of their tasks and that additional system for critical functions are being provided, as per the updated Business Continuity Plan.

Risk Strategy

The risk strategy of the Company is the responsibility of the Board, which formulates it and is responsible for monitoring its implementation. This is achieved through the development of risk management processes and procedures as well as through an assessment of the risks undertaken and the effectiveness of the risk management framework, given the Company`s business model. One important characteristic of the Company`s risk strategy is the alignment with the strategic and operational targets that are set by the Board. The risks that arise from the implementation of the Company`s strategic and business plans are regularly analysed in order to ensure the adequacy of the relevant policies, procedures and systems.

The risk strategy of the Company aims to provide to both Senior Management and employees a general risk framework for the management of the different types of risk in line with the overall risk management and risk bearing capacity of the Company. The Company recognises the importance of risk management to its business success and therefore the overall objective is to establish effective risk management policies that are able to mitigate the Company`s exposure to the various risks.

Risk Appetite

Risk appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet.

Such risks include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk.

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

The risk capacity represents the upper limit beyond which a breach is likely to result in failure.

Taking into consideration the Company's size, services offered, complexity and operations, the risks that are considered significant and / or material for the Company are credit risk, market risk, operational risk, liquidity risk and large exposures.

In regard to the above, setting the corporate risk appetite without taking into account the risk capacity of the Company may have serious consequences. Risk capacity may be easy to quantify in terms of capital or required funding, but it is more challenging to consider the point at which the Company's reputation is beyond repair.

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

Table 1: Risk Appetite areas

Capital Indicator	Normal	Warning	Limit
CET 1 Ratio	≥8.00%	<8.00%	4.50%
Tier 1 Ratio	≥9.50%	<9.50%	6.00%
Total Capital Ratio	≥12.00%	<12.00%	8.00%
Own Funds	≥€2,392k	<€2,392k	€2,147k
Exposures with Shareholders	0%	>0%	2.00%
Exposures with Directors	0%	>0%	1.00%

The risk appetite of the Company expresses its strategy through desirable and undesirable risk exposures. It is the aggregate level and types of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

1.4.2. Risk Culture

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

A robust risk culture is a substantial determinant of whether the CIF will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that the CIF wishes to build is reflected in its policies and procedures which are closely aligned to its Risk Appetite. Risk culture is manifested in the day-to-day decisions that indicate how risk is identified, understood, discussed, and acted upon.

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

- Embedding the risk culture at all levels of the Company with clear ownership
- and accountability of tasks.
- Conducting firm-wide risk assessments.

- Implementing formal risk education presentations.
- Changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions.
- Changes in key personnel.
- Training.

1.4.3. Upcoming Regulatory Changes – IFR & IFD

The European Parliament on 16 April 2019 has adopted a new, comprehensive regulatory regime for investment firms: the Investment Firm Directive ("IFD") and Investment Firm Regulation ("IFR") are intended to replace the existing applicable regulation for investment firms.

While small and "non-interconnected" firms in particular will benefit from less regulation, the legislation for "systemically relevant" investment firms means no less than equal treatment with credit institutions in the sense of a level playing field – accordingly, they will fall entirely under the previous regulatory framework (i.e. CRR). As a result, all other investment firms will no longer be subject to the CRD/CRR framework, which is primarily intended for banks.

The new regulatory regime applies to ALL investment firms authorised and supervised under the MiFID II. The main regulatory changes in the prudential framework by IFR and IFD:

a) New Classification of Investment Firms
b) Initial Capital Requirement and Composition
c) Capital Requirements (K-Factors)
d) Concentration Risk Requirement
e) Liquidity Requirements
f) Disclosures Requirements
g) Reporting Requirements
h) Other Supervisory Requirements

According to the new prudential regulatory framework the Initial Capital Requirements and classification for investment firms will be amended. Specifically, investment firms will be classified into three different categories (Class1, Class 2 and Class 3) based on their size and business operations. Moreover, the initial capital requirements will be amended (€750k, €150k and €75k) and it will be decided based on the investment services an entity is authorised to offer.

Further to the above, the regulatory capital ratio requirements will not be applicable anymore and investment firms will be requested to comply with the following at all times:

a) CET 1 should constitute at least 56% of capital requirements;
b) Tier 1 should constitute at least 75% of capital requirements;
c) Tier 1 and Tier 2 should constitute at least 100% of capital requirements

CET1, Tier 1 and Tier 2 will be calculated in accordance with the eligibility criteria of the capital instruments as per the provisions of the CRR.

Class 2 Investment Firms will be requested to maintain own funds of at least the higher between a) Initial Capital, b) K-Factors requirement and c) Fixed Overheads requirement.

