Alfa Capital Markets

Alfa Capital Markets Ltd

Pillar III Disclosures in accordance with Regulation (EU) No. 575/2013

As at 31 December 2020

GENERAL NOTES

- Alfa Capital Markets Ltd (hereafter referred to as "ACM" or the "Company") has prepared these disclosures.

- The disclosures are based on the audited financial statements of ACM for the year ended 31 December 2020.

- The information contained within these disclosures is presented for the purpose of explaining how risks are managed by the Company and to disclose the own funds requirements corresponding to these risks, in line with the "Specific publication requirements" as stipulated in paragraph 32 of Section 4 of Part II ("Supervisory measures and powers") of the Cyprus Securities and Exchange Commission (hereinafter "CySEC") Directives DI144-2014-14 and DI144-2014-14(A), and the requirements of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (the "CRR" or the "Regulation"). The disclosures have been reviewed by ACM's Senior Management and have been verified by the Company's external auditor.

- Where the disclosures do not convey the risk profile of the Company, the Company shall publicly disclose the information necessary in addition to that required in accordance with Article 431(1) of the Regulation. However, it shall only be required to disclose information which is material and not proprietary or confidential in accordance with Article 432 of the Regulation and the Pillar III Disclosures Policy.

- These disclosures include, to a large extent, tables and disclosures required in line with the EBA/GL/2016/11 – "Guidelines on Disclosure Requirements under Part Eight of Regulation (EU) No. 575/2013" (hereafter the "EBA Guidelines"). The EBA Guidelines constitute an own-initiative guideline by the EBA to ensure the harmonized and timely implementation of the new Basel framework in the European Union. In this regard, the Guidelines do not supersede or change the substance of the regulatory disclosures regarding the requirements defined in Part Eight of the Regulation, but instead provide guidance on the presentation of the disclosures by introducing specific guidance and template formats. As such, certain Pillar III disclosures follow a fixed format, as defined by the EBA, including column or row labelling, whereas other disclosures are more flexible and may be modified, to a certain degree, to present the most relevant information. All rows and columns which are non-material or not applicable to the Company's activities are not included in these disclosures (henceforth referred to as the "Pillar III Disclosures").

- The Pillar III Disclosures are published on the Company's website: https://alfacapital.com.cy/en/mifid/disclosures/

- All figures are stated in US Dollars. Figures are rounded to the nearest thousand except where otherwise stated. Figures in parenthesis represent negative numbers.

- The Company does not undertake any securitisation activity, nor does it have any asset encumbrances.

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Specific References to EBA Guidelines

Table	Compliance reference	Section
EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	N/A
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in Financial Statements	N/A
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	N/A
EU OV1	Overview of RWAs	Section 5
EU INS1	Non-deducted participations in insurance undertakings	N/A
EU CRB-B	Total and average net amount of exposures	Section 6.5.3
EU CRB-C	Geographical breakdown of exposures	Section 6.6
EU CRB-D	Concentration of exposures by industry or counterparty types	Section 6.8
EU CRB-E	Maturity of exposures	Section 6.7
EU CR1-A	Credit quality of exposures by exposure class and instrument	Section 6.9
EU CR1-B	Credit quality of exposures by industry of counterparty types	Section 6.14
EU CR1-C	Credit quality of exposures by geography	Section 6.14
EU CR1-D	Ageing of past-due exposures	N/A
EU CR1-E	Non-performing and forborne exposures	N/A
EU CR2-A	Changes in the stock of general and specific risk adjustments	N/A
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EU CR3	CRM techniques – Overview	Section 6.10
EU CR4	Standardised approach – Credit risk exposure and CRM effects	Section 6.10
EU CR5	Standardised approach	Section 6.9
EU CCR1	Analysis of CCR exposure by approach	Section 6.12
EU CCR2	CVA capital charge	Section 6.13
EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk	Section 6.9
EU CCR5-A	Impact of netting and collateral held on exposure values	Section 6.12
EU CCR5-B	Composition of collateral for exposures to CCR	Section 6.12
EU MR1	Market risk under the standardised approach	Section 7.7

Specific references to articles in the Regulation

CRR Ref.	High-level summary	Compliance reference
Scope of disclosure requirements		
431(1)	Requirement to publish Pillar III disclosures	Section 1.1
431(2)	Disclosure of Operational Risk information	Section 8
431(3)	Institutions must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	Section 1.1
431(4)	Explanation of ratings decisions to SMEs upon request	N/A
Non-material, proprietary or confidential information		
432	Non-material, proprietary or confidential information	Compliance with this provision is covered through the Pillar III Disclosures
Frequency of disclosure		
433	Frequency of disclosure - Disclosures must be published once a year at a minimum	Section 1.1
Means of disclosures		
434 (1)	Provide disclosures in an appropriate medium	General Notes, Section 1.1
434 (2)	Equivalent disclosures made under other requirements (i.e. accounting) can be used to satisfy Pillar III if appropriate	N/A – Entirely covered with this document
Risk management objectives and policies		
435 (1) (a) 435 (1) (b) 435 (1) (c) 435 (1) (d)	Disclosure of information on strategies and processes, organisational structure of each risk management function, reporting and measurement systems and risk mitigation/hedging policies.	Sections 4, 6, 7, 8
435 (1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements	Section 4.11
435 (1) (f)	Concise risk statement approved by the BoD describing the Company's overall risk profile associated with the business strategy	Section 4.8
435 (2)	Information, including regular, at least annual updates, regarding governance arrangements:	Section 4.9
435 (2) (a)	Number of directorships held by members of the BoD	Section 4.9
435 (2) (b)	Recruitment policy of BoD members, their experience and expertise.	Section 4.9

CRR Ref.	High-level summary	Compliance reference
435 (2) (c)	Policy on diversity of BoD members, its objectives and the extent to which these objectives and targets have been achieved	Section 4.9
435 (2) (d)	Disclosure of whether a separate risk committee is in place, and number of meetings in the year	Section 4.2
435 (2) (e)	Description of information flow on risk to BoD	Sections 4, 6, 7, 8
Scope of application		
436 (a)	Name of institution	Section 1.2 and General Notes
436 (b)	Outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are fully consolidated, proportionally consolidated, deducted from own funds or neither consolidated nor deducted	N/A – Section 1.4
436 (c)	Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	Section 1.4
436 (d)	The aggregate amount by which the actual own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	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)	Information regarding the Company's Own Funds	Section 2
437 (2)	EBA shall develop implementation standards for article above	Appendices 1 and 2
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels	Section 4.10
438 (b)	Result of ICAAP on demand from competent authority	No such request received
438 (c)	Credit Risk Capital requirement amount per Standardised approach exposure class (8% of risk weighted exposure)	Section 6
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class	N/A
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits	Section 7 & Table 8
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable	Section 8

CRR Ref.	High-level summary	Compliance reference
Exposure to counterparty credit risk (CCR)		
439 (a)	Information of the methodology used to assign internal capital and credit limits for counterparty credit exposures	Section 6
439 (b)	Discussion of policies for securing collateral and establishing credit reserves	Section 6.11
439 (c)	Discussion of policies as regards wrong-way risk exposures	Section 6.11
439 (d)	Discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	N/A - Section 6.11
439 (e)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposures	Section 6.12
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods as applicable	Section 6.12
439 (g)	Notional value of credit derivative hedges and current credit exposure by types of credit 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)	The estimation of alpha ("α") if the institution has received the permission of the competent authorities to estimate α	N/A
Capital Buffers		
440 (1) (a)	Geographical distributions of credit exposures	Section 3
440 (1) (b)	Amount of the institution specific countercyclical buffer	Section 3
440 (2)	EBA issue the Regulatory Technical Standards on countercyclical capital buffer	Section 3
Indicators of global systemic importance		
441	Indicators of global systemic importance	N/A
Credit risk adjustments		
442	Information regarding the institution's exposure to credit risk and dilution risk	Section 6.5
Unencumbered assets		
443	Disclosures 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	Section 6.9
444 (b)	Exposure classes associated with each ECAI.	Section 6.9
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items in the Banking book	Section 6.9
444 (d)	Mapping of external rating to credit quality steps	Section 6.9

CRR Ref.	High-level summary	Compliance reference
444 (e)	Exposure values pre-credit risk mitigation and post-credit risk mitigation, by credit quality step	Section 6.9
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	Section 7 & Table 8
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered	Section 8
Exposure in equities in the Banking book		
447	Information on exposure in equities in the Banking book, including differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used, recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value, types, nature and amounts of the relevant classes of equity exposures, cumulative realised gains and losses on sales in the period and Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital	Section 7.6
Exposure to interest rate risk on positions in the Banking book		
448 (a)	Nature of interest rate risk and key assumptions in measurement models	Section 7.4
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency	Section 7.4
Exposure to securitisation positions		
449	Exposure to securitisation positions	N/A
Remuneration disclosures		
450	Remuneration policy	Section 9
Leverage		
451 (1)	Leverage ratio and analysis of total exposure measure	Section 10
451 (2)	EBA developed implementation standards for points above	Section 10
Use of the IRB Approach to credit risk		
452	Use of the IRB Approach to credit risk	N/A
Use of credit risk mitigation techniques		
453 (a)	Policies and processes, and an indication of the extent to which the Company makes use of on-balance sheet and off-balance sheet netting	Section 6.10
453 (b)	Policies and processes for collateral valuation and management	Section 6.10
453 (c)	Description of types of collateral used by the Bank	Section 6.10

CRR Ref.	High-level summary	Compliance reference
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	Section 6.10
453 (e)	Information about market or credit risk concentrations within the credit mitigation taken	Section 6.10
453 (f)	For exposures under either the Standardised or the Foundation IRB approach, disclosure of the exposure covered by eligible financial collateral and other eligible collateral	Section 6.10
453 (g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives	N/A
Use of the Advanced Measurement Approaches to operational risk		
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Introduction of IFRS 9		
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1 Introduction

1.1 Policy Statement

In accordance with Article 431 and Article 433 of Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (the “CRR” or the “Regulation”), Alfa Capital Markets Ltd (“ACM” or the “Company”) has an obligation to publicly disclose certain information in relation to its capital adequacy at least on an annual basis. The said disclosures are referred to as the “Pillar III Disclosures”. ACM’s Pillar III Disclosures focus on transparency through the disclosure of relevant information and set out the internal controls and procedures for disclosure of such information. In particular, general information in relation to the Company’s policies and procedures for managing risks is contained, as well as quantitative information in relation to remuneration, own funds and Pillar I capital adequacy calculations.

The Company has adopted a formal policy (the “Pillar III Disclosures Policy”) to comply with the requirements of Parts Eight and Ten of the Regulation. The Pillar III Disclosures Policy describes the Company’s process for assessing the appropriateness of its Pillar III Disclosures, including their verification and frequency, and its policy for assessing whether its Disclosures convey its risk profile comprehensively to market participants.

After careful consideration, the Management Body and Senior Management (jointly the “Management”) have decided that given the size and complexity of the Company, it is not necessary to produce Pillar III Disclosures any more frequently than annually. Furthermore, Management feels that making such disclosures available on the Company’s website is appropriate.

For assessing the appropriateness of the Company’s Pillar III Disclosures, the Company appoints its external auditors to express an independent conclusion in relation to the fair presentation of the Disclosures, in all material respects, in accordance with the requirements of the Regulation.

The Pillar III Disclosures document and the independent auditors’ verification report are submitted to the CySEC the latest within five months from the end of each financial year, unless otherwise communicated by CySEC. The Pillar III Disclosures document will be uploaded to the Company’s website upon receipt of the external auditors’ independent conclusion.

1.2 Regulatory Framework

The information disclosed below is in accordance with the Part Eight “Disclosures by Institutions” and Part Ten, Title I “Transitional Provisions” of the Regulation, as well as with the relevant EBA guidelines.

1.3 Company Information

The Company is a Cyprus investment firm regulated by the Cyprus Securities and Exchange Commission (“the Commission” or “CySEC”) under license number CIF387/20. With the highest standards of professionalism and devotion to its principles, the Company provides investment and ancillary services in a wide range of financial instruments in accordance with its authorisation; and through its services and connections, it provides access to Global financial markets with a focus on Russia and the CIS.

ACM is owned by AO “ALFA-BANK” (“Alfa-Bank” or “Parent Bank”), the largest Russian privately owned bank with well-established diversified franchise, strong access to Russian blue chips, successful footprint of mass corporate segment and solid positions in retail banking. Alfa-Bank is a wholly owned subsidiary of the ABH Financial Limited. ABH Financial Limited and its subsidiaries form the Alfa Banking Group (herein after “the Group”). The Group offers a wide range of products and operates in all sectors of the financial market, including corporate and retail lending, deposits, payment and account services, foreign exchange operations, cash handling services, custody services, investment banking and other ancillary services to institutional, corporate and retail customers.

