Stone Edge Capital Ltd

Regulated by the Cyprus Securities and Exchange Commission License no. 311/16

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2019

AUGUST 2020

DISCLOSURE

*The Disclosure and Market Discipline Report for the year 2019 has been prepared by **Stone Edge Capital Ltd** as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive DI144-2014-14 issued by the Cyprus Securities and Exchange Commission.*

Stone Edge Capital 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 our competitive position.

Stone Edge Capital Ltd is regulated by the Cyprus Securities and Exchange Commission under License number 311/16.

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Abbreviations

AT1	Additional Tier 1
BoD	Board of Directors
CET1	Common Equity Tier 1 Capital
CIF	Cyprus Investment Firm
CRD	Capital Requirements Directive - Directive 2013/36/EU
CRR	Capital Requirements Regulation - Regulation (EU) No. 575/2013
CRM	Credit Risk Mitigation
CySEC	Cyprus Securities & Exchange Commission
ICAAP	Internal Capital Adequacy Assessment Process
ICF	Investor Compensation Fund
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RWAs	Risk Weighted Assets
T1	Tier 1 Capital
T2	Tier 2 Capital
UBO	Ultimate Beneficial Owner
EU	European Union
EC	European Commission

1. INTRODUCTION

1.1. Pillar III Regulatory Framework and Scope of Application

The present report is prepared by Stone Edge Capital 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 311/16 and operates in harmonisation with the Markets in Financial Instruments Directive II (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.

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 ("RWAs") and the introduction of new measures relating to leverage, liquidity and funding. 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.

The 2019 Pillar III Disclosures 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 disclosed in this report is related to the year ended 31st December 2019 (based on Audited Financial Statements). The disclosures are being prepared on an individual (solo) basis.

The information contained in the Pillar III Market Discipline and Disclosure report is to be audited by the Firm's external auditors and published on the Company's website on an annual basis. The Pillar III Market Discipline and Disclosure report can be found at:

https://stedcap.com/documents.html. Moreover, the Company is obliged to provide a copy of the external auditor's verification report to CySEC within 5 months after the end of each financial year.

The Board of Directors and the Senior Management have the overall responsibility for the internal control systems in the process of "Capital Adequacy Assessment" and they have established effective processes to ensure that the full spectrum of risks facing the Company is properly identified, measured, monitored and controlled to minimize adverse outcomes.

The Company's business effectiveness is presented and based on the guidelines of the risk management policies and procedures. The Board of Directors, Internal Audit, Risk Manager, Compliance Officer, and Anti-Money Laundering Officer control and supervise the overall risk system so that all units charged with risk management perform their roles effectively on a continuous basis.

As with all Investment Firms, the Company is exposed to several risks. In particular, the Company is exposed to Credit Risk, Market Risk and Operational Risk. It is noted that the Company had begun to build its client base in 2017, after obtaining its authorization from CySEC in December 2016.

More information can be found in the sections below.

1.2. Corporate Information

Company Name	Stone Edge Capital Limited
CIF Authorization Date	13 December 2016
CIF License Number	311/16
Company Registration Date	27 January 2016
Company Registration Number	HE 351681

Financial instruments	Investment services and activities								Ancillary Services						
	I(1)	I(2)	I(3)	I(4)	I(5)	I(6)	I(7)	I(8)	II(1)	II(2)	II(3)	II(4)	II(5)	II(6)	II(7)
III (1)	√	√	√	√	√				√	√		√	√		√
III (2)	√	√	√	√	√				√	√		√	√		√
III (3)	√	√	√	√	√					√		√	√		√
III (4)	√	√	√	√	√				√	√		√	√		√
III (5)	√	√	√	√	√				√	√		√	√		√
III (6)	√	√	√	√	√				√	√		√	√		√

III (7)	√	√	√	√	√				√	√		√	√		√
III (8)	√	√	√	√	√				√	√		√	√		√
III (9)	√	√	√	√	√				√	√		√	√		√
III (10)															
III (11)															

Notation in regards to previous table:

I.<u>Investment services and activities</u>

1. Reception and transmission of orders in relation to one or more financial instruments;
2. Execution of orders on behalf of clients;
3. Dealing on own account;
4. Portfolio management;
5. Investment advice;
6. Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
7. Placing of financial instruments without a firm commitment basis;
8. Operation of a Multilateral Trading Facility.

II.<u>Ancillary Services</u>

1. Safekeeping and administration of financial instruments, including custodianship and related services;
2. Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
3. Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings;
4. Foreign exchange services where these are connected to the provision of investment services;
5. Investment research and financial analysis or other forms;
6. Services related to underwriting;
7. Investment services and activities as well as ancillary services of the type included under Parts I and II related to the underlying of the derivatives included under paragraphs 5, 6, 7 and 10 of Part III where these are connected to the provision of investment or ancillary services.

III.<u>Financial instruments</u>

1. Transferable securities;
2. Money-market instruments;
3. Units in collective investment undertakings;
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF;

7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in paragraph 6 above and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for differences (CFDs);
10. Options, futures, swaps, forward-rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (other than by reason of default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF or an MTF.
11. Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC.

1.3. Regulatory (Prudential) Supervision

The Laws and Regulations that govern the operations of Cyprus Investment Firms and set out the obligations and requirements that shall be met in the aspect of capital adequacy and market discipline, are comprised, inter alia, by the following:

- Law 87(I)/2017: Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereafter, “the Law”);
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation;
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation;
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV;
- Directive DI144-2014-14: For the prudential supervision of Investment Firms;
- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013.
- Directive 2014/65/EU on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU – MiFiD II Directive
- Regulation (EU) No. 600/2014 – Markets in Financial Instruments and amending Regulation (EU) No. 648/2012 (MiFiR)

2. CORPORATE GOVERNANCE

2.1. Board of Directors

The Board of Directors ("BoD") of the Company consists of three Executive Directors and two Non-Executive Directors, as at 31.12.2019.