K-factors methodology which is applicable for Class 2 Investment Firms will replace the current credit risk, market risk and operational risk approach in order to calibrate the capital needed to meet the risks of the investment firm.

Capital requirement from applying K-factors formula (pursuant to Article 15 of the IFR) is the sum of Risk to Customer (RtC), Risk to Market (RtM) and Risk to Firm (RtF). The Factors relate to the volume of activity. The volumes should be multiplied by the corresponding coefficients set out in IFR in order to determine the own fund requirement.

Further to the above, the Company has already assessed the requirements under the new prudential regulatory framework and concluded that it will be classified as Class 2 Investment Firm and as such its total capital requirement will be the higher of:

a) Fixed Overheads Requirement
b) K-factors requirement
c) Minimum Initial Capital of €150k

1.5. Declaration of the Management Body

The Management Body bears the responsibility to monitor the adequacy and effectiveness of risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

The Management Body receives on a regular basis written reports, which contain a description of the implementation and effectiveness of the overall control environment for investment services and activities, ancillary services and other business, and a review of the risks that have been identified, analysed, planned as well as remedies undertaken or will be undertaken.

Processes are continuously being reviewed with the intent of further strengthening through the implementation of guidance provided by both the industry and new regulatory requirements. In addition, the entire risk management policy universe has been re-designed to define an updated comprehensive and coherent framework for risk management, linked to the Company's risk appetite.

2. CORPORATE GOVERNANCE

The systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness. The risk management and internal control systems are embedded in the operations of the Company and are capable of responding quickly to evolving business risks, whether they arise from factors within the Company or from changes in the business environment.

2.1. The Board of Directors

The Board has the overall responsibility for the establishment and oversight of the Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust. The number of directorships held by Executive and Non-Executive Directors in the Company do not exceed the maximum number allowed.

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff constituting the Company. It also implements and maintains adequate risk management policies and procedures which identify the risks relating to the activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

2.2. Directorships held by Members of the Management Body

As of 31 December 2020, the members of the Management body of the Company, given their industry experience, have been taking seats in other companies' boards. In line with this, the following table indicates the number of positions that each member holds (including the one in the BCM Begin Capital Markets CY Ltd.:

Table 2: Number of Directorships held

Director	Position	Executive Directorships	Non-Executive Directorships
Christos Avgoustinos	Executive Director	1	2
Stathis Kyriakides	Executive Director	1	1
Ivor Lehotan	Independent non-executive Director	0	2
Socrates Parmaxis	Independent non-executive Director	0	2
Robert Palus	Non-Executive Director	0	1

For the purposes of the above, Executive or non-executive directorships held within the same group shall count as a single directorship.

2.3. Board Recruitment

One of the Board's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the Board.

The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the Board and must be able to commit the necessary time and effort to fulfil their responsibilities.

Factors considered in the review of potential candidates include:

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

2.4. Policy on Diversity

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success.

The Company recognizes the value of a diverse and skilled workforce and management body, which includes and makes use of differences in the age, skills, experience, background, race and gender between them. A balance of these differences will be considered when determining the optimum composition.

The Company is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practises in the Corporate Governance Code of many EU countries. In line with the recent changes in the regulatory reporting framework, the Company is in the process of establishing a dedicated diversity policy in relation to the Management body.

2.5. Policy on 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, Money Laundering and Terrorist Financing and Risk Management issues and approves the ICAAP report as shown in the table below:

Table 3: Information flow on risk to management body

Report Name	Owner of Report	Recipient	Frequency
Audited Financial Statements	External Auditor	Board, CySEC	Annually
Risk Management Report	Risk Manager	Board, CySEC	Annually
Anti-money laundering Officer`s Report	Anti-money laundering officer	Board, CySEC	Annually
Internal Auditor`s Report	Internal Auditor	Board, CySEC	Annually
Market Discipline and Disclosures	Risk Manager	Board	Annually
Compliance Officer`s Report	Compliance Officer	Board, CySEC	Annually
ICAAP Report	Risk Manager	Board	Annually
Suitability Report	External Auditor	Board, CySEC	Annually
Capital Adequacy Forms	Risk Manager	Board, CySEC	Quarterly

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

3. REMUNERATION

Remuneration refers to payments or compensations received for services or employment. The Company has established and implemented a Remuneration Policy which is applicable for its employees as well as its Senior Management.

Based on the above, the Policy includes the information about the base salary and any variable components of the salary that an employee or executive may receive during employment and shall be appropriate to the Company's size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the Directive.