1.4 Scope of Application

As at 31 December 2020, the Company did not own any subsidiaries. These disclosures have therefore been prepared on a solo basis.

The Company does not foresee any material practical or legal impediments to the prompt transfer of own funds from, or repayment of liabilities to, its parent.

2 Own Funds

The Company's regulatory capital base consists of Common Equity Tier 1 ("CET1"), which includes share capital, share premium and retained earnings. From CET1, the Company deducts intangible assets and the Investors Compensation Fund contribution. From the Company's capital, prudential filters (i.e. value adjustments due to the requirements for prudential validation) are also deducted.

On 6 December 2019, the Company's sole shareholder took the decision on issuing 1.000.000 ordinary shares at a nominal value of USD 1,00 each. On 19 August 2020, the Company's sole shareholder took the decision on issuing a further 74.000.000 ordinary shares at a nominal value of USD 1,00 each.

The main features of the Company's capital instruments are presented in Appendix 1.

In line with Commission Implementing Regulation (EU) No. 1423/2013 of 20 December 2013 ("Regulation 1423/2013") and specifically Article 2, the Company has applied the methodology referred to in Annex I of Regulation 1423/2013 to provide a reconciliation of the own funds items to the audited financial statements. The table below provides the results of the application of the said methodology:

Own Funds reconciliation	USD'000
As per Balance Sheet	
Share Capital	75.000
Share Premium	–
Retained Earnings (includes current year profit)	2.091
Total Equity as per Balance Sheet	**77.091**
Intangible Assets	(2.184)
Investors Compensation Fund contributions	(55)
Prudential Filters	(492)
Capital Base as per Regulatory Reporting Requirements	**74.360**

Table 1*: Own Funds Reconciliation*

In line with Article 492(3) of the Regulation, as well as Article 5 of Regulation 1423/2013, the table below presents the transitional and fully phased-in own funds:

Own Fund Element	Transitional Provisions	Fully phased-in
31/12/2020	USD'000	USD'000
Share Capital	75.000	75.000
Share Premium	–	–
Retained Earnings brought forward	–	–
Profit for the year after dividend distribution	2.091	2.091
Less Dividends	-	-
Less Intangible Assets	(2.184)	(2.184)
Less Investors Compensation Fund	(55)	(55)
Prudential Filters	(492)	(492)
Common Equity Tier 1 Capital	**74.360**	**74.360**
Additional Tier 1	–	–
Total Tier 1 Capital	**74.360**	**74.360**
Tier 2	–	–
Total Capital	**74.360**	**74.360**

***Table 2**: Own Funds*

The table below illustrates the Company's CET1 capital, Tier 1 and Total Capital against the minimum requirements set out by Article 92(3) and Article 465 of the Regulation and paragraph 20 of Directive DI144-2014-15 on the discretions of the CySEC arising from the Regulation:

	Company's ratio	As per Regulation EU 575/2013, including capital buffers[1]
CET1 ratio	25,00%	7,10%
Tier 1 ratio	25,00%	8,60%
Total Capital ratio	25,00%	10,60%

***Table 3**: Capital Adequacy Ratios*

The Company did not have any instruments that qualified as CET1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484 of the Regulation on grandfathering. The analytical Own Funds disclosure template as well as the main features of the Common Equity Tier 1, Tier 1 and Tier 2 instruments can be found in Appendix 2.

[1] As at the end of 2020, a capital conservation buffer of 2,50%, a systemic risk buffer of 0% and countercyclical capital buffer of 0,10% were added to the capital ratios. These ratios do not include the Risk Transferring Arrangements Additional Capital ("RTAAC") buffer of 2% since it was not applicable.

3 Capital Buffers

In addition to the 8% minimum own funds requirement that needs to be maintained, a capital conservation buffer (“CCB”), a systemic risk Buffer (“SRB”) and a countercyclical capital buffer (“CCyB”) should be maintained to ensure that the Company accumulates, during periods of economic growth, sufficient capital to absorb losses in stressed periods.

As at the reference date, the Company was subject to minimum capital requirements of 10,60%, comprising the following buffers, which are over and above the minimum total capital requirement of 8%:

- Capital conservation buffer: 2,50%
- Systemic risk buffer: 0%
- Countercyclical capital buffer: ca. 0,10%

In line with Article 440 of the Regulation, the Company is required to disclose the key elements of the calculation of its countercyclical buffer rate, comprising the geographical distribution of its relevant credit exposures and the final amount of its institution-specific countercyclical buffer rate. As set out in paragraph 53(1) of Directive DI144-14-14 and Directive DI144-14-14(A), an institution-specific countercyclical buffer is calculated as the product of the Company’s total risk exposure amount, in accordance with Article 92(3) of the Regulation, and the weighted average of the countercyclical buffer rates, identified based on the countries where the relevant credit exposure is located.

The table below presents the institution-specific countercyclical buffer:

Amount of institution-specific countercyclical buffer – 31/12/2020	
Total risk exposure amount (USD’000)	297.416
Institution specific countercyclical buffer rate (%)	0,10%
Institution specific countercyclical buffer requirement (USD’000)	297

***Table 4**: Amount of institution-specific countercyclical buffer*

Further to the above, in line with the “Implications of the NBP requirement and the Adequacy of Risk Transferring Arrangement”, ACM must maintain an additional capital buffer of the highest quality of capital (CET1 capital) if it has contractual arrangements with Liquidity Providers that are domiciled in a third country which is not listed in Annex I of the Commission Implementing Decision (EU) 2016/230, as in force, or which is not a member of the G20. In such a case, the Company is required to maintain an additional buffer of CET1 Capital, the Risk Transferring Arrangements Additional Capital (“RTAAC”) buffer, calculated as the maximum of (i) €2m or (ii) 2% of the total risk exposure.

For the year under assessment, none of the Company’s Liquidity Providers met the aforementioned criteria, therefore no additional buffer for such a purpose was required.

As per the provisions laid down in Commission Delegated Regulation (EU) No. 1152/2014, the distribution by country of relevant credit exposure is as follows:

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer									
Breakdown by country	General credit exposure	Trading book exposure	Securitisation exposure	Own funds requirements				Own funds requirement weights	Countercyclical Capital Buffer rate
	Exposure value for SA	Sum of long and short positions	Exposure value SA	of which: General Credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	%	%
Argentina	-	4	-	-	0,43	-	0,43	0,00	0,00%
Armenia	-	5	-	-	0,41	-	0,41	0,00	0,00%
Australia	-	51	-	-	4,08	-	4,08	0,00	0,00%
Austria	-	62	-	-	4,94	-	4,94	0,00	0,00%
Azerbaijan	-	6	-	-	0,46	-	0,46	0,00	0,00%
Brazil	-	10	-	-	0,82	-	0,82	0,00	0,00%
British Virgin Islands	1.267	-	-	101,40	-	-	101,40	0,01	0,00%
Canada	-	0	-	-	0	-	0	0,00	0,00%
Cayman Islands	-	1	-	-	0,09	-	0,09	0,00	0,00%
China	-	0	-	-	0	-	0	0,00	0,00%
Cyprus	27.903	6.102	-	2.227,77	488,18	-	2.715,95	0,28	0,00%
Czech Republic	69	-	-	5,52	-	-	5,52	0,00	0,50%
Estonia	-	473	-	-	37,87	-	37,87	0,00	0,00%
France	-	0	-	-	0	-	0	0,00	0,00%
Germany	-	21	-	-	1,55	-	1,55	0,00	0,00%
Hong Kong	12.472	-	-	997,73	-	-	997,73	0,10	1,00%
India	-	14	-	-	1,14	-	1,14	0,00	0,00%
Ireland	-	33.506	-	-	3.226,94	-	3.226,94	0,33	0,00%
Japan	-	17	-	-	1,36	-	1,36	0,00	0,00%
Kuwait	-	994	-	-	79,53	-	79,53	0,01	0,00%
Luxembourg	-	1.333	-	-	106,94	-	106,94	0,01	0,25%
Mexico	-	852	-	-	67,63	-	67,63	0,01	0,00%

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer									
Breakdown by country	General credit exposure	Trading book exposure	Securitisation exposure	Own funds requirements				Own funds requirement weights	Countercyclical Capital Buffer rate
	Exposure value for SA	Sum of long and short positions	Exposure value SA	of which: General Credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	%	%
Montenegro	-	1.205	-	-	96,37	-	96,37	0,01	0,00%
Netherlands	-	6.318	-	-	505,53	-	505,53	0,05	0,00%
Norway	-	1	-	-	0,11	-	0,11	0,00	1,00%
Oman	-	10	-	-	0,81	-	0,81	0,00	0,00%
Peru	-	319	-	-	38,29	-	38,29	0,00	0,00%
Russian Federation	11.361	6.153	-	795,43	530,01	-	1.325,44	0,13	0,00%
Saudi Arabia	-	12.017	-	-	120,21	-	120,21	0,01	0,00%
Seychelles	47	-	-	3,80	-	-	3,80	0,00	0,00%
Singapore	-	7	-	-	0,53	-	0,53	0,00	0,00%
Switzerland	-	5	-	-	0,41	-	0,41	0,00	0,00%
Turkey	-	99	-	-	8,45	-	8,45	0,00	0,00%
Ukraine	246	-	-	19,67	-	-	19,67	0,00	0,00%
United Kingdom	3.322	1.310	-	265,78	105,14	-	370,92	0,04	0,00%
USA	-	1	-	-	0,06	-	0,06	0,00	0,00%
Total	**56.687**	**70.896**	**0**	**4.417,10**	**5.428,29**	**0**	**9.845,39**	**1**	-

***Table 5**: Geographical distribution of exposures relevant to the calculation of CCyB*

4 Risk and Capital Management

4.1 Risk Management Framework

Risk is an everyday part of the Company's operations and Management recognises that identifying, assessing, monitoring and controlling each type of risk is important for the Company's financial stability, performance and reputation. As such, comprehensive control and governance procedures have been established in order to ensure that the risks faced by the Company are managed carefully, so that an optimum level of risk-return trade-off is achieved.

The Company's risk management framework aims to create, implement and sustain adequate policies and procedures designed to identify and manage the risks assumed by the Company. The risk management framework of the Company is based on the organisational and operational model, risk governance and risk culture, and has been developed to ensure that the level of capital maintained is in line with the risk appetite set by the Board of Directors ("BoD" or the "Board"). The main aim of the risk management framework is to ensure that the Company's capital is adequate to absorb any losses and risks emanating from the Company's operations.

The Risk Management and Compliance Department ("RCD") frequently prepares management reporting information, which is sent to the Company's Senior Management and BoD. The Senior Management consistently review the information reported, in close cooperation with the RCD, and taking corrective actions to mitigate risk if and when necessary.

The Company has put in place risk management systems to monitor risks. The systems are able to clearly distinguish positions between the Trading Book and Banking Book so that the regulatory capital charges are properly calculated. The systems have the necessary controls in place to generate prudent and reliable valuation estimates which are regularly provided to Senior Management and the Risk Committee whenever requested.

With regards to risk monitoring procedures, the RCD monitors on a daily basis whether internal policies, procedures and limits set are followed by all departments. In case of violations, the Head of RCD and/or risk control officer immediately inform the relevant departments of the violation and the actions that should be performed to rectify the situation. In addition, relevant reports are prepared and submitted to the Risk and Investment Committees, the CEO or the Board where relevant.

4.2 Risk Organisation

The Company's risk function has been set up in such a manner, so as to enable appropriate risk management. It comprises two individuals, the Head of the RCD and the Risk Control Officer, who meet with the Company's Chief Executive Officer ("CEO") to discuss any outstanding / significant matters. The Board of Directors is also updated on a regular basis, and at least on a quarterly basis, about any risk management issues and the Company's capital adequacy and large exposures positions. The risk function of the Company is enhanced by the support provided by the risk function of Alfa-Bank in line with the terms of the relevant consulting and information services agreement signed between the parties.

Furthermore, the Company has set up a separate Risk Committee ("RC"), which comprises 3 non-executive directors, and meets as and when required. During 2020, the RC held numerous meetings (22 in total), discussing areas, including but not limited to counterparty credit risk limits, amendments to the Company's policies as well as risk appetite limits for 2020.

In addition, the Management decided to establish a separate Risk Support Body (the "RSB") to support the functions of the Risk Committee. The RSB identifies possible risks assumed by the Company for different types of transactions and provides recommendations for the establishment / amendment / confirmation of risk limits. The Board of Directors, or the RC, or the CEO and Head of RCD based on their authorisation rights, have the authority to make a final decision on approval or rejection of proposed transactions as well as to establish personal limits, and / or client limits and / or market risk limits in accordance with the recommendations of the RSB, the Investment Committee or the risk function of the Parent Bank.