The members of the Board of Directors exercise effective control on the company's affairs and the non-executive members of the BoD exercise control over the business carried out by the executive members of the BoD.

The main responsibilities of the Board of Directors are:

- To establish, implement and maintain decision-making procedures and an organizational structure which clearly and in documented manner specifies reporting lines and allocates functions and responsibilities;
- To ensure that its relevant persons are aware of the procedures that must be followed for the proper discharge of their responsibilities;
- To establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the CIF;
- To employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them;
- To establish, implement and maintain effective internal reporting and communication information at all relevant levels of the CIF;
- To maintain adequate and orderly records of its business and internal organization; and
- To ensure that the performance of multiple functions by its relevant persons does not and is no likely to prevent those persons from discharging any particular function soundly, honestly, and professionally.

Furthermore, the BoD is responsible for establishing and amending the internal control procedures, where necessary. It also ensures that the Company has sufficient human and technical resources required for the performance of its duties.

The Chairman of the BoD is responsible for the proper running of the BoD and should ensure that all the issues on the agenda are sufficiently supported by relevant information. The Chairman also ensures that all directors are suitably informed on issues that arise during BoD meetings.

At the compliance with the abovementioned requirements, the Company takes into account the nature, scale and complexity of the business of the firm, and the nature and range of investment services and activities undertaken in the course of that business.

2.2. Board Recruitment Policy

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the BoD and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the BoD. The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD 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.

2.3. Number of Directorships held by members of Board of Directors

The Board of Directors as at 31.12.2019 was comprised of three executive directors and two independent non-executive directors.

Name of Director	Executive Director/ Independent Non-Executive Director in Stone Edge Capital Ltd	Number of Directorships in other entities (other than Stone Edge Capital Ltd)
Denis Aleksandrov	Executive Director	4
Dmitry Sinitsyn	Executive Director	2
Viktor Kholoshnoi	Executive Director	0
Inna Parvan	Independent Non-Executive Director	1
Lubov Astreou	Independent Non-Executive Director	0

2.4. Diversity Policy of the Board of Directors

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

The Company recognizes the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences is considered in the context of the BoD's composition.

2.5. Training

During the year, the Company's employees and directors, including the Risk Manager, attended courses on the applicable Compliance/AML legislation and relevant procedures and Risk Management. The BoD is updated on a regular basis on changes to CySEC regulations.

2.6. Reporting and Control

In line with the requirements set out in the Law and subsequent Directives, the Company has been able to maintain a good information flow on risk to the management body, as can be seen below:

Report Name	Owner	Recipient	Frequency	Next Due Date
Annual Risk Management Report	Risk Manager	BoD, CySEC	Annual	30/04/2020
Pillar I COREP templates	Risk Manager	Board, CySEC	Quarterly	11/02/2020 12/05/2020 11/08/2020 11/11/2020
Pillar III Disclosures (Market Discipline and Disclosure)	Risk Manager	BoD, CySEC, Public	Annual	30/04/2020
ICAAP Report (Update)	Risk Manager	BoD	Annual	Within 2020
Annual Compliance Report	Compliance Officer	BoD, CySEC	Annual	30/04/2020
Annual Internal Audit Report	Internal Auditor	BoD, CySEC	Annual	30/04/2020
Annual Anti-Money Laundering Report	Anti-Money Laundering Compliance Officer	BoD, CySEC	Annual	31/03/2020
Financial Reporting	External Auditor	BoD, CySEC	Annual	30/04/2020

3. RISK MANAGEMENT

3.1. Definition of Risk Management

Risk Management is the process of identification, analysis and evaluation of uncertainty in investment decision-making. As a result, it is treated accordingly; either accepted (in which case the Company allocates capital) or mitigated.

Risks should be continuously monitored and reviewed. In addition to that, outcomes and results should be properly reported and new objectives should be set.

The Company envisages a risk management framework that is founded on the following principles:

- A culture of risks adjusted in the organization. It embraces a series of values, attitudes and ways of acting towards risks, including taking decisions on change management and strategic business planning.
- Complete approach to all risks; there are risks that directly affect the Company and risks that indirectly affect the Company. It is very important to report all kinds of risks and to assume and understand the relations between them. The overall calculation should be simplified without affecting the difference of nature, degree of evolution and real possibilities of management and control of each type of risk, adjusting the organization, processes, reports and tools to the features of each one.
- An organizational and control model which is assigned to all risk types.
- Common management instruments among the different departments, without negatively affecting the regulations and requirements of supervisors and the degree of development of each department.
- Lastly, it is very important that all risk assessment results should be communicated to all relevant departments with the appropriate consultation given.

3.2. Risk Management Policy and Objectives

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 of Directors ("BoD"). 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.

The Senior Management 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 Company's BoD 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 that 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.

The risk management policy formed is as follows:

Policy Name	Revision Frequency
Risk Management Manual	Annual

3.3. Risk Appetite Framework (RAF)

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, compliance and data security/IT 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 BoD approved the following Risk Appetite Statement decided by Management:

Risk appetite statement

The Company's risk appetite is determined by its BoD, following the recommendations of the Risk Manager and taking into account the Company's risk bearing capacity.

Risk appetite determines the maximum risk that the Company is willing to assume in order to meet its business targets. To ensure coherence between the Company's strategic considerations as regards risk taking and the day-to-day decisions, Management reviews and when deemed necessary updates the Company's risk appetite statement.