The Company is responsible among other things for the following:

a) to evaluate the employees performance;

b) to review the organizational structures, as and if needed;

c) to ensure the consistent and improved implementation of the conflicts of interest and conduct of business requirements under the Law in the area of remuneration. On the one hand, remuneration policies and practices should ensure compliance with the conflicts of interest requirements set out in Section 18(2)(b) and 29 of the Law; and on the other hand, they should also ensure compliance with the conduct of business rules set out in Section 36 of the Law;

d) to monitor implementation of the remuneration policies and practices approved by the Board;

e) to control and possibly mitigate risks that remuneration policies and practices create, if any risks are identified;

f) to ensure that the scope and purpose of the remuneration policies relate to categories of staff which include senior management, personnel in control functions and employees whose professional activities have a material impact on their risk profile;

g) to ensure that the remuneration of personnel in control functions and senior management should be independent from the business units they oversee, have appropriate authority and be remunerated according to the achievement of the objectives linked to their functions and independent of the performance of the business areas they control.

The Company's Policies comply with the following principles, in a manner appropriate to its size, internal organisation and the nature, scope and complexity of its activities:

- The Policy promotes sound and effective risk management and does not encourage risk-taking that exceeds the acceptable levels of tolerated risks of the Company.

- The Policy is in line with the Company's business strategy, objectives and values. The Policy has been designed to serve the Company's long-term interests, while it has incorporated measures to avoid conflicts of interest.

- The Company is responsible for ensuring the implementation of the Policy and to periodically review it and suggest changes that may be necessary for ensuring that the Company's talent is retained.

- The implementation of the Policy is reviewed at least annually, subject to independent internal review for compliance with policies and procedures adopted by the Board.

- The remuneration of the personnel in control functions is in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they oversee.

- The remuneration of the Senior Management and personnel in control functions are directly overseen by the Board.

In relation to variable components of remuneration, it is designed to ensure that the total remuneration remains at competitive levels thus rewarding the personnel for their performance whilst remaining aligned with the department's and/or the Company's performance and long-term targets.

The total remuneration consists of fixed remuneration and possible variable remuneration components. The principals of the variable component of remuneration for these categories of employee are based primarily by qualitative criteria and secondly by quantitative criteria.

In addition to the aforementioned, the following principles for variable elements of remuneration shall also apply:

- the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned. The overall results of the Company when assessing individual performance and financial and non-financial criteria are also taken into account;

- the total variable remuneration does not limit the ability of the Company to strengthen its capital base;

- guaranteed variable remuneration is not consistent with sound risk management and shall not be a part of prospective remuneration plans;

- fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components. This includes the possibility to pay no variable remuneration.

- the Company sets the appropriate ratios between the fixed and the variable component of the total remuneration, whereby the following principles shall apply:

  - the variable component shall not exceed 100 % of the fixed component of the total remuneration for each individual,

  - the Shareholder of the Company may approve a higher maximum level of the ratio between the fixed and variable components of remuneration, provided the overall level

of the variable component shall not exceed 200 % of the fixed component of the total remuneration for each individual. Any approval of a higher ratio in accordance with the aforementioned point is carried out, taking into consideration the provisions of paragraph 21 of the Directive.

- payments relating to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct;
- the measurement of performance used to calculate variable remuneration components or pools of variable remuneration components includes an adjustment for all types of current and future risks and takes into account the cost of the capital and the liquidity required;
- the allocation of the variable remuneration components within the Company also takes into account all types of current and future risks;
- variable remuneration is not paid through vehicles or methods that facilitate the noncompliance with this Directive or Regulation (EU) No 575/2013.

Taking into consideration the Company's size as well as the fact that the Company is currently categorized as non-significant as per the provisions of Circular C081, the Company's Board decided that currently there is no need for a Nomination Committee to be set up.

Table 4: Remuneration analysis split by Senior Management and key management personnel

2020	Number of beneficiaries	Fixed reward €000	Variable reward €000	Total €000
Senior Management (Executive Directors)	2	68	0	68
Key Management personnel	4	104	0	104
Non-Executive Directors	3	18	0	18

It shall be noted that the variable component does not exceed 100% of the fixed component of the total remuneration for each individual.

Table 5: Remuneration analysis split by Senior Management and key management personnel

Business Area	Aggregate remuneration €000
Control Functions	100
Brokerage Department	24
Back-office Department	28
Portfolio Management Department	39
Total	**190**

4. OWN FUNDS

In response to the financial crisis of recent years, the Basel Committee, mandated by the G20, has defined the new rules governing capital and liquidity aimed at making the financial sector more resilient. The new Basel III rules were published in December 2010. They were translated into European law by a directive (CRDIV) and a regulation (CRR) which entered into force on 1st January 2014.