In carrying out the RC's oversight responsibilities, each member of the RSB, the Investment Committee, or the risk function of the Parent Bank, has the integrity and expertise to provide information / support to the RC and the Board.

4.3 Risk Governance

The Company's risk governance is based on the three lines of defence model. The three lines of defence model provides a simple and effective way to enhance communications on risk management and control by clarifying roles and responsibilities.

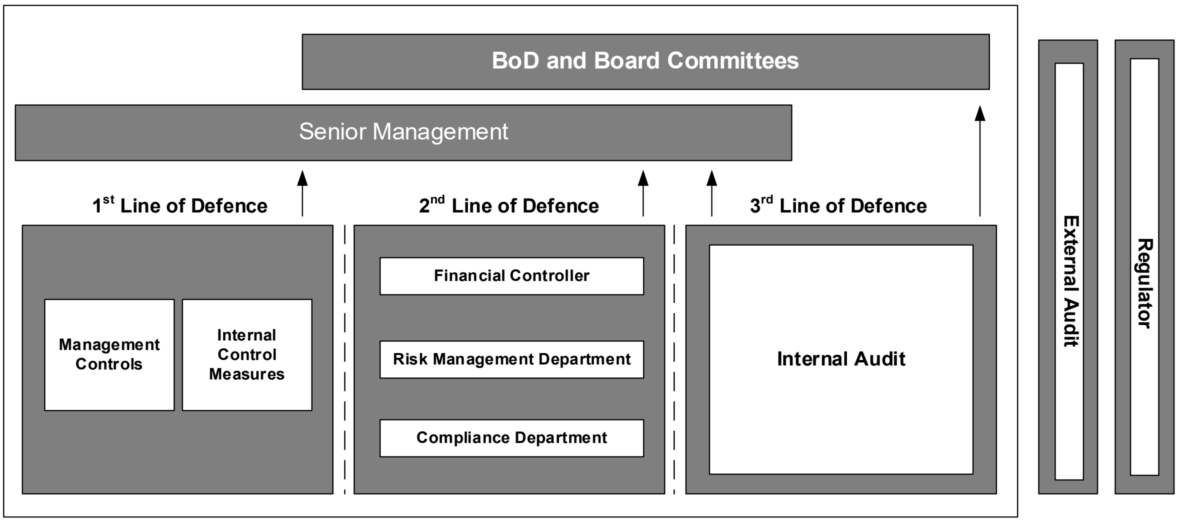

Figure 1: *Three lines of defence*

The first line of defence comprises the departments interacting with the clients and those persons owning the Company's risks, including to the extent applicable the Board of Directors and Senior Management. As such, the first line of defence includes management controls and internal control measures necessary to counteract the risk-taking activities of the first line of defence.

The second line of defence lies with the RCD which provides the policies, procedures, tools and methodology that should be followed in terms of risk management and is responsible for promoting risk awareness to Management and staff. The RCD reports to the BoD any issues relating to risk management, and their comments and recommendations are communicated to the CySEC on an annual basis.

The third line of defence lies with the Internal Audit function which assesses the efficiency and effectiveness of internal policies and procedures, the reliability and integrity of the reporting processes, the Company's compliance with laws, regulations, directives, internal policies and procedures and reports to the Company's BoD. In addition, the Internal Audit is responsible, on an annual basis, for the independent review of the risk management processes and of the work done by the RCD. Their findings and recommendations are communicated to the CySEC. This function has been outsourced.

4.4 Main Roles and Responsibilities

The main roles and responsibilities of the persons / bodies involved in risk management are outlined below.

Risk Committee and Risk Support Bodies

The RC is tasked by the BoD with the following main responsibilities:

- Advises the BoD upon, and periodically evaluates, the risk strategy laid down;
- Lays down and presents a “remedy strategy” to the Board of Directors;
- Reviews the pricing policy as well as the risk management policies and procedures of the Company taking into account the business model, risk strategy and goals set by the Board of Directors and issues recommendations for consideration and final approval by the Board of Directors;
- Generally, manages risk and engages in an evaluation of the risk management system, and checks, as well as makes recommendations as to how to strengthen such system, how to tackle and prevent risk and how to evaluate the degree of severity and likelihood of risk

To support the functions of the Risk Committee, the Company established a Risk Support Body (‘the RSB’ or ‘Sub-risk Committee’). Sub-risk Committee consists of at least 3 persons and includes representatives of the Company's business and infrastructure. Each member of the RSB has the integrity, knowledge and expertise to provide information, support and recommendations to the Risk Committee, the Investment Committee and the Board of Directors. Sub-risk Committee may be held in absentia and meets upon necessity.

Senior Management

The responsibilities of Senior Management with regards to risk management include the following:

- Implement the Company’s investment strategy taking into account the Company’s overall risk tolerance in relation to the relevant risks;
- Ensure that the overall risk exposure is maintained at prudent levels and is consistent with the available capital;
- Ensure that top management, as well as employees, are responsible for risk management and have the resources necessary to carry out their functions;
- Ensure that the Company implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of risks;
- Ensure that appropriate plans and procedures for risk management are in place;
- Making decisions in accordance with the powers granted to it by the Board of Directors.

Head of Risk Management and Compliance Department

The main responsibilities of the Head of RCD, include the following:

- Establishes, maintains and develops the Company’s risk strategy and directs it to the Risk Committee and the Board of Directors for their consideration and approval;
- Provides input into the budget and capital planning process;
- Has the authority to freeze for a specified period or indefinitely, reduce or close a credit risk limit in the event of material risk-taking, as well as the right to issue an Order on the reallocation of sub-limits within the limit of a counterparty;
- Approves changes in the Company’s Trading Book Policy Statement and directs it to the Risk Committee and the BoD for ratification and approval;
- Monitors the investment risk undertaken by the Company for each client and as a whole;

- Escalates to the most senior levels of management, risk management issues that require their attention;
- Monitors the adequacy and effectiveness of the risk management policies and procedures;
- Reports to Senior Management, the Risk Committee and the Board risk management issues indicating in particular whether appropriate remedial measures have been taken in the event of any deficiencies identified.

Risk Control Officer

The main responsibilities of the Risk Control Officer include the following:

- Provide support in the establishment, implementation and maintenance of adequate risk management policies and procedures aimed at identifying the risks relating to the Company's activities and processes;
- Establishes, maintains and updates the Trading Book Policy Statement;
- Maintains the Company's operational loss risk register;
- Monitors on a daily basis the clients' positions, as well as the liquidity of the assets held as collateral for credit or loans granted to clients;
- Monitors compliance with risk limits set;
- Maintains the appropriate internal control systems designed to manage key risk areas;
- Monitors the adequacy and effectiveness of measures taken to address any deficiencies in the risk management arrangements and procedures;
- Prepares reports on operational risk and other material risk exposures;
- Builds a risk awareness culture within the organization;
- Provides support in day-to-day risk management procedures and risk controls.

4.5 Reporting on Risk Management

The Company's reporting is separated into two categories:

1. **Prudential reporting as per CySEC's requirements:**

    - *Quarterly capital adequacy reports*: These present the Company's capital adequacy calculations, large exposures, leverage ratio calculations and geographical breakdown. In 2020, all CAD reports were submitted to CySEC within the prescribed deadlines. It is noted that no breaches of regulatory limits were recorded, with the exception of large exposure limit for exposures to shareholders and connected persons that was marginally above the 2% threshold;
    - *Annual Pillar III disclosures*: The Company submits to the CySEC its Pillar III Disclosures accompanied by the external audit report within five months from the end of the financial year[2], in line with the provisions of CySEC's Directives DI144-2014-14 and DI144-2014-14(A). At the same time the Company publishes its Pillar III Disclosures on its website;
    - *Internal Capital Adequacy Assessment Process* ("ICAAP") document;
    - *Recovery Plan*.

[2] It is noted that as per CySEC Circular C455, the deadline for the publication of Pillar III disclosures relating to the year ending 31st December 2020 has been extended by two (2) months due to the developments related to the Coronavirus outbreak (COVID-19) in an effort to ensure the operational continuity of supervised entities.

2. Internal reporting:

- Daily Counterparty limits report;
- Daily Market Risk – Value at Risk (“VaR”) limits reports;
- Capital adequacy evaluation reports;
- Cash Deposit at banks monitoring for concentration risk to one bank;
- Daily leverage and stop-out control for forex trading as defined by FX Margin Trading policy (including appropriateness);
- Cash/Deposit control of forex clients according to allowed leverage;
- Daily monitoring of CFD position limits;
- Daily control of Chinese walls maintenance between Own and Brokerage Books;
- Liquidity management;
- Unsettled trades report;
- Daily consolidated position to main currencies and precious metals;
- Quarterly analysis of Risk Appetite Indicators and coverage levels;
- Daily control of over the counter (“OTC”) Equity and FI deals (including REPO, Spot and Forward transactions).

The RCD implements strong risk monitoring controls related to the Company’s forex business, continuously updating its FX Margin Trading Leverage and Limit policy in line with relevant guidance issued by ESMA and CySEC’s Directive DI87-09 for the restriction on the Marketing, Distribution or Sale of Contracts for Differences (CFDs) to Retail Clients.

4.6 Risk Policies and Procedures

The RCD has established strong risk policies and procedures that correspond to the strategies and risk appetite set by the Management and the Investment and Risk committees. Such policies include the following:

- Credit risk policy which describes the approach followed to manage credit risk by establishing the framework for credit assessment, the structure of credit limits and the processes of approval, as well as the monitoring of credit risks;
- Market risk policy which outlines the strategy and tactics deployed by the Company to identify, assess and manage market risks;
- Operational risk policy which provides a description of the Company’s uniform approach for the management and functioning of the operational risk management system aimed at identifying, assessing, managing, mitigating, monitoring and reporting of operational risk;
- Trading book policy which reflects the Company’s approach in managing its trading book in line with its trading strategy;
- Pillar 3 Disclosures policy;
- FX Margin Trading Leverage and Limit policy which sets out the decisions of the ESMA and the Company’s Risk Committee on the level of leverage and stop out applied on clients’ open positions in various currency pairs, CFDs, precious metals and forward contracts based on their deposit level, the client’s aggregate position limit and other concentration limits per instrument class;
- Capital Management policy which outlines the Company’s approach in adhering to the capital adequacy requirements given the volatility of its business levels and risk profile through effective capital planning, monitoring and governance.

The aforementioned documents set up ACM's risk tolerance management and they are established, implemented and maintained by the RCD. The Procedures Manual of the Company provides an extensive analysis of the procedures followed by the RCD.

Moreover, the Company has published on its website key information for its CFD, Forward and Options derivative products as per Regulation (EU) No 1286/2014, including risk scenarios for the profitability of clients' investments.

4.7 Stress Testing Framework

ACM performs stress tests as part of the Internal Capital Adequacy Assessment Process (ICAAP), in order to assess the Company's resilience against adverse economic conditions. Indicatively, the following stress testing scenarios run to identify the Company's vulnerabilities to risk:

1. Decrease of securities portfolio and FX, given significant volatility in financial market;
2. Default of major counterparties;
3. Sadden lack of liquidity;
4. Reverse stress testing.

4.8 Risk Statement

4.8.1 Risk Profile and Business Model

The Company's activities expose it to a variety of risks and in particular, to credit risk, country risk, market risk, operational risk, compliance risk, regulatory risk and reputational risk. The Company, through its operations, has significant exposure to the economies and financial markets of the Russian Federation, and Cyprus.

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The impact of the coronavirus pandemic exacerbated by the plummeting oil prices led to negative growth in 2020 of 3.1%, the sharpest contraction in 11 years.

4.8.2 Risk Strategy

The risk strategy of the Company is the responsibility of the BoD, which formulates it and is responsible for monitoring its implementation. This is achieved through the development of risk management policies 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.

4.8.3 Risk Appetite

The Company's risk strategy, takes into account the risk profile and appetite of the Company.

The risk appetite is defined by the BoD and the RC as the maximum level of residual risk that ACM is prepared to accept in order to deliver its business objectives and strategy.

The Company's risk appetite as of December 2020 is expressed through the following dimensions and indicators:

Risk appetite indicators (%)	Normal (Green)	Warning (Amber)	Limit (Red)
Capital indicators			
CET1 ratio	≥13,0%	<13,0%	<9,5%[3]
Capital Adequacy ratio	≥16,5%	<16,5%	<13%
Leverage ratio	≥6%	<6%	<3%
Profitability indicators			
Return on Equity	≥8%	<8%	≤5%
Cost to income ratio	≤40%	>40%	≥60%
Asset Quality indicator			
Provisions of impairments/total loans	≤20%	>20%	≥30%
Other			
Number of complaints relative to the total number of active clientele	≤1%	<3%	≥3%
Significant operational losses	<$579.600	<$644.000	≥$644.000
Liquidity stress metric "Survival Horizon"	>35 days	≤35 days	<30 days
Liquid Assets / Total Liabilities	≥35%	<35%	<30%
PV1% ALL interest rate risk metric[4]	>-$5.500.000	≤-$5.500.000	≤-$6.000.000

***Table 6**: Risk Appetite Indicators*

The zones correspond to the following:

- *Green zone* – provides the range where the indicator is performing at satisfactory levels given the operating conditions and business environment,
- *Amber zone* – provides a range which acts as a warning indicator to the Company to be able to take corrective action,
- *Red zone* – a breach of the limit which may be a threat to the Company, especially if it is a breach of a regulatory limit.