The Company's risk appetite is set by taking into consideration its current risk profile (please see below). The following are the main risk appetite statements which are applicable across all of the Company's activities:

- *Based on the Company's Capital Management Policy, as this is documented in the Risk Management Manual, the available regulatory capital over the total risk weighted assets for Pillar I risks is targeted to be greater than or equal to 12.5% or EUR 800K whichever is the highest in value;*
- *CET1 ratio should under no circumstances fall below the minimum regulatory requirement imposed by CySEC – which is 4.5% of total RWAs, plus applicable additional capital buffers*[1]*;*
- *The Company has zero tolerance towards internal fraud and non-compliance with regulatory requirements. Therefore, all departments are required to operate at all times in compliance with respective regulatory requirements;*
- *The Company has limited tolerance towards operational risks / losses such as internal fraud, unauthorized trading limit excesses, data security and GDPR. Operational risks inherited in the business operations of the Company are managed proactively.*

The Company's risk bearing capacity is defined as the ability of the Company's available capital to absorb adverse risk. The Company's available paid-up capital currently consists solely of CET1 capital, calculated after relevant deductions.

The risk appetite of the Company is the aggregate level and types of risk the Firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan. Thus, Risk Appetite and Strategic Plan occur and evolve in parallel. The Risk Appetite enables the Company to demonstrate that the achievement of its strategic goals has not been the result of fortuitous circumstances.

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, concentration of large exposures and exposures to directors and shareholders.

[1]Applicable Buffers for Stone Edge Capital Ltd include the Capital Conservation Buffer ("CCB") which is set at 2.5% of total RWAs from 2019 onwards.

In regards 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.

3.4. Risk Culture

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

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.

3.5 Board Declaration – Adequacy of the Risk Management arrangements

The Board of Directors is ultimately responsible for the risk management framework of the Company.

Risk management framework is the sum of control systems, work processes and internal policies. These are designed with the aim to minimise the risks of not achieving business objectives, and - as such - offer reasonable but not absolute assurance against fraud, material misstatement and loss. The BoD considers that it has in place adequate systems and controls with regards to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

3.6. Regulatory Pillar I Risk Management

It is noted that the 8% minimum regulatory capital requirements referred to in the sub-sections below exclude the capital buffers, namely:

a. Capital Conservation Buffer (the 'CCB')
b. Institution-specific Countercyclical Capital Buffer (the 'CCyB')
c. Other systematically important institutions buffer (the 'O-SII buffer').

Currently only the CCB applies to the Company. The CCB buffer must be covered by Common Equity Tier 1 Capital and it is calculated in accordance with Article 92(3) of the Regulation [par. 52 of the Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms]. It is noted according to the 2018 list published by the macroprudential-authority of Cyprus, the Central Bank of Cyprus ("CBC"), Stone Edge Capital Ltd is exempted from maintaining the CCyB due to its small and medium size.

The CCB buffer is set at 2.5% from 01.01.2019 and onwards.

The Company's total Pillar I capital requirement plus additional buffers totalled to 10.5% as of end-December 2019, comprising of: (i) a minimum 8% Pillar I capital requirements; and (ii) a 2.5% CCB buffer.

3.7 Internal Capital Adequacy Assessment Process ("ICAAP")

The Company has established an Internal Capital Adequacy Assessment Process (hereinafter, the "ICAAP"), with the scope of ensuring that the Company holds adequate capital to support any future unexpected losses that may arise from its investment services licensed activities. With this report the Company fulfils the disclosure requirement in accordance with Paragraph 31, Chapter 6, Part C of Directive DI144-2007-05 of 2012 (the "Directive") of CySEC on the Capital Requirements of Investment Firms and Article 73 of the EU Directive 2013/36/EU (the "Capital Requirements Directive – CRD").

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

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

The ICAAP report is being reviewed and updated annually, while it is also submitted to CySEC upon its request.

4. FINANCIAL INFORMATION/OWN FUNDS

The following information provides a reconciliation between the balance sheet presented in Financial Statements and the balance sheet prepared for prudential purposes.

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

Composition of the capital base/own funds	31/12/2018	31/12/2019
	EUR '000	EUR '000
Total Equity as per Financial Statements		
Share Capital (paid-up)	**1,091**	**1,093**
Share Premium	**1,069**	**1,852**
Total Capital Instruments eligible as CET1 Capital	**2,160**	**2,945**
Retained Earnings/Losses	(1,190)	(1,798)
Less Intangible Assets	(46)	(33)
Less Contribution to Investor Compensation Fund ("ICF")	(85)	(85)
Total Common Equity Tier I ("CET1") Capital	**839**	**1,029**
Additional Tier I ("AT1") Capital	**0**	**0**
Total Tier I Capital	**839**	**1,029**
Tier 2 Capital	**0**	**0**
Total Eligible Own Funds for Solvency Purposes	**839**	**1,029**
Capital Requirements before additional capital buffers[1]		
Credit Risk (=8% of RWAs)	**38**	**67**
Market Risk (=8% of RWAs)	**5**	**8**
Operational Risk (=8% of RWAs)	**6**	**42**
Total Capital Requirements	**49**	**117**
CET1 Capital Ratio	**136.6%**	**70.2%**
T1 Capital Ratio	**136.6%**	**70.2%**
Capital Adequacy Ratio	**136.6%**	**70.2%**

Notes:

[1] The total capital requirements are those determined by RWAs (in this case EUR 1,465K as at 31.12.2019 and EUR 614K as at 31.12.2018) or the 730K initial minimum capital requirement whichever is the highest.

[2] 2018 and 2019 numbers are based on the Audited Financial Statements

5. CAPITAL REQUIREMENTS UNDER PILLAR I

The primary objective of the Company with respect to its capital management is to ensure that the Company complies with the capital requirements regulation imposed by the European Union and regulated by CySEC.

Under this framework, the Company needs to monitor its capital base and maintain a strong capital adequacy ratio in order to be able to promote itself as a fully compliant and healthy Company, to support its business and maximize shareholders' value. In this respect, the Capital requirements should not be seen as a restriction of business but rather as proactive risk management imposed to help both the Company and its client base.

The fundamental pillar of the capital adequacy framework, Pillar I, is based on the fact that the Company must have minimum own funds which are at all times more than or equal to the sum of its capital requirements. In addition to the Pillar I minimum capital requirements, the Company's eligible own funds must at all times exceed the EUR 730K minimum initial capital requirement as specified under the Article 28 (2) of the CRD.