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.

4.1. 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, Additional Tier 1 instruments and Tier 2 instruments issued by the institution.

According to the International Financial Reporting Standards ("IFRS"), the Company` regulatory capital consists of Common Equity Tier 1 Capital:

Table 6: Composition of the capital base and capital ratios

	31 December 2020
	€000
Total Equity as per Financial Statements	
Share Capital	1,557
Retained earnings	(647)
Other Reserves	1,309
Regulatory adjustments	
Intangible assets	(-)
Deductions due to Article 3 of the CRR	(66)
Total Common Equity Tier 1	**2,153**
Additional Tier 1 Capital	**-**
Total Tier 1 Capital	**2,153**
Tier 2 Capital	**-**

Total Own Funds	**2,153**
Risk weighted assets	
Credit risk	1,706
Market risk	0
Additional risk exposure amount due to fixed overheads	1,557
Total Risk Weighted Assets	**3,264**
Capital Ratios and Buffers	
Common Equity Tier 1	65.97%
Tier 1	65.97%
Own Funds	**65.97%**

4.2. Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

In order to meet the requirements for disclosure of the main features of these instruments, the Company discloses the capital instruments' main features as outlined below:

Table 7: Main features of capital instruments

Capital Instruments Main Feature	Common Equity Tier 1
Issuer	BCM Begin Capital Markets CY Ltd.
Regulatory Treatment	
Eligible at Solo/(sub-) consolidated/solo	Solo
Instrument type	Common Equity
Amount recognized in regulatory capital	€357k
Nominal amount of instrument	€357k
Issue Price	€1
Premium	€1,200k
Accounting classification	Shareholders' Equity
Perpetual or dated	Perpetual
Original maturity date	No maturity

Issuer call subject to prior supervisory approval	N/A
Coupons / dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	N/A

4.3. Balance Sheet Reconciliation

The following table provides a reconciliation of own funds between the balance sheet, as presented in the Management Accounts of the Company, and the financial position of the Company prepared for regulatory purposes.

Table 8: Balance Sheet Reconciliation

Equity	**BCM Begin Capital Markets CY Ltd. (Solo)**
	€000
Share Capital	1,557
Retained earnings	(647)
Other reserves	1,309
Total Equity	**2,219**
Regulatory Deductions	
Intangible Assets	(-)
Additional deductions of CET1 Capital due to Article 3 of the CRR	(66)
Total Own funds as per the CoRep Forms	**2,153**

5. COMPLIANCE WITH THE REGULATION AND THE OVERALL PILLAR II RULE

5.1. Internal Capital

The purpose of capital is to provide sufficient resources to absorb unexpected losses over and above the ones that are expected in the normal course of business. The Company aims to maintain a minimum risk asset ratio which will ensure there is sufficient capital to support the business during stressed conditions.

5.2. Internal Capital Adequacy Assessment

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

The ICAAP report is a key tool for both the Company and the regulator as it approaches the risk assessment from a holistic perspective enabling the Company to assess and match risks as much as possible, reducing its residual risk and enabling more precise future growth planning.

The Company prepares the ICAAP Report on an individual (solo) basis and it operates a fully integrated ICAAP process throughout the year that rolls into the final ICAAP assessment. The Company also performs monthly key risk assessments supported by periodic stress testing. 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 ICAAP Report outlines how the Company has implemented and embedded the internal capital adequacy assessment process within its business, taking into consideration its risk profile, risk appetite and capital needs. Specifically, the ICAAP Report includes procedures and measures adopted by the Company to ensure:

- the appropriate identification and measurement of risks;
- an adequate level of internal capital in relation to the Company’s risk profile;
- the application and enhancement of the risk management and internal control systems.

Moreover, the ICAAP enables the BoD and Senior Management to assess on an ongoing basis the risks inherent in the Company’s activities, and to this extent, it forms an integral part of the Company’s risk management process and decision-making culture.

In line with the Basel requirements, the key instruments to help the Company maintain adequate capitalization on an ongoing and forward-looking basis are:

- A strategic planning process which aligns risk strategy and appetite with commercial objectives;
- A continuous monitoring process against approved risk and capital targets set;

- Regular risk and capital reporting to management; and
- An economic capital and stress testing framework which also includes specific stress tests to underpin the Company`s recovery monitoring processes.

6. PILLAR I CAPITAL REQUIREMENTS

The following sections show the overall Pillar I minimum capital requirement and risk weighted assets for the Company under the Standardised Approach to Credit Risk, Market Risk and the Fixed Overheads requirements.