The risk appetite indicators are subject to review by the RCD, at least on an annual basis, and further approval by the RC and BoD. The Company's Management ensures that the regulatory required levels are met.

4.9 Governance Arrangements

4.9.1 Recruitment

[3] It includes all relevant capital buffers e.g. conservation buffer (2,5%), countercyclical capital buffer (0,5%), the RTAAC buffer (2%) and the systemic risk buffer (0%). The O-SII buffer is not applicable.

[4] The PV1% ALL is a metric used by the Company to quantify the interest rate risk in its banking book by evaluating the impact of interest rate shocks on the market value of the Company's capital. Specifically, to calculate the PV1% ALL metric, it is assumed that market interest rates rise in parallel by 1%.

The Management Body of the Company is the BoD. The members of the Board are recruited in line with the Diversity Policy and based on the guidelines issued by the CySEC and ESMA. The assessment of new Directors is performed by the Nomination Committee, whereas the approval of new Directors is taken by the Directors as a collective body.

The Company's Management Body includes Executive and Non-Executive Directors, as well as Independent Non-Executive Directors. The Company's BoD has varied experience and background, including accounting, legal, banking, investments, risk management, etc. Additionally, the Independent Directors have a strong background in their field, adding as such value to the Company's BoD.

4.9.2 Diversity

The Company recognizes the benefits and necessity of an adequately diverse BoD, which includes and utilizes the Director's unique characteristics, including gender and age diversity. The Company's Nomination Committee has prepared the Company's Diversity policy which addresses, among others, the diversity of the members of the BoD. The objective of the said policy is to promote a balanced working environment where the skills, experience, qualities, professionalism and other backgrounds, such as the temperament and perspective of the Directors, irrespective of gender, age, race, ethnicity and other criteria, enable each of them to contribute individually.

The Nomination Committee encourages gender diversity in Board appointments and appointment of other key positions. The aim is to strengthen the Company's corporate performance and ensure sound corporate governance.

The recommended target set by ACM's Nomination Committee is for a minimum female participation in the Board, of approximately 12% which is currently met.

The Nomination Committee also recommends, to the extent possible, and where such suitable candidates are identified, variety in race and ethnicity. The Nomination Committee also encourages age diversity to the extent that this combines the principles of drive, ambition, enthusiasm and hard work, with the experience and wisdom of older age. It is stressed that under no circumstances should any Board appointment be made based on factors of age, race or ethnicity but solely based on merit and skills.

4.9.3 Number of Directorships

As per the provisions of Title II / Chapter I of Law 87(I) / 2017 which provides for the Provision of Investment Services, the exercise of investment activities, the operations of regulated markets and other related matters (the "Law"), a director of a CIF that is significant in terms of its size, internal organization and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- one executive directorship with two non-executive directorships;
- four non-executive directorships.

According to the Law, executive or non-executive directorships held within the same group shall count as a single directorship. All ACM's Directors have been approved by the CySEC. The number of directorships held by the members of the Board are outlined in the table below:

Director	Position within ACM	Executive Directorships	Non-Executive Directorships
Pavel Nazariyan	Non-executive Director	1	2
Dmitry Vitman	Non-executive Director	-	1
Mikhail Grachev	Non-executive Director	-	1

Director	Position within ACM	Executive Directorships	Non-Executive Directorships
Konstantinos Hadjisavvas	Executive Director	1	-
Ekaterina Beketova	Executive Director	1	-
Constantinos Demetriou	Independent Director	1	1
Constantinos Constantinou	Independent Director	1	3[5]
Andreas Christofides	Independent Director	1	2

***Table 7**: Number of directorships*

It is noted that for the purposes of the disclosures above, executive or non-executive directorships held within the same group count as a single directorship.

4.10 Internal Capital Adequacy Assessment Process

The Company uses the results of its most recent ICAAP exercise as a measurement of its internal capital requirements. The Company applies methodologies which are specified by the regulatory framework in order to calculate the capital requirements for Pillar I risks, as well as additional capital requirements for those risks which are either partially covered or not addressed under Pillar I.

The RCD, in cooperation with the Accounting Department, are responsible for the preparation of the ICAAP document, whilst Senior Management has the overall responsibility for approving the ICAAP document and submitting it to the CySEC.

The process followed for the preparation of the ICAAP document consists of the following steps:

- Identifying risks and assessing the management of those risks;
- Documenting the techniques used for the quantification of the risks identified;
- Calculating the amount of regulatory and internal capital required for each type of risk identified;
- Determining the need for additional capital buffers to ensure the Company has enough capital over a “healthy” business cycle, as well as, in the case of a stress.

According to the size and the complexity of its operations, the Company utilises the “Pillar I Plus” approach for the calculation of the additional capital for Pillar II. Under this approach, the Company calculates the capital needs, over and above the Pillar I minimum capital requirements, to cover risks not fully covered or not covered under Pillar I.

The results of the ICAAP are communicated to the CySEC annually. During 2020, the Company did not undertake the ICAAP in view of the fact that it had obtained its licence in July 2020. The Company will perform the ICAAP of 2020 within 2021.

4.11 Risk Management Declaration

The BoD of ACM confirms that the risk management arrangements and procedures of the Company are adequate, given the size and complexity of operations of the Company. In particular, the BoD confirms that the risk management systems put in place are adequate with regard to the Company’s risk profile and strategy and in line with the principle of proportionality.

[5] Approval by the Commission has been obtained for the additional non-executive position.

5 Minimum Capital Requirements

The Company follows the standardised approach (“SA”) for the measurement of the Pillar I capital requirements for credit and market risk, and the basic indicator approach (“BIA”) for the calculation of operational risk capital requirements. The table below shows Pillar I regulatory capital requirements and Risk Weighted Assets (“RWAs”), broken down by risk type and approach as at 31 December 2020.

	RWAs	Minimum Capital requirements
	31/12/2020	31/12/2020
	USD’000	USD’000
Credit risk (excluding CCR)	**29.132**	**2.331**
Of which the standardised approach	29.132	2.331
CCR	**79.755**	**6.381**
Of which mark to market	68.223	5.458
Of which CVA	11.532	923
Market risk	**144.285**	**11.543**
Of which the standardised approach	144.285	11.543
Large exposures	**23.485**	**1.879**
Operational risk	**20.759**	**1.661**
Of which basic indicator approach	20.759	1.661
Total	**297.416**	**23.795**

***Table 8**: Overview of RWAs (EU OV1)*

6 Credit and Counterparty Credit Risk

6.1 Definition of Credit Risk

Credit risk is defined as the potential that a counterparty or a client may potentially fail to meet its obligations in line with agreed terms.

Under the Credit Risk coverage, the Company also manages the following subcategories of risk:

- Settlement risk
- Pre-settlement risk
- Credit concentration risk
- Residual risk

The following main types of operations are identified that carry credit or counterparty credit risk:

- Placement of funds in credit institutions
- Receivables/prepayments to third parties
- Providing leverage as part of margin trading
- OTC derivatives trading
- Securities financing transactions including securities/commodities lending/borrowing and repurchase transactions

6.2 Management of Credit and Counterparty Credit Risk

The management of credit risk, including counterparty credit risk, is the primary responsibility of the RCD, with Senior Management assuming a supervisory role in the process. The RCD, together with Senior Management, are responsible for implementing policies and procedures which identify, analyse, evaluate, treat and monitor risks during the course of business. Management is also responsible for the establishment of limits on the amount of risk accepted in relation to a borrower, or groups of borrowers, as well as to industry sectors.

The Company has established a number of methodologies and techniques for managing and monitoring credit risk and counterparty credit risk. Additionally, management ensures through the ICAAP that adequate internal capital is assigned to credit risk and counterparty credit risk if not adequately covered under Pillar I capital requirements. The results of the stress testing exercise undertaken in the ICAAP are also considered in the Company's decision-making process including strategic planning, the determination of the Company's risk appetite and consequently, the setting of counterparty credit risk limits.

The use of a credit assessment framework helps the RCD mitigate such risks by analysing a client's or counterparty's credit quality based on the evaluation of both financial and non-financial information. In addition, the RCD also reviews the analysis and appropriateness of the credit ratings issued by external credit rating agencies (where available) both prior to entering into transactions and throughout the life of a transaction in order to monitor risks and set appropriate limits.

The use of limits for credit risk and counterparty credit risk contributes to the effective management of the Company's exposure to such risks. Counterparty exposure limits are also set collectively, for each counterparty type. Utilisation of limits takes the market value of each transaction as well as any potential future fluctuations. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed, in part, by obtaining collaterals.

For monitoring and control purposes, all limits are inputted into the Company's systems. The RCD is responsible for monitoring all limit violations. As noted above, in case of violations, deals are blocked by the system and the Head of RCD has right to pass the deals for processing.

Furthermore, the Company monitors closely portfolio concentration limits, as well as cases where limit utilisation is close to a maximum, such that the impact of new transactions on the concentration within the Company's portfolio is consistent with its risk appetite and portfolio limit structure.

The Company has established a number of other measures in order to mitigate settlement risk and indirectly counterparty credit risk. Such measures include performing transactions only on a Delivery Versus Payment ("DVP") settlement basis, or requesting pre-payments or pre-deliveries from clients and counterparties. The Company also performs secured transactions backed by eligible collaterals.

6.2.1 Limit Structure

Credit risk is related to the process of settling financial transactions. Settlement and pre-settlement risk have been identified in this regard. Specifically, settlement and pre-settlement limits have been set taking into consideration the value of a transaction as a percentage of the Company's equity capital in the following situations:

a) whether the client or counterparty is rated by ECAI or not;
b) where the credit rating of the client or counterparty is at speculative level;
c) where the credit rating of the client or counterparty is at investment level;

Moreover, in order to manage the concentration of the Company's credit exposure on transactions with Counterparties, the following mandatory portfolio concentration limits are set:

- *Counterparty /Group of Related Parties Risk Concentration Limit (CL1).* This defines the maximum exposure as a percentage of the Company's Capital that may be taken by the Company on a Counterparty/Group of related parties.
- *Concentration limit for transactions with High Risk Counterparties, except for Legal Entities/Corporations and physical persons (CL2).* The limit is set for the total amount of exposure, related to the transactions conducted with High Risk Counterparties/Group of related parties. High Risk Counterparties include Counterparties, except for Legal Entities/Corporations and physical persons, rated B+ and below, including NR rating.
- *Risk concentration limit for transactions with Counterparties registered in high-risk countries (CL3).* The limit is set for the total amount of exposure related to the transactions with Counterparties from High-risk countries. High-risk countries for the purposes of this limit include those countries which are rated BBB+ and below, with the exception of the Russian Federation.

As a general principle, for setting limits on transactions with counterparties the Company takes into consideration the following:

- Counterparty's credit rating.
- Nature of transactions and term of transactions with the Counterparty.
- Country of registration of the Counterparty.

6.3 Credit Risk Monitoring

The credit risk management framework is automatically monitored by the systems. Counterparties are assigned limits and are checked in the system. In case there are any violations in the credit risk terms of a client, the Front Office is immediately informed to get the transaction revised in order to be within the limit. In exceptional cases and after the risk is analysed and approved by the relevant governance body, the transactions that violate the pre-determined credit risk limits may be allowed to be processed. This operation is done manually in order to be able to control the risk. Settlement risk, delivery risk and payment risks are monitored on a daily basis with the reports that are distributed by the Settlements team. In cases where a transaction is delayed to settle, action is taken by the relevant departments to settle the transaction immediately.

6.4 Value of Exposures

The Company's financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through other comprehensive income (“FVOCI”) and at fair value through profit and loss (“FVTPL”), including derivatives.

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument, or by a valuation technique which relies only on observable market data.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Company. Those financial instruments that are not traded in an active market are measured at the fair value of a company of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

All purchases and sales of financial assets that require delivery within the timeframe established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Company commits to deliver a financial asset. All other purchases are recognised when the Company becomes a party to the contractual provisions of the instrument.

Sale and repurchase agreements (“repo transactions”) are treated as secured financing transactions (“SFTs”). Securities sold under sale and repurchase agreements are not derecognised. The securities are reclassified as repurchase receivables in the statement of financial position if the transferee has the right by contract or custom to sell or re-pledge the securities. The corresponding liability is presented within amounts due to other banks or other financial liabilities.