In line with CRR, Pillar I sets out the minimum regulatory capital requirements of firms to cover credit risk, market risk and operational risk.

The minimum capital adequacy ratio an investment firm is required to maintain is set at 8%. Moreover, with the introduction of Basel III/CRR, the capital quality requirements have become more stringent: Common Equity Tier 1 ratio has increased to 4.5%, Tier 1 to 6%, and Overall (Tier 1 and Tier 2) to 8% plus any additional capital buffers and any SREP add-on.

It is noted that according to the 2018 list published by the macroprudential-authority of Cyprus, the Central Bank of Cyprus ("CBC"), Stone Edge Capital Ltd is exempted from maintaining the CCyB due to its small and medium size.

The total **Pillar I capital requirement for the Company for the year 2019 totals to 10.5%** of its total RWAs as at 31.12.2019 and is derived from: (i) the minimum total capital ratio of 8% of its total RWAs plus the CCB buffer of 2.5%; and (iii) the minimum initial capital requirement of EUR 730K, whichever is the higher.

The BoD, as well as the Risk Manager, monitor the reporting requirements and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company.

The Company manages its capital structure and makes adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

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

Minimum Capital Requirements	**31/12/2018**		**31/12/2019**	
Type of Risk	**EUR '000**		**EUR '000**	
	RWAs	**Cap. Req. (=8% of RWAs)**	**RWAs**	**Cap. Req. (=8% of RWAs)**
Credit Risk	477	38	839	67
Market Risk				
of which Foreign Exchange risk	61	5	103	8
of which Interest Rate risk	0	0	0	0
of which Equity risk	0	0	0	0
of which Commodity risk	0	0	0	0
Operational Risk	**76**	6	**523**	42
Total RWAs/Capital Requirement	**614**	**49**	**1,465**	**117**
Total Own Funds		**839**		**1,029**
Capital Adequacy Ratio (Own Funds/Total RWAs)		**136.6%**		**70.2%**
Minimum Capital Adequacy Ratio (including buffers)		**9.875%**		**10.5%**

Notes:

[1] 2018 and 2019 numbers are based on the Audited Financial Statements

5.1 Credit Risk

Definition

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

Risk identification, Measurement, Control and Reporting

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

- deposits in Financial institutions;
- exposures to brokerages and other corporates;
- counterparty credit risk arising from the Company's exposure to derivative contracts; and
- exposure to its subsidiaries.

Use of External Credit Assessments Institutions' (ECAI) Credit Assessment of the determination of Risk Weights

For the purpose of calculating the capital requirements of the Company mainly under the Credit Risk requirement, for the exposure classes listed below, Moody's, S&P and Fitch's external credit ratings have been applied.

- Exposures to central governments or central banks;
- Exposures to public sector entities;
- Exposures to institutions;
- Exposures to corporates.

The general ECAI association with each credit quality step complies with the standard association published by CySEC as follows:

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

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

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

For exposures to central governments or central banks and corporates the ECAIs are applied in the following priority:

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

The ECAIs are not taken into account where all relative exceptions or discretions as per the CRR apply. This means the credit quality step tabulated below may not apply for credit exposure risk weighting purposes if CRR exceptions apply (for example exposures to EU institutions in domestic currency with remaining maturity up to 90 days).

The classification of **original exposures** as at 31.12.2019 in the table below follows the information above.

Credit Quality Step	Corporates	Institutions	Public Sector Entities	Equity exposures	Other Assets	Total
CQS 1						0
CQS 2						0
CQS 3			15			15
CQS 4						0
CQS 5		168				168
CQS 6						0
Unrated	187	657		44	50	938
Not Applicable					29	29
Total	**187**	**825**	**15**	**44**	**79**	**1,150**

Credit Risk Analysis

The tables below indicate the Company's Credit Risk exposure under Pillar I, as at 31.12.2019.

a. Minimum Credit Risk Exposure and Capital Requirements

Credit Risk Capital Requirements	31/12/2019		
	EUR '000	EUR '000	EUR '000
Risk Weighted Assets:	**RWAs**	**Capital requirement (8% of exposure)**	**Capital requirement (10.5% of exposure)**
Institutions (RW: 20%)	93	7	10
Institutions (RW: 50%)	0	0	0
Institutions (RW: 100%)	362	29	38
Corporate (RW:100%)	187	15	20
Retail exposures (RW:75%)	0	0	0
Investment in AIF (RW: 250%)	125	10	13
Equity exposures (Investment in subsidiary)	44	4	5
Other assets and receivables	29	2	3
Total	**839**	**67**	**88**

During 2019, the Company's eligible Own Funds for Solvency Purposes (hereinafter, "Own Funds") remained, at all times, above the minimum initial capital requirement of EUR 730K and the minimum total capital ratio of 8%, plus Pillar I additional buffers (a total capital ratio of 10.5%).

b. Credit Risk Exposure by Industry

Credit Risk Capital Requirements by Industry Type	31/12/2018	31/12/2019
	EUR '000	EUR '000
Risk Weighted Assets:		
Sovereign	0	0
Financial institutions (including exposure to AIFs)	317	579
Non-financial institutions (including corporates, equity exposures)	133	231
Retail	0	0
Other	27	29
Total Risk Weighted Assets (RWAs)	**478**	**839**
Capital Requirements based on Pillar I (=8% x RWA)	**38**	**67**
Capital Requirements plus CCB buffer (=10.5% x RWAs) [2]	**50**	**88**
Minimum Initial Capital Requirement	**730**	**730**
Total Available Eligible Capital (equals to CET1)	**839**	**1,029**

Notes:

[1] 2018 and 2019 numbers are based on the Audited Financial Statements

[2] CCB buffer as at end 31.12.2018 was set at 1.875% while by the end of 31.12.2019 it was increased to 2.5%

c. Credit Risk Exposure by Residual Maturity

Credit Risk Capital Requirements by Maturity	31/12/2018	31/12/2019
	EUR '000	EUR '000
Risk Weighted Assets:		
Up to 3 Months	216	93
Greater than 11 months up to 12 months	151	543
Greater than 12 months up to 24 months	0	0
Greater than 30 months up to 33 months	0	0
Greater than 33 months up to 10 years	13	13
Undefined maturity	98	190
Total Risk Weighted Assets (RWAs)	**478**	**839**
Capital Requirements (=8% x RWAs)	**38**	**67**
Capital Requirements plus CCB buffer (=10.5% x RWAs) [2]	**50**	**88**
Minimum Initial Capital Requirement	**730**	**730**
Total Available Eligible Capital (equals to CET1)	**839**	**1,029**

Notes:
[1] 2018 and 2019 numbers are based on the Audited Financial Statements
[2] CCB buffer as at end 31.12.2018 was set at 1.875% while by the end of 31.12.2019 it was increased to 2.5%

d. Credit Risk Exposure by Country

Credit Risk Capital Requirements by Country	31/12/2018	31/12/2019
	EUR '000	EUR '000
Risk Weighted Assets:		
EU	347	790
US	86	0
British Virgin Islands	44	49
Non-EU	0	0
Total Risk Weighted Assets (RWAs)	**478**	**839**
Capital Requirements (=8% x RWAs)	**38**	**67**
Capital Requirements plus CCB buffer (=10.5% x RWAs) [3]	**50**	**88**
Minimum Initial Capital Requirement	**730**	**730**
Total Available Eligible Capital (equals to CET1)	**839**	**1,029**

Notes:
[1] 2018 and 2019 numbers are based on the Audited Financial Statements
[2] CCB buffer as at end 31.12.2018 was set at 1.875% while by the end of 31.12.2019 it was increased to 2.5%

5.2 Market Risk

Definition

Market Risk is the risk of losses when the value of investments may decline over a given time period as a result of fluctuation of market prices or economic changes.

In the context of Pillar I, Market Risk can be divided in the following categories:

Equity Position Risk: It refers to the probability of loss associated with a particular trading (long or short) position due to share price changes.

Interest Rate Risk: The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Commodities Risk: It refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. These commodities may be oil, metals, gas, electricity etc.

Foreign Exchange Risk: It is a financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the Company. The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange 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.

Risk identification, Measurement, Control and Reporting

The Company's Market Risk for 2019 mainly arises from the below sub-categories of market risk:

- Foreign exchange (FX) fluctuations which affect the Company's assets or liabilities denominated in foreign currencies, other than Euro, as well as from positions held during forex trading; and
- Financial security market fluctuations, position risk, arising from positions being traded on the Company's platform.

Market risk is being effectively managed by setting and monitoring foreign exchange risk limits, such as through the establishment of:

- DOA limits.
- Imposition of client leverage limits.
- Margin Call/Close-out alert notifications to clients.

- Provisions of adequate risk warnings to clients that are also available on the Company's website.
- Negative Balance Protection and setting of initial margins for leverage products.

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

Market Risk Analysis

The tables below present the total market RWAs and the capital requirements as at 31 December 2019, based on Audited Financial Statements, for each type of market risk.

Position Risk on Equities Capital Requirements	**31/12/2018**	**31/12/2019**
	EUR '000	**EUR '000**
Sectorial Equity Breakdown		
USA	nil	nil
EU	nil	nil
Other	nil	nil
Total Risk Weighted Assets	**nil**	**nil**
Capital Requirements (=8% x RWA)	**nil**	**nil**

Position Risk on Traded Debt Instruments (TDI) Capital Requirements	**31/12/2018**	**31/12/2019**
	EUR '000	**EUR '000**
Sectorial Equity Breakdown		
USA	nil	nil
EU	nil	nil
Other	nil	nil
Total Risk Weighted Assets	**nil**	**nil**
Capital Requirements (=8% x RWA)	**nil**	**nil**

Commodity Risk Capital Requirements	**31/12/2018**	**31/12/2019**
	EUR '000	**EUR '000**
Commodity Type	nil	nil
Total Risk Weighted Assets	**nil**	**nil**
Capital Requirements (=8% x RWA)	**nil**	**nil**

Foreign Exchange Capital Requirements	31/12/2018	31/12/2019
Net Currency Exposures	**EUR '000**	**EUR '000**
Currency denominated in Euro		
EUR	(3,067)	1,043
USD	161	103
RUB	0	0
Other	4,000	0
Total Risk Weighted Assets	**61**	**103**
Capital Requirements (=8% x RWA)	**5**	**8**

5.3 Operational Risk

Definition

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: unauthorized limit excess with intend, misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees;
- External Fraud: theft of information, hacking damage, third – party theft and forgery.
- Compliance: Brand impairment, Complaint handling, third country regulator retaliation, E-commerce global taxation matters.
- Clients, Products and Business Practice: market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.
- Execution, delivery and process management: wrong execution of orders, data entry mistakes when transmitting orders, trade miscapturing.
- Employment Practices and Workplace Safety: acts inconsistent with employment, health or safety laws or agreements.
- Damage to Physical Assets: natural disaster or other events.
- Business Disruption and system failures.

Risk identification, Measurement, Control and Reporting

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); and
- 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 a "four-eyes" structure and BoD oversight. This structure ensures the separation of power regarding vital functions of the Company. The BoD further reviews any decisions made by the Management while monitoring their activities;
- Providing clients with all appropriate information prior to establishing a business relationship (i.e. Privacy Policy, Clients Complaints Policy, Conflicts of Interest Policy, Safeguarding of Clients' Financial Instruments and Funds, Best Execution Policy, Risk Warning, etc.); and
- Comprehensive business contingency and disaster recovery plan.