6.1. Credit Risk

Credit Risk is the risk of loss that the Company would incur if the Company failed to perform its contractual credit obligations. The Company follows the Standardized Approach under Pillar 1 for calculating its Credit Risk Capital Requirements as specified in CRR. It categorizes the assets in respect to their exposure class and uses the Credit Step methodology to determine its respective Risk Weights.

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

- By the Company's deposits in Financial institutions;
- By assets mainly held under the Investor's Compensation Fund, debtors or
- prepayments.

The Company follows mitigation strategies in order to minimize the possibility of occurrence of this risk, such as:

- All Client funds are held in segregated accounts, separated from Company's funds.
- The Company maintains Regular credit review of counterparties, identifying the key risks faced and reports them to the BoD, which then determines the Company's risk appetite and ensures that an appropriate amount of capital is maintained.
- In order to maintain its Credit Risk to the minimum, the Company is using EU credit institutions for safekeeping of funds and always ensures that the banks it cooperates with are of good repute and possess high ratings from the relevant credit rating agencies, is frequently monitoring their compliance with the EU regulatory framework and diversifies the funds over several credit institutions, thus mitigating the risk exposure efficiently.

IFRS 9 introduced a new model for recognition of impairment losses – the expected credit losses ("ECL") model. The new rules require that entities will have to record an impairment loss equal to the 12-month ECL for financial assets that have not suffered a significant increase in credit risk since initial recognition. Where there has been a significant increase in credit risk since initial recognition, impairment is measured using lifetime ECL rather than 12-month ECL. Entities must calculate probability of default ("PD"), losses given default ("LGD") and exposures at default ("EAD") to estimate expected credit loss provisioning amounts. The model

includes operational simplifications for lease and trade receivables which require lifetime losses to be calculated.

The Company has the following types of financial assets that are subject to the expected credit loss model: cash and cash equivalents. The Company provides for credit losses against loans to related parties, receivables, other receivables, and cash and cash equivalents. The loss allowance was not reflected on the position as it is the Company`s policy not to adjust for immaterial amounts. The first €100.000 have been deducted from the calculation in case of EU banks under the Deposit Guarantee Scheme.

6.1.1. Credit Risk Adjustments

The Company assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. For those trading receivables that are 90 days or more past due, in non-accrual status, the Company classifies them as "in default", thus an impairment test will emerge. A financial asset is past due if a counterparty has failed to make a payment when contractually due.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a receivable is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income. None of the derivative financial instruments is either past due or impaired.

6.1.2. Credit Risk – Risk Weighted Assets

The minimum capital requirement for Credit risk is calculated by exposure using a factor of 8%. The following table shows the risk-weighted exposure amounts and the corresponding minimum capital requirements as at 31 December 2020 for the Company broken down by exposure class.

Table 9: Exposure classes as at 31 December 2020

Exposure class	Risk Weighted Assets	Capital Requirements
	€000	€000
Institutions	7	1
Corporates	1,594	128
Retail	-	-
Other Items	105	8
Total	**1,706**	**137**

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

6.1.3. Credit Risk – Analysis of Average exposures and total amount of exposures after accounting offsets

The Company shall disclose the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation and the average amount of the exposures over the period broken down by different types of exposures as follows:

Table 10: Analysis of Average Exposures

Exposure class	Original Exposure Amount €000	Average Exposure €000
Institutions	34	122
Corporates	1,594	423
Retail	-	0
Other Items	109	63

Total	1,737	607

6.1.4. Credit Risk – Risk Weighted Assets by Geographical distribution of the exposure classes

The Company shall disclose the geographical distribution of the exposures, broken down in significant areas by material exposures classes. The geographical distribution of the exposure classes are as follows:

Table 11: Geographical distribution of the exposure classes

Exposure class	Cyprus €000	Slovakia €000	Belize €000	Total €000
Institutions	20	14	-	34
Corporates	22	72	1,500	1,594
Retail	-	-	-	-
Other Items	109	-	-	109
Total	**151**	**86**	**1,500**	**1,737**

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

6.1.5. Credit Risk – Distribution of exposures by industry

The Company shall disclose the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate as follows:

Table 12: Exposures by industry

Exposure class	Banking/Financial services €000	Private Individuals €000	Other €000	Total €000

Institutions	34	-	-	34
Corporates	1,594	-	-	1,594
Retail	-	-	-	-
Other Items	-	-	109	109
Total	**1,628**	**-**	**109**	**1,737**

6.1.6. Residual maturity broken down by exposure classes

The Company shall disclose the residual maturity breakdown of all the exposures, broken down by exposure classes, as follows:

Table 13: Residual maturity broken down by exposure class

Exposure class	Residual Maturity ≤ 3 months €000	Residual Maturity > 3 months €000	Total €000
Institutions	34	-	34
Corporates	1,594	-	1,594
Retail	-	-	-
Other Items	-	109	105
Total	**1,628**	**109**	**1,737**

6.2. Use of ECAIs

The Company shall disclose the names of the nominated External Credit Assessment Institutions (“ECAIs”) and the exposure values along with the association of the external rating with the credit quality steps.