On the other hand, securities purchased under agreements to resell (“reverse repo agreements”) are recorded as “due from other banks” or “loans and advances to customers”, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of the repurchase agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains or losses arising from trading securities. The obligation to return the securities is recorded at fair value as securities sold not yet purchased in the statement of financial position.

Derivative financial instruments, including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at fair value. All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in fair value of derivative financial instruments are included in profit or loss for the year in gains less losses arising from foreign currencies and precious metals and gains less losses arising from trading securities, depending on the related contracts.

As at 31st December 2020, the Company reported asset derivative positions of positive fair value amounted to USD 16.057k and liability derivative positions of fair value amounted to USD 23.239k.

For investments in debt securities, the Company classifies them in one of the following three categories, depending on the business model and the cash flow characteristics:

1) Amortised Cost (“AC”): debt securities that are held for collection of contractual cash flows and where those cash flows represent solely payments of principal and interest (“SPPI”) are measured at AC.
2) FVOCI: debt securities that are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI.
3) FVTPL: investments in debt securities that do not meet the criteria for AC or FVOCI are measured at FVTPL (mandatory FVTPL).

On the other end, financial assets that meet the definition of equity from the issuer’s perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer’s net assets, are considered as investments in equity securities by the Company. Investments in equity securities are measured at FVTPL, except where the Company elects at initial recognition to irrevocably designate an equity investment at FVOCI. The Company’s policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

6.5 Credit risk adjustments

6.5.1 Past Due

As per IFRS 7, Appendix A “Defined terms”, a financial asset is past due when a counterparty has failed to make a payment when contractually due. As at the end of December 2020, there were no past due exposures.

6.5.2 Impairment of financial assets – credit loss allowance for Expected Credit Loss (ECL)

The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Company applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 Months ECL”). If the Company identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL.

During the year there were no impairments or reversals.

6.5.3 Total and average amount of net exposures

The total and average amount of net exposures[6] for 2020 by exposure class are presented in the table that follows. The average net exposures correspond to the average of the quarterly net amounts by exposure class. Net exposures relate to amounts post value adjustments but before the application of credit conversion factors. The table includes counterparty credit risk.

	Net value of exposures at the end of the period	Average net exposures over the period
2020	**USD'000**	**USD'000**
Corporates	89.534	82.561
Institutions	234.834	224.032
Equity exposures	-	-
Other exposures	2.302	1.188
Total – Standardised Approach	**326.670**	**307.781**

Table 9*: Total and average net amount of exposures (EU CRB-B)*

Own Funds Requirements against Exposures

Once the risk weighted exposures are calculated for all the exposure classes, these are multiplied by 8% in order to result in credit risk capital requirements, according to Article 438 of the Regulation. The table below presents the own funds requirements for each of the applicable exposure classes noted under Article 112 of the Regulation:

Asset Class	RWA	Capital Requirement
2020	**USD'000**	**USD'000**
Corporates	56.896	4.552
Institutions	38.156	3.052
Equity	-	-
Other	2.302	184
Total	**97.354**	**7.788**

Table 10*: Own funds requirements per asset class*

[6] As per the EBA/GL/2016/11 guidelines, for on-balance sheet items, the net exposure value is the gross carrying value of exposure less allowances/impairments. For off-balance-sheet items, the net value is the gross carrying value of exposure less provisions.

6.6 Exposures by geographic distribution

The table below presents net exposures analysed by geography, split by regulatory approach and exposure class. It includes counterparty credit risk. Geographical analysis is based on country of operation / residence of the customer.

	United Kingdom	Cyprus	Russia	Hong Kong	Belgium	Switzerland	Other geographical areas[7]	Total
2020	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Total IRB approach	–	–	–	–	–	–	–	–
Institutions	141.633	30.767	22.804	-	17.436	21.808	386	234.834
Corporates	3.322	25.545	46.565	12.472	–	–	1.630	89.534
Other exposures	-	2.302	–	-	–	–	–	2.302
Total standardised approach	***144.955***	***58.614***	***69.369***	***12.472***	***17.436***	***21.808***	***2.016***	***326.670***
Total	***144.955***	***58.614***	***69.369***	***12.472***	***17.436***	***21.808***	***2.016***	***326.670***

Table 11: Geographical breakdown of exposures (EU CRB-C)

6.7 Exposures by residual maturity

The table below shows net credit exposures by maturity and exposure class. The table includes counterparty credit risk.

USD'000	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Institutions	12.318	222.508	–	–	8	234.834
Corporates	39.346	50.183	–	–	5	89.534
Other exposures	–	1.441	–	–	861	2.302
Total (*standardised approach*)	***51.664***	***274.132***	**-**	**-**	***874***	***326.670***

Table 12: *Maturity of exposures (EU CRB-E)*

[7] Other geographical areas include Austria, British Virgin Islands, Czech Republic, Estonia, Netherlands, Seychelles, Sweden, Ukraine and United States.

6.8 Exposures by significant industries

The table below shows net credit exposures by industry and exposure classes. The table includes counterparty credit risk.

2020 USD'000	Information and communication	Other services	Total
Institutions	-	234.834	234.834
Corporates	-	89.534	89.534
Other exposures	50	2.252	2.302
Total standardised approach	***50***	***326.620***	***326.670***
Total	***50***	**326.620**	**326.670**

Table 13: *Concentration of exposures by industry or counterparty types (EU CRB-D)*

6.9 Nominated External Credit Assessment Institutions ("ECAIs") for the application of the Standardised Approach

The Company uses Standard & Poor's, Fitch and Moody's to obtain credit ratings for the relevant asset classes for the application of the standardised approach. The use of these ratings is in compliance with the requirements of Article 138 of the Regulation and is used consistently for all exposures in a specific asset class. These ratings are used in the calculation of risk weights for the relevant asset classes, namely corporates and institutions. The Company uses the same approach for its entire portfolio unless there are material differences in the way it performs its business.

The Company has used the mapping table below, to map credit assessments to credit quality steps ("CQS"):

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

Table 14: *Mapping of external rating to credit quality steps*

The table below presents the exposure values (pre CRM) associated with each credit quality step. The table includes counterparty credit risk.

	CQS							Total USD'000
Asset Class	1	2	3	4	5	6	NR	
Institutions	47.648	118.454	22.804	29	-	-	45.899	234.834
Corporates	-		1.488	7.249	-	-	80.797	89.534
Other	-	-	-	-	-	-	2.302	2.302
Total	**47.648**	**118.454**	**24.292**	**7.278**	**-**	**-**	**128.987**	**326.670**

Table 15a: *Exposure values pre-CRM, split by credit quality step and asset class*

The table below presents the exposure values (post CRM) associated with each credit quality step. The table includes counterparty credit risk.

	CQS							Total USD'000
Asset Class	**1**	**2**	**3**	**4**	**5**	**6**	**NR**	
Institutions	44.489	59.646	10.564	29	-	-	15.781	130.509
Corporates	-	-	1.487	7.249	-	-	49.577	58.313
Other	-	-	-	-	-	-	2.302	2.302
Total	**44.489**	**59.646**	**12.051**	**7.278**	**-**	**-**	**67.660**	**191.124**

Table 15b: *Exposure values post-CRM, split by credit quality step and asset class*

The table below analyses credit risk exposures (post conversion factor and post risk mitigation techniques) under the standardised approach by risk weight, split by exposure class. It includes counterparty credit risk. Exposures for which a credit assessment by a nominated ECAI is not available and that are applied specific risk weights depending on their class, as specified in the Regulation, are presented in the category "of which unrated".

2020 USD'000	Risk weight							Total	Of which unrated
Exposure classes	0%	20%	50%	100%	150%	Other	Deducted		
Institutions	-	90.835	39.370	304	-	-	-	130.509	15.781
Corporates	-	1.771	-	56.542	-	-	-	58.313	49.578
Other items	-	-	-	2.302	-	-	-	2.302	2.302
Total	**-**	**92.606**	**39.370**	**59.148**	**-**	**-**	**-**	**191.124**	**67.661**

Table 16: *Standardised approach (EU CR5)*

The table below shows a breakdown of CCR exposures, net of collateral, calculated under the standardised approach, by portfolio (type of counterparties) and by risk weight as at 31 December 2020. Exposures for which a credit assessment by a nominated ECAI is not available are presented in the category "of which unrated".

2020 USD'000	Risk weight					Total	Of which unrated
Exposure class	20%	50%	100%	150%	Others		
Institutions	24.589	39.341	304	-	-	64.234	11.564
Corporates	-	-	43.330	-	-	43.330	43.330
Total	**24.589**	**39.341**	**43.634**	**-**	**-**	**107.564**	**54.894**

Table 17: *Standardised approach – CCR exposures by regulatory portfolio and risk (EU CCR3)*

When calculating the capital requirements for credit risk for both on- and off-balance sheet positions, the Company assigns risk weights to the exposures based on their exposure type and rating, as prescribed by the Regulation. The process for transferring issuer and issue credit assessments onto items not included in the trading book is applied in the following priority:

1. Where a credit assessment exists for a specific instrument, this credit assessment shall be used to determine the risk weight to be assigned to that item;
2. Where no directly applicable credit assessment exists for a specific instrument, then the credit assessment of the issuer shall be used;

3. Where no directly applicable credit assessment exists for a specific instrument or its issuer, the relevant exposure shall be treated as unrated. For this category, the risk weight will be determined taking into account whether a Sovereign rating exists or not.

The credit assessments mentioned above are not taken into account where relative exceptions per the Regulation apply e.g. short-term exposures to institutions.

6.10 Credit Risk Mitigation

Credit risk mitigation for CRD calculation, is currently applied only for repurchase and reverse repurchase agreements.

With regards to such agreements, the Company always takes on collateral in the form of cash or securities. To ensure that the collateral received is appropriate for the transactions performed, the Company has established a set of criteria, including, but not limited to, receiving only liquid Tier 1 and Tier 2 exchange traded securities. Additionally, the Company assesses the credit quality of repurchase receivables relating to debt trading securities based on the external credit rating of the debt security.

The monitoring of such collateral is performed by the Company's Collateral Department and RCD, which checks that the collateral to be received meets the specified criteria, including market or credit concentrations, prior to entering into a repurchase or reverse repurchase transaction. The valuation of collaterals and collateralised exposures is performed daily.

It is noted that for capital adequacy calculations, the Company applied a prudent approach and any margin received as collateral against derivative exposures were not recognised, thus no credit risk mitigation techniques are applied for such exposures.

It should also be noted that the Company does not apply hedge accounting.

At 31 December 2020 repurchase transactions (both repo and reverse repo) with institutions were effectively collateralised by securities under reverse repo with a fair value of USD 52.4mln and cash collateral under repo with a value of USD88.9mln. Similarly, as at 31 December 2020, repurchase transactions (both repo and reverse repo) with corporates were effectively collateralised by securities under reverse repo with a fair value of USD 42mln and cash collateral under repo with a value of USD14.9mln.

Table EU CR3 below presents a breakdown of unsecured and secured credit risk exposures and credit risk exposures secured by various credit risk mitigants, for loans and debt securities. Unsecured exposures represent the carrying amount of credit risk exposures (net of credit risk adjustments) that do not benefit from a credit risk mitigation technique, regardless of whether this technique is recognised in the CRR. Exposures secured represent the carrying amount of exposures that have at least one credit risk mitigation ("CRM") mechanism (e.g. collateral) associated with them. Exposure secured by various credit risk mitigants are the carrying amount of exposures (net of credit risk adjustments) partly or totally secured by collateral, whereby only the secured portion of the overall exposure is presented.

	Exposures unsecured - Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
2020	USD'000	USD'000	USD'000	USD'000	USD'000
Total loans[8]	-	59.929	59.929	-	-
Total debt securities[9]	27.675	103.840	103.840	-	-

[8] Referring to reverse repurchase transactions
[9] Referring to repurchase transactions

Total exposures	**27.675**	**163.769**	**163.769**	**-**	**-**
Of which defaulted	-	-	-	-	-

Table 18: *CRM techniques – Overview (EU CR3)*

The table below shows credit risk exposure before credit conversion factors, and credit risk mitigation, obtained in the form of eligible financial collateral and guarantees, and the exposure at default values in the standardised approach as well as related RWA and average risk weights broken down by regulatory exposure classes and split between on- and off-balance sheet exposures. RWA density represents the average risk weight. Template EU CR4 excludes exposures subject to the requirements in Part Three, Title II, Chapter 5 and Chapter 6 of the CRR (exposures subject to the CCR and securitisation risk framework).The following table does not cover derivative instruments, repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions in line with guidelines EBA/GL/2016/11.