With regards to client data security and safety the following measures are being taken:

- Client and Counterparty identification documents to be duly completed and verified according to the relevant legislative framework (this way preventing the occurrence of external frauds);

- Client data, including transaction data, are secured with appropriate firewalls and backed up regularly (this way preventing the loss of data from external fraud);
- Client funds are deposited to dedicated bank accounts, being segregated from own funds, and balances are regularly reconciled per CySEC requirements (this way preventing internal fraud);
- Client investment profiling is performed in accordance to IOM and relevant internal policies (i.e. Client Acceptance Policy); and making sure clients understand the risks of the products on offer by the Company prior to investing to such products (this way preventing risks related to aggressive selling, non-suitability and product misrepresentation).

Operational Risk Analysis

For the calculation of Operational Risk in relation to the capital adequacy returns, the Company uses the Basic Indicator approach. Based on the relevant calculations in the Company's capital requirements, the figures calculated shows that the Company's exposure to Operational Risk, as at 31st December 2019 totalled EUR 523K.

Operational Risk Capital Requirements	**31/12/2018**	**31/12/2019**
	EUR '000	**EUR '000**
Gross Income as specified in CRR:	(270)	523
Last 3 years average	41	278
Pillar I Operational Risk Capital Requirement (15% of 3-year average Gross Income)	**6**	**42**
Total Own Funds	**839**	**1,029**
Total Risk Weighted Assets equivalent	**76**	**523**

6. OTHER RISKS

6.1. Concentration Risk

Regulatory Limits to Large Exposures to institutions and non-institutions

Limits to large exposures are calculated as specified in the CRR. According to the regulatory definition, 'large exposure' means the exposure of the Company to a person or a group of connected persons where its value is equal to or exceeds 10% of the Company's eligible own funds.

In general, the Company shall comply with the Large Exposure limits laid down below:

- The Company shall not incur an exposure, after taking into account the effect of the credit risk mitigation in accordance with the provisions of the CRR, to a client or a group of connected clients (which are not institutions), that exceeds 25% of the Company's own funds.
- Where the aforementioned client is an institution, or where a group of companies of connected clients include one or more institutions, the value of the exposure shall not exceed 25% of the Company's own funds or EUR 150m, whichever the higher.
- Where the amount of EUR 150m exceeds the 25% of the Company's own funds, the value of the exposure shall not exceed a reasonable and determined limit by the Company of its own funds. That limit shall not be higher than 100% of the Company's own funds. Separately, note that the term institutions mean credit institutions, investment firms and insurance companies based in the European Economic Area ("EEA"). Where the amount of EUR 150m is applicable, the European Commission may allow on a case-by-case basis the 100% limit in terms of the Company's own funds to be exceeded.

The 2019 issue with regards to the Company's exposure to its wholly owned subsidiary that resulted in a limit excess of the Company's Large Exposures to third parties, was fully resolved in December 2019, in line with the original action plan put in place in June 2019. It is highlighted that as at 31.12.2019, the Company was fully compliant with the provisions of the CRR relating to the large exposure limits (Article 395).

The allowable limits to institutions and non-institutions are continuously monitored and controlled by the Company.

6.2. Reputational Risk

Reputational risk is defined as the potential that adverse publicity regarding a financial organisation's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of the institution. In particular, reputational risk can materialize in the case of non-compliance with regulations, a breach of ethical values or the perception by the customer of an unfavourable discrepancy between the commercial offering and the reality of staff's practices.

The Company manages its reputational risk through corporate governance and internal controls ensuring that:

- The Company controls all marketing communication that goes out to the public and stays up to date with new regulatory requirements and obligations in an effort to maintain a strong reputation. In addition, it obtains legal opinions on new jurisdictions in which it wants to operate to ensure that it doesn't violate any laws. According to the third country's requirements, it adjusts its marketing material accordingly.
- 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 clients.
- Furthermore, employees are bound by confidentiality policies and there are several controls to minimize the risk of internal fraudulent activity not being spotted/prevented.
- In addition, the management ensures that the Company is responsive to changes of a market or regulatory nature that impact its reputation in the marketplace.

6.3. 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 considered low as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

6.4. Business Risk

Business risk is a distinct type of risk that is not captured in the course of the Pillar I capital requirement and is defined as the possibility of economic loss arising from adverse strategic and business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment, including technological progress. The Company manages strategic risk through its normal conduct of business, while business risk is further examined in the course of the annual ICAAP.

6.5. 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 in place documented procedures and policies based on the requirements of relevant Laws and Directives issued by CySEC. Compliance with these procedures and policies is further assessed and reviewed by the Company's Internal Auditor and suggestions for improvement are implemented by management. The Internal Auditor evaluate and test the effectiveness of the Company's control framework at least annually. Therefore, the risk of non-compliance is considered as low.

6.6. Compliance / Money Laundering and Terrorist Financing Risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, bylaws, regulations, prescribed practices, internal policies, and procedures, or ethical standards.

Money laundering and Terrorist Financing Risk mainly refers to the risk where the Company may be used as a vehicle to launder money and/or assist/involved in financing terrorism.

The Company has in place and is updating as applicable, certain policies, procedures and controls in order to mitigate the Compliance / Money Laundering and Terrorist Financing Risks. Among others, the Company has established or is in the process of establishing the below policies, procedures and controls:

a. adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing Risks faced by the Company;
b. adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing Risk, prior and after the establishment of a business relationship with a client,
c. setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents collected from independent and reliable sources);
d. obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction;
e. monitoring and reviewing the business relationship or an occasional transaction with clients and potential clients of high risk countries;
f. Developed and established a Customers' Acceptance Policy (CAP) which has also been included in its AML Manual and reflects the actual policies and procedures followed by the Company;
g. A number of policies (i.e. Conflicts of Interest Policy, Client Complaints Policy, Protection of Clients' Funds / Assets, MIFID Client Categorization, etc.) have been uploaded in the Company's website aiming at providing its clients with all necessary information prior to the establishment of a business relationship;
h. The Company's Compliance Officer, in liaison with the BoD and the Heads of the Front-line Departments, designed effective organizational and administrative arrangements, which are expected to be implemented going forward, with a view to taking all reasonable steps to prevent conflicts of interest from adversely affecting the interests of the Company's clients;
i. Established mechanisms that allow the Company to submit the EMIR and MIFIR reporting on a daily basis according to the provisions of the relevant Laws and Directives;
j. Electronically submit to CySEC the Risk Based Supervision Framework ('RBS-F');
k. Submitting the Common Reporting Standard (CRS) reporting to the Cyprus Tax Department;

l. Registered with the goAML system implemented by MOKAS.
m. The Company's Compliance Officer and Senior Management shall ensure on an ongoing basis that, the Product Governance Requirements under MiFiD II will be met; and
n. Ensure that the Company's personnel receive the appropriate training and assistance.