The Company uses external credit ratings from Moody's. These ratings are used for all relevant exposure classes. The general ECAI association with each credit quality step is as follows:

Credit Quality Step	Moody's Rating	Corporate	Institutions		Sovereign
			Maturity above 3 months	Maturity below 3 months	
1	Aaa to Aa3	20%	20%	20%	0%
2	A1 to A3	50%	50%	20%	20%
3	Baa1 to Baa3	100%	100%	50%	50%
4	Ba1 to Ba3	100%	100%	50%	100%
5	B1 to B3	150%	100%	50%	100%
6	Caa1 and below	150%	150%	150%	150%

Exposures to unrated institutions are assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated, as specified in Article 121 of CRR. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favourable risk weight of 20% if specific conditions are met. The Other Items category includes tangible assets and prepayments risk weighted at 100% and cash items risk weighted at 0%.

Exposures to corporate clients were risk weighted by 100% risk factor since they were all unrated and were incorporated in countries with no credit rating or with credit assessment up to credit quality step 5.

Table 14: Breakdown of exposures by asset class and risk weight under the Standardised approach

Exposure Class	Risk Weight				Total	Of which unrated
	0%	20%	75%	100%		
	€000	€000	€000	€000		
Institutions	-	34	-	-	34	0
Corporates	-	-	-	1,594	1,594	1,594
Retail	-	-	-	-	-	-
Other Items	3	-	-	105	109	109
Total	**3**	**7**	**-**	**197**	**1,737**	**1,703**

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

The table below presents exposure values before and after credit risk mitigation of the Company, corresponding to Credit Quality Steps (CQS). The values before credit risk mitigation represent the initial exposure value net of value adjustments while the values after credit risk mitigation represent exposures taking into account the eligible financial collateral funded and unfunded credit protection.

Table 15: Exposures before and after credit risk mitigation as at 31 December 2020

Credit Quality Step	Exposure values before credit risk mitigation	Exposure values after credit risk mitigation
	€000	€000
CQS 2	14	14
CQS 4	20	20
Unrated	1,594	1,594
Total	**1,737**	**1,737**

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

6.3. Market Risk

Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. From a regulatory perspective, market risk stems from all foreign exchange risk positions in the whole balance sheet.

As a "Limited Licence", the Company does not deal for its own account. Market risk is therefore limited to movements in foreign exchange rates.

6.3.1. Foreign Exchange Risk

Foreign exchange risk is the risk that the value of financial assets or liabilities will fluctuate due to changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company's financial statements, capital adequacy report and other reports to the Regulator are presented in the Company's functional currency which is Euro.

According to the provisions of Article 351 of CRR, if the sum of the overall net foreign-exchange position exceeds 2% of its own funds the institution shall calculate own funds requirement for foreign exchange risk. The own funds requirement for foreign exchange risk

shall be the sum of its overall net foreign exchange position and its net gold position in the reporting currency, multiplied by 8%.

The foreign exchange risk is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

The Company's foreign exchange risk capital requirement is €0k emanating from a net foreign exchange exposure of €14k based on the latest relevant calculations of the capital requirements, as at 31 December 2020.

Closely Correlated Currencies

Following the EBA's Final draft Implementing Technical Standards on Closely Correlated Currencies under Article 354 (3) of CRR, the Company may apply lower own funds requirements against positions in relevant closely correlated currencies as those are disclosed by EBA. In this respect, for the calculation of the foreign exchange risk for matched positions on closely correlated currencies, a capital requirement of 4% instead of 8% is used.

The Company`s positions in non-reporting currencies and gold for the period were zero.

6.3.2. Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company`s income and operating cash flows are substantially independent of changes in market interest rates. Other than cash at bank, which attracts interest at normal commercial rates, the Company has no other significant interest bearing financial assets or liabilities. The Company`s management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

6.4. Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external factors. Operational Risk includes Legal Risk but excludes Strategic and Reputational Risk.

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

- Internal Fraud - misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees.
- External Fraud - theft of information, hacking damage, third – party theft and forgery.
- Compliance - Brand impairment, Complaint handling, third country regulator retaliation, E-commerce global taxation matters.
- Clients, Products and Business Practice - market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.