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**%**
Institutions	66.276		66.276		13.264	20,01%
Corporates	14.983		14.983		13.566	90,54%
Other items	2.302		2.302		2.302	100,00%
Total	**83.561**		**83.561**		**29.132**	

Table 19: *Standardised approach – Credit risk exposure and CRM effects (EU CR4)*

It is noted that, being prudent, no netting or credit risk mitigation techniques are applied for derivative contracts when calculating capital requirements even though they are collateralised by margin deposits.

6.11 Counterparty Credit Risk

For calculating its risk weighted exposures for credit risk and counterparty credit risk, the Company has decided to follow the standardised approach.

As previously mentioned, counterparty credit risk is currently managed under credit risk. As such, continuous monitoring of counterparty credit risk is carried out; this extends to the monitoring of wrong-way risk as well as the monitoring and establishment of adequate credit reserves.

Wrong way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty, i.e. changes in market rates (interest rates, FX or other rates which are the main underlying factors of the Company's counterparty transactions) have an adverse impact on the probability of default ("PD") of a counterparty. This risk is not currently measured as it is not anticipated to be significant given the existence of Credit Support Annexes for almost all derivative transactions, with daily settlement of margins that significantly reduce Credit Risk. The Company also prohibits the repurchase counterparty and the issuer of the collateral being the same, or related entities. The Company has no exposure to wrong-way risk in this respect.

There were no instances where the Company had to provide additional collateral in the event of a downgrade of its credit rating during the year ending 31 December 2020, as the Company is not rated.

6.12 Measurement of Counterparty Credit Risk

The Company has adopted the Mark-to-Market ("MTM") method and the Financial Collateral Comprehensive Method ("FCCM") to calculate the value of the exposures deriving from derivative transactions and repurchase/reverse repurchase transactions, respectively, which give rise to counterparty credit risk.

The MTM method is described in the steps below:

- Step 1: by attaching current market values to contracts, the current replacement cost of all contracts with positive values is obtained.
- Step 2: to obtain a figure for the potential future credit exposure, the notional amounts or underlying values are multiplied by the percentages presented under Part Three, Title II, Chapter 6 of the Regulation.
- Step 3: the sum of the current replacement cost and the potential future credit exposure is the exposure value.

The FCCM requires that haircuts are assigned to the values of the exposure and collateral, in order to arrive at the adjusted exposure and collateral amounts. Haircuts are determined based on the type of exposure and collateral, and are also applied for any foreign currency and maturity mismatches, as per the provisions of the Regulation. Once the adjusted values of exposures and collaterals are derived, the appropriate risk weight, determined based on the counterparty to the transaction, is assigned to the unsecured part of the exposure.

USD'000	Notional	CRC	PFE	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market	3.344.298	10.051	41.612	-	-	51.663	41.809
Original exposure				N/A			
Standardised approach				N/A			
IMM (for derivatives and SFTs)				N/A			
Of which securities financing transactions	-	-	-	-	-	-	-
Of which derivatives and long settlement transactions	3.344.298	10.051	41.612	-	-	51.663	41.809
Of which from contractual cross-product netting	-	-	-	-	-	-	-
Financial collateral simple method (for SFTs)				N/A			
Financial collateral comprehensive method (for SFTs)			N/A			55.900	26.413
VaR for SFTs				N/A			
Total	**3.344.298**	**10.051**	**41.612**	**-**	**-**	**107.563**	**68.222**

Table 20: *Analysis of CCR exposure by approach (EU CCR1)*

The following table shows the impact on exposures – derivatives and SFTs – from netting and collateral.

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held (after haircuts and increase in exposure value due to volatility adjustments)	Net credit exposure
2020	USD’000	USD’000	USD’000	USD’000	USD’000
Derivatives	51.663	-	51.663	-	51.663
SFTs	191.444	-	191.444	135.543	55.901
Cross-product netting	-	-	-	-	-
Total	**243.107**	**-**	**243.107**	**135.543**	**107.564**

Table 21: *Impact of netting and collateral held on exposure values (EU CCR5-A)*

A breakdown of all types of collateral posted or received to support or reduce CCR exposures (prior to any haircut adjustments), as at 31 December 2020, is presented below:

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of collateral posted
	Segregated	Unsegregated	Segregated	Unsegregated		
2020	USD’000	USD’000	USD’000	USD’000	USD’000	USD’000
Cash	-	-	-	-	103.840	59.929
Bonds	-	-	-	-	60.855	19.581
Equities	-	-	-	-	33.561	111.934
Total	-	-	-	-	**198.256**	**191.444**

Table 22: *Composition of collateral for exposures to CCR (EU CCR5-B)*

6.13 Credit Valuation Adjustment Risk

Additional capital requirements arising from credit valuation adjustment (“CVA”) risk, need to be held by the Company for all OTC derivative instruments in respect of all of its business activities, other than credit derivatives recognised to reduce risk-weighted exposure amounts for credit risk. CVA is an adjustment to the mid-market valuation of a transaction to account for the current market value of the credit risk of the counterparty to the Company. Therefore, the purpose of the CVA capital charge is to capture the risk of future changes in CCR.

The standardised approach has been used to calculate the CVA charge for regulatory purposes in accordance with Articles 381, 382 and 384 of the Regulation. As at 31 December 2020, the own funds requirement for CVA risk was USD 923k.

The table below provides a summary of the exposures subject to CVA regulatory calculations.

	Exposure value (EAD)	RWAs
2020	USD’000	USD’000
All portfolios subject to the standardised method	66.541	11.532
Total subject to the CVA capital charge	**66.541**	**11.532**

Table 23: *CVA capital charge (EU CCR2)*

6.14 Defaulted exposures

This table provides a comprehensive picture of the credit quality of the Company's on- and off-balance sheet exposures. The table does not include counterparty credit risk.

2020	Gross carrying values of		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges of the period (f)	Net values
	Defaulted exposures (a)	Non-defaulted exposures (b)					(a+b-c-d)
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Total IRB approach	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Institutions	-	66.276	-	-	-	-	66.276
Corporates	-	14.983	-	-	-	-	14.983
Equity exposures	-	-	-	-	-	-	-
Other exposures	-	2.302	-	-	-	-	2.302
Total standardised approach	***-***	***83.561***	***-***	***-***	***-***	***-***	***83.561***
Total	**-**	**83.561**	**-**	**-**	**-**	**-**	**83.561**

Table 24: *Credit quality of exposures by exposure class (EU CR1-A)*

This table provides a comprehensive picture of the credit quality of the Company's on- and off-balance sheet exposures by industry types. The table does not include counterparty credit risk.

2020	Gross carrying values of		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges of the period (f)	Net values
	Defaulted exposures (a)	Non-defaulted exposures (b)					(a+b-c-d)
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Total IRB approach	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Information and communication	-	50	-	-	-	-	50
Other services	-	83.511	-	-	-	-	83.511
Total standardised approach	**-**	**83.561**	**-**	**-**	**-**	**-**	**83.561**
Total	**-**	**83.561**	**-**	**-**	**-**	**-**	**83.561**

Table 25: *Credit quality of exposures by industry types (EU CR1-B)*

This table provides a comprehensive picture of the credit quality of the Company's on- and off-balance sheet exposures by geography. The table does not include counterparty credit risk.

2020	Gross carrying values of		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges of the period (f)	Net values
	Defaulted exposures (a)	Non-defaulted exposures (b)					(a+b-c-d)
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Total IRB approach	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Belgium	-	17.435	-	-	-	-	17.435
United Kingdom	-	34.743	-	-	-	-	34.743

2020	Gross carrying values of		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges of the period (f)	Net values
	Defaulted exposures (a)	Non-defaulted exposures (b)					(a+b-c-d)
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cyprus	-	6.598	-	-	-	-	6.598
Russia	-	11.047	-	-	-	-	11.047
Switzerland	-	13.357	-	-	-	-	13.357
Other geographical areas[10]	-	381	-	-	-	-	381
Total standardised approach	**-**	***83.561***	**-**	**-**	**-**	**-**	***83.561***
Total	**-**	***83.561***	**-**	**-**	**-**	**-**	***83.561***

Table 26: *Credit quality of exposures by geography (EU CR1-C)*

[10] Other geographical areas include Austria, Netherlands, Sweden and Ukraine.

7 Market Risk

7.1 Definition of Market Risk

Market risk is the risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates and correlations, as well as implied volatilities in all of the above.

7.2 Management of Market Risk

Market risk is carefully managed through detailed policies and procedures. Models and methodologies to assess market risk are subject to regular testing to verify accuracy of forecast amount of accepted risk. Market risk and the positions giving rise to market risks are managed on a daily basis.

Specifically, the main responsibilities of the various stakeholders in the management of market risk are as follows.

BoD:

- approves the Company's market risk strategy, appetite and tolerance levels taking into consideration the Risk and Investment Committees recommendations;
- approves the policies and procedures for identifying, assessing, monitoring, controlling and/or mitigating market risks;
- oversees management of market risk by reference to risk appetite and tolerance levels;
- promotes the effective dialogue and information exchange between the organizational units regarding market risk management;
- ensures independent analysis of the market risk management system by the internal audit;
- approves market risk limits.

Investment Committee:

- advises the Board of Directors where amendments to market risk limits may be necessary (including market risk acceptance) under certain circumstances and provides recommendations;
- informs the Board of Directors where weaknesses in the Company's market risk framework are identified and suggests remedial actions.

Risk Committee:

- periodically reviews the market risk limits and advises the Board of Directors if these limits should be increased or decreased, taking into account the risk profile of the Company as well as the Investment Committee's recommendations that are based on the Company's investment strategy;
- reviews and assesses situations where requests for limits increase have been submitted;
- advises the Board of Directors on the adequacy and effectiveness of the Company's market risk management framework including reporting requirements, policies and procedures for identification, assessment, monitoring and mitigation of market risks.

Front office:

- ensures that all transactions are performed within market risk limits and that there is sufficient headroom for prospective trades to be completed within the existing limits;

- ensures that in the absence of approved limits, trading activity is not undertaken and no new products are traded;
- informs and obtains advice from the Risk and Investment Committees, where limits are likely to be exceeded, and seeks pre-approval from the Board of Directors, or another authorising body based on their authorisation rights e.g. CEO, based on the recommendations provided.

RCD:

- establishes a limits framework for the trading business, setting out the permitted products and activities, as well as the maximum exposure limits and performs ongoing monitoring;
- prepares the limits recommendations and submits them to the Risk and Investment Committee members for their review and consideration;
- performs VaR and stress testing calculations, for quantitative risk measurement and management.

7.3 Market Risk Identification

Market risk includes the identification of risks on existing and new operations, products, and services that are in the process of consideration and structuring, and is composed of the following types of market risk:

- Currency risk;
- Price risk, which includes equity and commodity risks;
- Interest rate risk.

7.4 Market Risk Assessment

The methodology used to assess market risks, comprises of two stages:

- assessment of positions' sensitivity to market risk factor changes;
- assessment of prospective dynamics of market factors.

A market risk factor, is a variable that causes changes in the value of financial instruments or on the portfolio value. The multitude of factors includes the term structure of interest rates, spot transaction rates in foreign currency, equity prices, commodity prices and their volatility. These factors can affect both product prices and the associated market risk. The assessment of market risk factors, implies measurement of volatility (standard deviations) of the factor within a period of time required to liquidate the position or hedge the risk (liquidation period).

The Company applies the following market risk calculation methods:

- Value at Risk (VaR) - VaR is a measure of the risk of loss for investments, given normal market conditions, in a set time period such as a day. The Company may use VaR for setting up limits on own portfolio positions as well as for its own FX open positions.
- Stress testing - for the evaluation of the maximum own portfolio loss and for assessing its ability to maintain financial stability during a crisis (stress) of the economy. Stress test is based on a historical scenario representing the worst performance of a given own portfolio. Historical scenario is chosen based on a current portfolio structure. Stress testing models a decline in asset prices, increased correlation of securities and a lack of liquidity in the market.

7.5 Market risk limits

A number of limits have been established to enable the Company mitigate market risk. These are monitored by the RCD on a daily basis and any discrepancies are reported to the Risk and Investment

Committees. Depending on market conditions, limits may be revised and increased limit restrictions may be applied.

The structure and amount of any set limits depend on the nature of risk-exposed operations carried out by a unit and complexity of positions as well as the amount of the accepted market risk. There are four basic limit types intended to deter market risk:

- Limits on open position's value (including concentration/diversification limits);
- Risk-based limits:
  - VaR limit to restrict the aggregate value of accepted market risk on a normal market;
  - Extreme Loss Value limit to restrict the aggregate value of accepted market risk in a crisis;
  - PV1% limit to restrict the aggregate value of interest rate risk accepted by the Company;
  - Stop-loss limits to restrict the maximum losses from operations within the limit;
- Collateral liquidity limits in relation to the collateral required as part of client margin trading business; The Company maintains a list of securities which it may accept as collateral to execute transactions on behalf of its clients.