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

6.7. 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, internet use, data protection procedures, and disaster recovery, as applicable. The Company is regularly, at least annually, conducting Business Continuity Plan (BCP) stress tests to ensure the proper functioning of its systems and back-up procedures but also to minimise the possibility of such type of risk to materialise.

6.8. Stress Testing

Stress testing is a key risk management tool used by the Company to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests aim at:

- Understanding the risk profile of the Company.
- The evaluation of the Company's capital adequacy in absorbing potential losses under stressed conditions from risks not covered or not adequately covered under Pillar I. This takes place in the context of the Company's ICAAP. The ICAAP is being reviewed and updated annually, while it is submitted to CySEC upon its request.
- The evaluation of the Company's strategy: Senior Management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows Senior Management to determine whether the Company's exposures correspond to its risk appetite.
- The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

The ultimate responsibility and ownership of the Company's stress testing policy rests with the BoD. If the stress testing scenarios reveal vulnerability to a given set of risks, management should make recommendations to the BoD for remedial measures or actions. These may vary depending on the circumstances and include one or more of the following:

- Review the overall business strategy, risk appetite, capital and liquidity planning;
- Review limits;
- Reduce underlying risk positions through risk mitigation strategies;
- Consider an increase in capital; and
- Enhance contingency planning.

7. LEVERAGE

According to CRR, Article 429, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposures and is expressed as a percentage. Institutions shall calculate the end-of-quarter leverage ratio as per the discretions from CySEC. The leverage ratio must at all times exceed the 3% of the Company's eligible capital.

As at 31 December 2019, the leverage ratio of the Company was equal to 81.1% using a fully phased-in definition, as per the table below:

Leverage Ratio Exposure Amount	31/12/2018	31/12/2019
	EUR '000	EUR '000
Total assets as per accounts	1,158	1,269
Derivatives: Add-on under the mark-to-market method	56	0
SFTs: Add-on for counterparty credit risk	0	0
Other adjustments	**0**	**0**
Total Leverage Ratio exposure – using a fully phased-in definition of Tier 1 capital	**1,214**	**1,269**

Leverage Ratio Calculation	31/12/2018	31/12/2019
	EUR '000	EUR '000
Exposure Values		
- Derivatives: Add-on under the mark-to-market method	56	0
- SFTs: Add-on for counterparty credit risk	0	0
- Other Assets	1,158	1,269
Total Leverage Ratio exposure – using a fully phased-in definition of Tier 1 capital	**1,214**	**1,269**
Total Leverage Ratio exposure – using a transitional definition of Tier 1 capital	1,214	**1,269**
Tier 1 capital – fully phased-in definition	839	**1,029**
Tier 1 capital – transitional definition	839	**1,029**
Leverage Ratio - using a fully phased-in definition of Tier 1 capital	**69.1%**	**81.1%**
Leverage Ratio - using a transitional definition of Tier 1 capital	69.1%	81.1%

8. REMUNERATION POLICY AND PRACTICES

Remuneration refers to payments or compensations received for services or employment. Based on the above, the Remuneration policy includes the base salary (fixed amount) and any bonuses or other economic benefits (variable amount) that an employee or executive receives 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 DI144-2014-14.

The variable element of the pay structure, if any, does not rely solely on meeting sales targets or other purely quantitative performance criteria but also on qualitative performance criteria. Such qualitative performance criteria include the quality of service provided to clients (client positive feedback or no client complaints), the level of understanding of the investments services or products being offered, and the ability to explain in layman terms to clients all the risks underlying a product or a financial instrument.

Furthermore, the fixed and variable elements are appropriately balanced, and the fixed element represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component. The BoD of the Company is responsible for making decisions on remuneration matters. The Company's remuneration policy is included in its IOM.

Remuneration as at 31st December 2019	No. of Directors during 2019	Annual Remuneration (EUR)		
		Fixed	Variable	TOTAL
Executive directors	3	46,800	-	46,800
Non-executive directors	2	1,500	-	1,500
Total	**5**	**48,300**	**-**	**48,300**

Remuneration as at 31.12.2019 by business area	No. of Beneficiaries	Annual Remuneration (EUR)		
		Fixed	Variable	TOTAL
Control functions [1]	2	47,940	0	47,940
Reception, transmission and Execution	1	46,800	0	46,800
Dealing on Own Account [2]	1	0	0	0
Portfolio Management and Investment Advice [3]	1	0	0	0
Safekeeping	1	32,533	0	32,533
Total	**6**	**127,273**	**0**	**127,273**

Notes:

[1] Control Function involves Compliance Officer, Risk Manager and Money Laundering Compliance Officer.

[2] Head of Dealing on Own Account is a shareholder of the Company. The shareholders' remuneration is dividend-based. No dividends were distributed during the year of 2019.

[3] Head of Portfolio Management and Investment Advice is a shareholder of the Company. The shareholders' remuneration is dividend-based. No dividends were distributed during the year of 2019.