In order to control the exposure to Operational Risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of Operational Risk is directly related to effective and efficient management practices and high standards of corporate governance.

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

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

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

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

The Senior Management employ specialized tools and methodologies to identify, assess, mitigate and monitor Operational Risk. These specialized tools and methodologies assist Operational Risk management to address any control gaps. To this effect, the following are implemented:

- Incident collection
- Key Risk Indicators
- Business Continuity Management
- Training and awareness

6.4.1. Fixed Overheads Requirements

Following the CRDIV implementation, Operational Risk is replaced by Fixed Overheads requirements for "Limited Licence" CIFs (under Article 95(1) of the CRR, pursuant to Article 97 of the CRR.

The purpose of this requirement is to enable CIFs to protect their investors in case of winding down or restructuring their activities and to hold sufficient financial resources to withstand operational expenses over an appropriate period of time. In this respect, the Company is required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year based on the most recent audited annual financial statements, or projected fixed overheads in the case where an investment firm has not completed business for one year.

In addition to holding eligible capital of at least one-quarter of the fixed overheads of the previous year, CIFs have to calculate their total risk exposure based on fixed overheads. The Total Risk Exposure Amount for Limited Licence CIFs is the higher of the Total risk exposure amount (excluding Operational Risk) and the Fixed Overhead of the preceding year (or projected expenses as applicable) (x 12.5 x 25%).

The Company's Fixed Overheads Risk Exposure amount is provided by the table below:

Table 16: Fixed Overhead Risk Exposure

Fixed Overheads	Fixed Overheads Requirements	Fixed Overheads Risk Exposure Amount	Additional Exposure Amount	Total Risk Exposure Amount
€'000	**€'000**	**€'000**	**€'000**	**€'000**
1,044	261	3,264	1,557	3,264

In this respect, the Fixed Overheads risk exposure amount is EUR 3,264k which is greater than the sum of the Credit Risk and Market Risk exposures which is EUR 1,706k.

7. CONDUCT

7.1. Concentration Risk

Concentration Risk 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. Concentration risk was partly addressed through diversification of counterparties, namely banking institutions.

The Company’s experience in the collection of trade receivables has never caused debts which are past due and have to be impaired. The company has a policy in place to monitor debts overdue by preparing debtors ageing reports.

Large Exposures

A large exposure is defined as the total exposure of a firm to a client or group of connected clients, whether in the banking book or trading book or both and its value is equal to or exceeds 10% of its eligible capital.

Where the amount of €150 million is higher than 25 % of the institution's eligible capital the value of the exposure, after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 shall not exceed a reasonable limit in terms of the institution's eligible capital. That limit shall be determined by the institution in accordance with the policies and procedures referred to in Article 81 of Directive 2013/36/EU, to address and control concentration risk. This limit shall not exceed 100 % of the institution's eligible capital.

According to Paragraph 61 - Limitations on exposures to directors and shareholders of the Directive, a CIF is not allowed to have exposures to all its directors more than 1% and to all its shareholders that are not an institution, more than 2% of its eligible capital. Exposures to shareholders and directors are monitored and kept within the limits.

Furthermore, the allowable limits are closely monitored and controlled. As 31 December 2020, the Company’s exposures are within the limits and as such no further actions are required.

The Company maintains proper accounting controls in order to identify, monitor and control of all exposures including clients’ balances and the value of the assets held as financial instruments under pledge.

7.2. Reputation Risk

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company`s key directors, the loss of large customers, poor customer service, fraud or theft, customer claims, legal action and regulatory fines.

The Company has transparent policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company provides high quality services to customers.

7.3. Strategic Risk

Strategic Risk could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company`s exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy.

7.4. Business Risk

Business Risk 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 analysed and taken into consideration when implementing the Company`s strategy.

7.5. Capital Risk Management

Capital Risk 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. Such procedures are explained in the Procedures Manual.

The Company is further required to report on its capital adequacy quarterly and has to maintain at all times a minimum total 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 management accounts to monitor the financial and capital position.

7.6. Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Procedures Manual. Compliance with these procedures and policies are

further assessed and reviewed by the Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company`s control framework at least annually. Therefore, the risk of non-compliance is very low.