7.5.1 Trading Book

The trading book of the Company consists of all positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book and which are either free of any restrictive covenants on their tradability or able to be hedged. Positions held with trading intent are those held intentionally for short-term resale and/or with the intention of benefiting from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations.

All positions held in the Trading Book are subject to Market risk.

A number of limits have been established by the Company in order to mitigate market risk. Depending on market conditions, limits may be revised and further limit restrictions may be applied.

- **Foreign Exchange Risk:**
  - Net Open Position against local currency;
  - Total Net Short Position;
  - Net Open Position by currency;
  - Maximum Maturity;
  - Counterparty Limits;
  - FX Settlement Limits.

- **Market Risk arising from Bond Securities, Bond Futures, Interest Rate Futures, Interest Rate Swaps, Credit Default Swaps:**
  - Position Limits;
  - Maximum Holding Period Limit;
  - Maximum Maturity;
  - Counterparty Exposure Limits.

- **Market Risk arising from Equity positions:**
  - Position Limits;

- VaR, 1 day 99% confidence level.

7.5.2 Banking Book

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. Interest rate risk in the banking book is also managed by establishing relevant risk appetite limits, and by closely monitoring and controlling adherence to these limits.

Foreign exchange risk is managed on a consolidated basis for both banking book and trading book positions using the prescribed regulatory approach, and by monitoring the net Open Currency Position (OCP) against internal limits. The Company's OCP is divided into corporate OCP (i.e. the Finance and Treasury position) and trading OCP (i.e. position of the Front Office – the trading desk) and is managed separately.

7.6 Interest Rate Risk

The Company takes on exposures to the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors interest rate risk on a daily basis and sets limits on the level of mismatch on interest rate repricing. The table below presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
			USD'000			
Total financial assets	435 165	175	-	-	-	435 340
Total financial liabilities	360 134	175	-	-	-	360 309
Net interest sensitivity gap	**75 031**	**-**	**-**	**-**	**-**	**75 031**

***Table 27:** Exposures to interest rate risk*

Debt trading securities are actively traded by the Company and therefore constantly repriced. The entire balance of trading securities for the purposes of the above analysis is allocated in caption "demand and less than 1 month".

At 31 December 2020, if interest rates at that date had been 200 basis points lower/higher with all other variables held constant, profit for the period would have been USD 396 thousand lower/higher.

7.7 Measurement of Market Risk

The minimum capital requirements with respect to market risk are calculated using the standardised approach. Under the standardised approach, market risk capital requirements are calculated with respect to position risk (covering both equity and interest rate risks), commodities risk and foreign exchange risk.

The below table summarises the RWAs and capital requirements for market risk, subject to the Standardised approach, split between outright products, options and securitisation positions.

2020	RWAs USD'000	Capital requirements USD'000
Outright products		
Interest rate risk (general and specific)	132.356	10.588
Equity risk (general and specific)	2.207	177
Foreign exchange risk	9.306	744
Commodity risk	416	33
Options		
Simplified approach	–	–
Delta-plus method	–	–
Scenario approach	–	–
Securitisation (specific risk)	–	–
Total	**144.285**	**11.542**

Table 28: *Market risk under the standardised approach (EU MR1)*

7.8 Exposures in Equity securities not included in the Trading Book

Under this category, the Company includes equity investments in Group Companies (subsidiaries or other), investments in associates, and financial instruments bought that may be classified in the non-trading book. During 2020, the Company did not have any exposures in equities which were not included in the Trading Book.

8 Operational Risk

Operational risk is defined as the risk of direct and indirect loss resulting from inadequate or failed processes, people and systems, or from external events. For the purpose of managing operational risk, the following risks are also managed:

- Business process risks;
- Technological risks;
- Personnel risks;
- Risks of unforeseen situations and external events.

8.1 Management of Operational Risk

Operational risk is inherent to all the fields and at all the levels of Company's operations; therefore, the Company's operational risk management system requires involvement of all of its personnel. Main roles of each organizational unit is described below:

Board of Directors

- determines and controls the implementation of the operational risk management policy and system;
- promotes the operational risk management culture;
- promotes the effective dialogue and information exchange between the organizational units regarding operational risk management;
- reviews and approves the methodology procedures for identifying, assessing, monitoring, controlling and/or mitigating operational risks taking into account the recommendations of the Investment Committee and Risk Committee;
- approves the Company's operational risk appetite and tolerance levels after Risk and Investment Committee recommendations;
- controls management of operational risk and capital by reference to risk appetite and tolerance levels;
- ensures independent analysis of the operational risk management system by the internal audit;
- considers questions of operational risk acceptance within its powers.

Risk Committee

- provide recommendations to the Board of Directors on the procedures to be set for identifying, assessing, monitoring, controlling and/or mitigating operational risks;
- provide opinion to Board of Directors about operational risk appetite and tolerance levels;
- provide opinion to CEO and Board of Directors about questions of operational risk acceptance;
- controls implementation of the operational risk mitigation actions.

Investment Committee

- provide opinion to Board of Directors about operational risk appetite and tolerance levels;
- provide opinion to CEO and Board of Directors about questions of operational risk acceptance.

CEO

- considers questions of operational risk acceptance in accordance with his powers.

The Company's Senior Management and the RCD successfully manage and control operational risks by identifying, measuring, monitoring, reporting, controlling and mitigating operational risks. To enable this process, it ensures implementation of the Company's operational risk policy and maintains the

Company's operational loss risk register and performs in cooperation with all Business Units an annual operational risk and control self-assessment.

8.2 Identification, Assessment and Escalation of Operational Risk

For identifying and assessing operational risks, the following tools are used:

- **analysis of new processes, products or systems** by the responsible department and identification of the relevant operational risks and respective mitigation action plans;
- **internal operational risk events collection and analysis** – Department heads are responsible for the identification and submission of operational events, including mitigation action plans, through the designated database for the RCD's review and assessment;
- **external operational risk events collection and analysis** – RCD periodically collects data on external operational risk events, which have caused considerable losses to other financial institutions and that are similarly related to the course of the Company's business (e.g. loss amount, causes and circumstances of their occurrences, categorization of the operational risk event and business line, information on the scale of business operations of the company in the areas where such loss occurred);
- **risk and control self-assessment (RCSA)** – identification and assessment of operational risks inherent in the Company's activities to improve the control process efficiency and/or to implement the operational risk mitigation actions to avoid occurrence of risk and losses on a timely basis. Risk and control self-assessment is carried out by the Company at least once a year and reviewed by the Risk Committee and approved by the authorised bodies;
- **key operational risk indicators (KRI)** – to establish a system for monitoring and early warning of any increasing level of operational risk showing high probability of occurrence, in order to implement the operational risk mitigation actions on a timely basis to avoid occurrence of such risk and losses. RCD is responsible to monitor the KRIs and escalate discrepancies to the Risk Committee and Board of Directors;
- **scenario analysis of operational risk (stress-testing)** – the Company is carrying out stress testing of its operational risks using the scenario analysis method. The scenario analysis of operational risks (stress-testing) is an expert estimation of potential influence of low-probability operational risk events. Such events are capable of causing the maximum damage and even affecting the financial strength and viability of the Company. The Board of Directors is responsible to approve the scenario analysis.

8.3 Management of Operational Risk

Measures to reduce operational risks are developed and executed independently by the individual departments, as provided by the Company's procedures, and where necessary, the department heads consult with the RCD. The basic criterion for taking a decision on implementation of measures to minimize an operational risk is the economic effect from such operational risk reduction i.e. the cost of control measures must not exceed the amount of expected losses from realization of the risk.

8.4 Reporting on Operational Risk

The RCD is responsible for the timely preparation of operational risk reports including:

- quarterly report on the operational risk events realized during the reporting period and operational risk appetite utilization, for the Risk Committee and Board of Directors;
- annual report on the significant operational risks, identified during risk and control self-assessment (RCSA), in the form of the filled-in self-assessment form and the results of the scenario analysis of operational risk (stress-testing) as part of the Pillar II process;
- ad-hoc reports upon request by the CEO, Risk Committee or the Board.

8.5 Measurement of Operational Risk

The Company adopts the Basic Indicator Approach for operational risk measurement. Under the Basic Indicator Approach, the own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator as set out in Article 316 of the Regulation. As per Article 315(2), in view of the fact that the Company has been in operation for less than three years, the own funds requirement for operational risk has been calculated using forward-looking business estimates for years two (2) and three (3) and the actual indicator figure for year one (1).

	Relevant Indicator			Capital requirements
USD'000	FY1 (2020 actual)	FY2 (estimated)	FY3 (estimated)	2020
Total activities subject to BIA	5.915	12.060	15.240	1.661

Table 29: *Operational Risk Capital Requirements*

9 Remuneration Policy and Practices

The Remuneration policy ("the Policy") of the Company, forms an integral part of the Company's corporate governance and is developed taking into consideration the Company's objectives, the business and risk strategy, corporate cultures and values and the long-term interests of the Company.

The Policy applies to all Company employees, especially to those considered as having a material impact on the Company's risk profile in line with the qualitative and quantitative criteria set out in Regulation (EU) No 604/2014.The Policy is reviewed at least annually, and any amendments made are approved by the BoD. The Human Resources Department is responsible for the preparation, upkeep and updating of the Policy. The owner of the Policy is the Remuneration Committee with the BoD endorsing, approving and periodically reviewing the general principles specified therein. The BoD is also responsible for its implementation as well as for preventing/mitigating any risks and conflicts which may arise as a result of the remuneration practices of the Company.

The implementation of the Policy is also subject to periodic review by the Compliance and Internal Audit functions in order to assess the level of compliance with the legislation, internal policies and the Company's risk culture.

The Remuneration Committee comprises of 3 non-executive members of the BoD. The Remuneration Committee met three times during the year ended 31 December 2020.

The main responsibility of the Remuneration Committee is to prepare recommendations in relation to the remuneration of the identified categories of staff whose professional activities have a material impact on an institution's risk profile according to the relevant regulation[11], and submit them to the BoD for approval. In addition, the Remuneration Committee is responsible to:

- provide its support and advice to the BoD on the design of the Company's Remuneration Policy;
- support the BoD in overseeing the policies, practices and processes relating to remuneration and the compliance with the Remuneration Policy;
- check whether the existing Remuneration Policy is still up to date and, if necessary, make proposals for changes;
- review the appointment of external remuneration consultants that the BoD may decide to engage for advice or support;
- ensure the adequacy of the information provided to shareholders on policies and practices and in particular on the proposed maximum level of the ratio between variable and fixed remuneration;
- assess the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels;
- ensure that the Policy is consistent with, and promotes, sound and effective risk management and is in line with the Company's business strategy, objectives, corporate culture and values, as well as its long-term interests;
- assess the achievement of performance targets and the need for ex post risk adjustment, including the application of malus and clawback arrangements.

The Company has established a competitive compensation framework in order to attract, engage and retain its employees. The basic principles on which the Remuneration Policy is formulated relate to the following:

[11] Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regards to the regulatory technical standards, with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

- provides for an effective framework for performance measurement, risk adjustment and the linkages between performance and reward;
- outlines the structure of variable remuneration including where applicable the instruments in which part of the variable remuneration is awarded;
- supports the Company in achieving and maintaining a sound capital base and an appropriate liquidity profile;
- enables the identification and mitigation of conflicts of interests stemming from the remuneration awarded, by establishing, amongst others, objective award criteria based on the internal reporting system, appropriate controls and the four eye principle;
- is consistent, promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of risk tolerated by the Company;
- is clear, well documented and transparent including proper documentation of the decision-making process and the reasoning behind this Remuneration Policy;
- remuneration awarded to different categories of staff including staff members that are employed in control functions is consistent with the principle that such persons are considered as material risk takers, since they are responsible for the day-to-day management of the business and its risks;
- outlines the methods for the measurement of performance, including the performance criteria, as defined in the Bonus Policy of the Company which forms part of the Remuneration Policy.

The Remuneration Policy covers total remuneration (i.e. fixed and variable) as well as benefits in kind and allowances. It does not cover the remuneration of service providers, affiliates and partners; such arrangements are governed by the terms of the respective bilateral agreement between the parties.

The basic fixed remuneration as specified in the employment agreement of each employee reflects primarily relevant professional experience and the organisational responsibility set out in the job description taking also into account the markets rate for similar positions. The Company has developed fixed remuneration ranges which differ among hierarchical levels and nature of business. Ranges are reviewed annually taking into consideration market trends and prevailing legal requirements. Total remuneration consists of the fixed salary, benefits such as health insurance and in certain cases variable remuneration in the form of a bonus.