9. APPENDIX – SPECIFIC REFERENCES TO THE CRR

CRR Reference	High Level Summary	Compliance Reference
Scope of Disclosure Requirements		
431 (1)	Requirement to publish Pillar 3 disclosures	1.1
431 (2)	Disclosure of operational risk information	5.3
431 (3)	Institution must have a disclosures policy, including their verification and frequency.	1.1
431 (4)	Explanation of credit ratings decisions to SMEs upon request	N/A
Frequency of disclosure		
433	Pillar 3 disclosures must be published on an annual basis, in conjunction with the date of publication of the financial statements.	1.1
Means of disclosures		
434 (1)	Pillar 3 disclosures to be published in an appropriate medium or provide clear cross-references to other media.	1.1
434 (2)	Equivalent disclosures made under other requirements (i.e. accounting) can be used to satisfy Pillar 3 appropriate.	1.1
Risk management objectives and policies		
435 (1) (a)	Disclosure of information in relation to strategies and processes, organisational structure of the risk management function, reporting and measurement systems and risk mitigation/hedging strategies.	1,2 and 3
435 (1) (b)		1,2 and 3
435 (1) (c)		1,2 and 3
435 (1) (d)		1,2 and 3
435 (1) (e)	Declaration approved by the Board on adequacy of risk management arrangements.	3.5
435 (1) (f)	Concise risk statement approved by the Board.	3.3
435 (2) (a)	Number of directorships held by members of the Board.	2.3
435 (2) (b)	Recruitment policy of Board members.	2.2
435 (2) (c)	Diversity policy of the Board, its objectives and results against targets.	2.4
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	N/A
435 (2) (e)	Description of information flow on risk to the Board.	2.6
Scope of Application		
436 (a)	Name of Institution.	1.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	1.1
436 (b) (i)	Fully consolidated;	N/A
436 (b) (ii)	Proportionally consolidated;	N/A

436 (b) (iii)	Deducted from Own Funds;	N/A
436 (b) (iv)	Neither consolidated or deducted.	1.1
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	N/A
436 (d)	Capital shortfalls in any subsidiaries outside the scope of consolidation and their names (if any).	N/A
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries/entities.	N/A
Own Funds		
437 (1)	Requirements regarding capital resources table.	4
437 (1) (a)		4
437 (1) (b)		4
437 (1) (c)		4
437 (1) (d)		4
437 (1) (e)		4
437 (1) (f)		4
437 (2)	EBA shall develop implementation standards for points (a), (b), (c) and (e) above.	N/A
Capital Requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels to support current and future activities.	2.6, 5 and 6.8
438 (b)	Result of ICAAP upon request of competent authority.	3.7 and 6.8
438 (c)	Capital requirements amounts for credit risk for each Standardised Approach exposure class (8% of RWAs)	5.1
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class.	N/A
438 (d) (i)		N/A
438 (d) (ii)		N/A
438 (d) (iii)		N/A
438 (d) (iv)		N/A
438 (e)	Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits.	5.2
438 (f)	Capital requirements amount for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approached as applicable.	5.3
Exposure to Counterparty Credit Risk (CCR)		
439 (a)	Description on methodology used to assign capital and credit limits for counterparty credit exposures.	N/A
439 (b)	Description of policies for securing collateral and establishing reserves.	N/A
439 (c)	Description of policies for wrong-way risk exposures.	N/A

439 (d)	Description of the impact of collateral to be provided given a downgrade in its credit rating.	N/A
439 (e)	Derivation of net derivative credit exposure.	N/A
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	N/A
439 (g)	Notional value credit derivative hedges and current credit exposure by type of exposure.	N/A
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	N/A
439 (i)	Estimation of alpha, if applicable.	N/A
Capital Buffers		
440 (1) (a)	Geographical distribution of credit exposures for the calculation of the countercyclical capital buffer.	N/A
440 (1) (b)	Amount of institution specific countercyclical capital buffer.	N/A
Indicators of global systemic importance		
441 (1)	Disclosure, on annual basis, of the values of the indicators used for determining if an institution is identified as G-SII.	N/A
Credit Risk Adjustments		
442 (a)	Definition for accounting purposes of 'past due' and 'impaired'.	N/A
442 (b)	Approached for calculating credit risk adjustments.	N/A
442 (c)	Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by different types of exposures.	5.1
442 (d)	Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by significant geographic areas and material exposure classes.	5.1
442 (e)		5.1
442 (f)	Exposure post-value adjustments by residual maturity and by material exposure class.	5.1
442 (g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	N/A
442 (g) (i)		N/A
442 (g) (ii)		N/A
442 (g) (iii)		N/A
442 (h)	Impaired, past due exposures, by geographical area and amounts of specific and general impairment for each geography.	N/A
442 (i)	Reconciliation of changes in specific and general credit risk adjustments.	N/A
442 (i) (i)		N/A
442 (i) (ii)		N/A
442 (i) (iii)		N/A

442 (i) (iv)		N/A
442 (i) (v)		N/A
442 endnote	Specific credit risk adjustments recorded to income statement and disclosed separately.	N/A
Unencumbered assets		
443	Disclosure on unencumbered assets.	N/A
Use of ECAIs		
444 (a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	5.1
444 (b)	Exposure classes associated with each ECAI.	5.1
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book.	5.1
444 (d)	Mapping of external rating to credit quality steps.	5.1
444 (e)	Exposure values pre- and post-credit risk mitigation, by credit quality step.	5.1
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	5.2
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	5.3
Exposures in equities not included in the trading book		
447 (a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	N/A
447 (b)	Recorded at fair value and actual prices of exchange traded equity where it is materially different from fair value.	N/A
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	N/A
447 (d)	Cumulative realised gains and losses on sales in the period.	N/A
447 (e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 Capital.	N/A
Exposure to interest rate risk on positions not included in the trading book		
448 (a)	Nature of interest rate risk and key assumptions in measurement models.	N/A
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, broker down by currency.	N/A

Remuneration disclosures		
450	Remuneration policy	8
Leverage		
451 (1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	7
451 (1) (b)		7
451 (1) (c)		7
451 (1) (d)	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	7
451 (1) (e)		7
451 (2)	EBA shall develop implementation standards for points above.	N/A