7.7. Legal and Compliance Risk

Legal and Compliance Risk could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. Following the replacement of the Law 144(I)/2007 by Law 87(I)/2017 for the purpose of harmonization with MIFID II, several regulatory changes were applied that may cause the Company`s exposure to compliance risk. The Company among others is also exposed to legal and compliance risk arising from inability or inadequate arrangements to comply with the requirements related to the:

- Product Governance (Circular C236, Directive DI87-01),
- New rules governing derivatives on virtual currencies (Circular C268),
- Commission Delegated Regulation of 8 June 2016 of the European Parliament and of the Council with regard to regulatory technical standards for the annual publication by investment firms of information on the identity of execution venues and on the quality of execution,
- Policy Statement on the Risk Management Arrangements of Cyprus Investment Firms Providing Investment Services in CFDs,
- European Securities and Markets Authority Decision (EU) 2019/155 of 23 January 2019 renewing the product intervention measures relating to the marketing, distribution or sale of contracts for differences to retail clients,
- Provisions of the General Data Protection Regulation (GDPR) 2016/679 and
- 4th AML Directive (Directive (EU) 2015/849)
- 5th AML Directive (Directive (EU) 2015/849)
- EMIR Refit

The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and 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 at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

7.8. IT Risk

IT risk could occur as a result of inadequate information technology and processing or arise from an inadequate IT strategy and policy or inadequate use of the Company`s information technology. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

7.9. Risk Reporting

The Company maintains a system in place to record any risk event incurred on a special form duly completed by personnel of each department and is submitted to the Compliance officer and Risk manager when such event occurs.

7.10. Liquidity Risk

Liquidity Risk is the risk that the Company will not be able to meet its financial obligations as they fall due. In periods of abnormal fluctuations in market conditions or financial crisis, Liquidity Risk can expose the Company to a shortfall of liquidity and limit its access to the capital markets resulting in damages. Liquidity shortages expose the Company to the risk of not having enough cash to fulfil its duties against counterparties that can eventually cause regulatory sanctions and loss of business and/or reputation.

7.11. Conduct Risk

Conduct risk is defined as the risk of an action, by an individual, financial institution or the industry as a whole, which leads to customer detriment or, undermines market integrity. This can bring sanctions and negative publicity. Moreover, EBA has defined conduct risk as the current or prospective risk of losses to an institution arising from inappropriate supply of financial services including cases of wilful or negligent misconduct. Consequently, conduct risk arises from failures of designated liquidity providers located in third countries associated with the Company.

Additionally, the Company is exposed to negative balances with its Liquidity Providers, in case of fast-pacing volatile market, where the LP cannot close a position at the Company`s stop out limit. Therefore, the Company may be exposed to conduct risk arising from inadequate agreements with the Liquidity Providers and/or with the third parties that hold client's funds.

As part of risk management policy and tools, the Company has procedures in place to diversify its liquidity providers and monitor their financial position on an on-going basis. The financial soundness of the liquidity providers is being monitored and the Company is ready to switch to alternative LPs, if necessary. Furthermore, the receivable/payable amounts with the LPs are monitored on a regular basis. In particular, the Company examines its existing procedures and arrangements with respect to the products offered and services provided.

SPECIFIC REFERENCES TO CRR

Scope of disclosure requirements		Section
431(1)	Requirement to publish Pillar III disclosures	1.2
431(2)	Disclosures regarding operational risk	6.4.1
431(3)	Institution shall adopt a formal policy to comply with the disclosures and have policies for assessing their appropriateness, including their verification and frequency	1.3.2
Non - material, proprietary or confidential information		**Section**
432	The policy on diversity with regard to selection of members of the management body	2.4
	Own Funds	4
	Remuneration policy	3
Frequency of disclosure		**Section**
433	Disclosures must be published at least on an annual basis, in conjunction with the date of publication of the financial statements	1.3.2
Means of disclosure		**Section**
434(1)	Determine the appropriate medium, location and means to publish the disclosures, preferably all disclosures in one medium	1.3.2
434(2)	Equivalent disclosures made under accounting, listing or other requirements may be deemed to constitute compliance with Pillar III	1.3.2
Risk management objectives and policies		**Section**
435(1)	Disclosure of risk management objectives and policies for each category of risk including	1.4
435(1)(a)	Strategies and processes	1.4.1

435(1)(b)	The structure and organisational structure of the relevant risk management function	1.4.1
435(1)(c)	The scope and nature of risk reporting and measurement systems	1.4.1
435(1)(e)	Declaration approved by the management body on the adequacy of risk management arrangements	1.5
435(1)(f)	Concise risk statement approved by the management body	1.4
435(2)	Disclosure at least annually, regarding governance arrangements	2.1
435(2)(a)	Number of directorships held by members of the management body	2.2
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450(1)(h)(i) 450(1)(h)(ii) 450(1)(h)(iii) 450(1)(h)(iv) 450(1)(h)(v) 450(1)(h)(vi)	Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution	3
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