As per the provisions of Directives DI144-2014-14 and DI144-2014-14(A) the principles adopted by the Company relating to variable remuneration, when provided, are as follows:

- where remuneration is performance related, the total amount of remuneration is based on a combination of the quantitative and qualitative performance criteria at an individual level and of the business unit concerned, as well as the overall results of the Company as a whole;
- assessment of performance is set in a multi-year framework in order to ensure that the assessment process is based on long-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of the Company and the business risks it encounters;
- the total fixed and variable remuneration paid to the identified persons does not exceed the materiality threshold; where this is the case the Company's BoD exercises its discretion as to the means by which variable remuneration will be paid (i.e. solely in instruments or solely in cash or a combination of both);
- variable remuneration is not guaranteed and shall not be part of prospective remuneration plans;
- guaranteed variable remuneration is limited only to the cases where the Company wants to offer it to the first year of employment of a new staff member, if and only if the Company has a strong capital base;

- fixed and variable components of total remuneration are appropriately balanced;
- variable remuneration can be reduced to zero, and shall not exceed 100% of the fixed component of the remuneration for each individual;
- variable remuneration paid in instruments may be in the form of promissory notes or other equivalent non-cash instrument issued by the Company.

As allowed by Directive DI144-2014-14&14(A), the Company's BoD may decide that the variable component of the remuneration can reach up to 200% of the fixed component of the total remuneration of those individuals eligible to receive variable remuneration. In such cases, the BoD ensures that all provisions of the Directive DI144-2014-14&14(A) are followed accordingly.

When paying out any variable remuneration to the risk takers, the Company ensures the following, in a manner and to the extent that is appropriate to the Company's size, internal organisation and nature, scope and complexity of activities (the "Proportionality Conditions"):

- At least 40% of the variable remuneration is deferred over a period of three to five years;
- In case that variable remuneration is of a particularly high amount, then at least 60% of the amount shall be deferred;
- At least 50% of any variable remuneration is paid out in instruments. This is applied to both the deferred and the non-deferred part of the variable remuneration component;
- Up to 100% of the total variable remuneration is subject to malus or clawback arrangements, which are set by the Company.

Proportionality Conditions

In accordance with paragraph 20(2) of the Directive DI144-2014-14&14(A), investment firms shall apply remuneration principles in a way and to the extent that is appropriate to their size, internal organisation and the nature, the scope and the complexity of their activities. Taking into account that currently there are no official guidelines provided with regards to the implementation, form and provisions of proportionality, the Company introduced certain Proportionality Conditions in relation to the most stringent provisions of remuneration principles to ensure that a balance is reached between achieving the objectives of the Directive DI144-2014-14&14(A) and market practice for ensuring fair remuneration of the Company's personnel. These Proportionality Conditions take into account guidelines provided by the FCA (Principle 12 of the Remuneration Principles (19C.3.34)). The Company's Proportionality Conditions take into account the following factors:

- % of variable remuneration, compared to total remuneration of all identified staff;
- Maximum amount of total remuneration per identified staff;
- % of total variable remuneration awarded to all identified staff compared to the Company's profits for the period; and
- The Company's Capital Adequacy Ratio, including Combined Buffer Requirement and Pillar 2 requirements.

All Proportionality Conditions set out in the Company's Remuneration Policy are subject to periodic review by the Remuneration Committee in order to assess the level of compliance with the applicable regulatory and legal framework. Such review is conducted at least on an annual basis, and any amendments made are approved by the Board of Directors.

It is noted that as at 31 December 2020, there was no outstanding deferred remuneration, paid out and reduced through performance adjustments or sign-on payments during the year.

Performance appraisals are conducted on an annual basis for Senior employees (Heads of Departments) and on a quarterly basis for all other. In order to perform performance appraisals key objectives/goals are set for each employee at the beginning of the year. Performance is then assessed against these objectives/goals. If deemed appropriate to propose salary revisions for the Company's Employees, the Company's CEO recommends such a change to the Remuneration Committee which gives the final approval for ratification by the Board.

The provisions of the Directive DI144-2014-14 and Directive DI144-2014-14(A) require that the Company discloses to the public information regarding the remuneration of those categories of staff whose professional activities have a material impact on the risk profile of the Company. The individuals that may be considered as having an effect on the Company's risk profile include Front Office staff, the Senior Management, as well as the BoD.

The table below provides aggregate information on remuneration, broken down by business area, including those considered as senior management and staff whose actions have a material impact on the risk profile of the Company.

Position	Remuneration USD'000		Number of Persons
	Fixed	Variable	
Senior Management[12]	356	5	9
Other identified staff/risk taker	369	10	14

Table 30: *Amount of remuneration, split into fixed and variable*

During the reporting period there were no individuals remunerated EUR 1m or more. The following table provides aggregate quantitative information on remuneration, broken down by business line:

Business Line	Remuneration USD'000
Control Functions[13]	220
Trading and Sales[14]	317
Other identified staff / risk takers not included in the above categories	203

Table 31: *Remuneration per business line*

[12] It includes Executive Directors and Heads of significant business lines.
[13] It includes Risk, Compliance, Legal, and any personnel which comprise 4Eyes, including Executive Directors.
[14] It includes Own Account, Brokerage, and Forex Divisions.

10 Leverage

10.1 Definition of Leverage Ratio

The Regulation requires the disclosure of the Company's leverage position. In line with Article 429 of the Regulation, as well as the transitional provisions of Article 499, the leverage ratio is defined as the capital measure divided by the total exposure measure, expressed as a percentage.

Specifically, the capital measure for the leverage ratio is the Tier 1 capital and the total exposure measure is the sum of exposure values of all assets and off-balance sheet items, not deducted when determining the capital measure. The leverage ratio is calculated using two capital measures:

- Tier 1 capital: fully phased-in definition;
- Tier 1 capital: transitional definition.

Since the Company does not have any transitional provisions, the Tier 1 capital is the same under both conditions of Article 499(1) (a) and (b) of the Regulation and the two leverage ratios are the same.

As at 31 December 2020 the leverage ratio of the Company was at 28,20% well above the 3% leverage ratio minimum requirement set by the Basel Committee. Going forward, and as the leverage requirements become formalised the Company will be solidifying the management of leverage risk to ensure that it will be above the minimum required.

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

The RCD oversees, manages and closely monitors leverage along with the exposures to risk and the solvency ratio of the Company to ensure that the risk of excessive leverage is identified and properly managed. The Company uses the leverage ratio as an indicator of risk appetite since it is a simple instrument that offers a safeguard against the risks associated with the risk models underpinning RWAs.

The risk of excessive leverage is managed by calculating and monitoring the leverage ratio on a daily/quarterly basis in order to ensure that is within the risk strategy and risk appetite indicators of the Company. The Company maintains a proactive approach on managing the leverage ratio in order to stay within risk appetite. In cases where the leverage ratio falls outside the prescribed limits, the RCD and RC reviews the available options, including decrease in the risk weighted exposures, to reduce leverage within the acceptable levels.

Since the Company's leverage ratio of 28,20% is well above the regulatory minimum ratio of 3%, management considers that the leverage exposure is at an appropriate level safeguarding the resilience of the Company's business model and ongoing operations.

10.3 CRR Leverage Ratio – Disclosure Template

The following tables show the leverage ratio exposure and the leverage ratio, and they have been prepared using the format set out in Annex I and Annex II of the Implementing technical standards with regard to disclosure of the leverage ratio for institutions (Commission Implementing Regulation-EU 2016/200).

Reference date	31/12/2020
Entity name	Alfa Capital Markets Limited
Level of application	Individual

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		USD 000s
1	Total assets as per published financial statements	437.631
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	N/A
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No. 575/2013)	N/A
4	Adjustments for derivative financial instruments	35.606
5	Adjustment for securities financing transactions (SFTs)	(4.029)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	N/A
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure mea6ure in accordance with Article 429(7) of Regulation (EU) No. 575/2013)	N/A
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No. 575/2013)	N/A
7	Other adjustments	(205.506)
8	Leverage ratio total exposure measure	263.703

Table LRCom: Leverage ratio common disclosure

		USD 000s
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	158.378
2	(Asset amounts deducted in determining Tier 1 capital)	(2.239)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**156.139**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions	10.051
5	Add-on amounts for PFE associated with *all* derivatives transactions	41.612
EU-5a	Exposure determined under Original Exposure Method	N/A
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	N/A
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	N/A
8	(Exempted CCP leg of client-cleared trade exposures)	N/A
9	Adjusted effective notional amount of written credit derivatives	N/A
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	N/A
11	**Total derivatives exposures**	**51.663**

		USD 000s
SFT Exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	55.900
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	N/A
14	Counterparty credit risk exposure for SFT assets	N/A
EU-14a	Derogation for SFTs: Counterparty credit risk exposure	N/A
15	Agent transaction exposures	N/A
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	N/A
16	**Total securities financing transaction exposures**	**55.900**
Other Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	N/A
18	(Adjustments for conversion to credit equivalent amounts)	N/A
19	**Other off-balance sheet exposures**	0
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No. 575/2013 (on and off balance sheet))	N/A
EU-19B	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No. 575/2013 (on and off balance sheet))	N/A
Capital and total exposure measure		
20	Tier 1 capital	74.360
21	Leverage ratio total exposure measure	263.703
Leverage Ratio		
22	Leverage ratio	**28,20%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	N/A
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	N/A

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

		USD 000s
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	156.138
EU-2	Trading book exposures	72.577
EU-3	Banking book exposures, of which	83.561
EU-4	Covered bonds	–
EU-5	Exposures treated as sovereigns	–
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	–
EU-7	Institutions	66.276

		USD 000s
EU-8	Secured by mortgages of immovable properties	–
EU-9	Retail exposures	–
EU-10	Corporate	14.983
EU-11	Exposures in default	–
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2.302

Appendix 1: Main Features of Common Equity Tier 1 Instruments

Capital instruments main features template		
1	ISSUER	Alfa Capital Markets Ltd
2	Unique identifier (eg CUSIP,ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Cyprus
	Regulatory treatment	Companies Law, Cap.113
4	Transitional CRR rules	N/A
5	Post-transitional CRR rules	N/A
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	USD 75mln
9	Nominal amount of instrument	1,00
9a	Issue price	1,00
9b	Redemption price	-
10	Accounting classification	Equity
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call date, contingent call dates and redemption amount	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupon/dividends	N/A
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in items of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in items of amount)	Fully discretionary
21	Existence of step up or other incentive or redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A

Capital instruments main features template		
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

Appendix 2: Transitional Own Fund Disclosure according to the Annex IV of the EU regulation No. 1423/2013

Transitional Own Funds Disclosure		Amount as of 31/12/2020
		USD ‘000
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	*Capital instruments and the related share premium accounts*	75.000
	of which: Instrument type 1 – Share Capital	75.000
	of which: Instrument type 2 – Share Premium	–
	of which: Instrument type 3	–
2	Retained earnings	2.091
3	Accumulated other comprehensive income (and other reserves)	–
3a	Funds for general banking risk	N/A
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	N/A
	Public sector capital injections grandfathered until 1 January 2018	N/A
5	Minority interests (amount allowed in consolidated CET1)	N/A
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**77.091**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(547)
8	Intangible assets (net of related tax liability) (negative amount)	(2.184)
9	Empty set in the EU	N/A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	N/A
11	Fair value reserves related to gains or losses on cash flow hedges	N/A
12	Negative amounts resulting from the calculation of expected loss amounts	N/A
13	Any increase in equity that results from securitised assets (negative amount)	N/A
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	N/A
15	Defined-benefit pension fund assets (negative amount)	N/A
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	N/A

Transitional Own Funds Disclosure		Amount as of 31/12/2020
		USD ‘000
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A
20	Empty set in the EU	N/A
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	–
20b	of which: qualifying holdings outside the financial sector (negative amount)	–
20c	of which: securitisation positions (negative amount)	–
20d	of which: free deliveries (negative amount)	–
21	Deferred tax assets arising from temporary differences (amount **above** 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	
22	Amount exceeding the 15% threshold (negative amount)	N/A
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	N/A
24	Empty set in the EU	N/A
25	of which: deferred tax assets arising from temporary differences	N/A
25a	Losses for the current financial year (negative amount)	N/A
25b	Foreseeable tax charges relating to CET1 items (negative amount)	N/A
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	N/A
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	N/A
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	N/A
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	N/A
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(2.731)**
29	**Common Equity Tier 1 (CET1) capital**	**74.360**
30-36	Additional Tier 1 (AT1) capital: instruments	–
37-42	Additional Tier 1 (AT1) capital: regulatory adjustments	–
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	–
44	Additional Tier 1(AT1) capital	–
45	**Tier 1 capital (T1 = CET1 + AT1)**	**74.360**

Transitional Own Funds Disclosure		Amount as of 31/12/2020
		USD '000
Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	–
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	–
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	–
49	of which: instruments issued by subsidiaries subject to phase out	–
50	Credit risk adjustments	–
51	**Tier 2 (T2) capital before regulatory adjustments**	–
Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	N/A
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A
54a	of which new holdings not subject to transitional arrangements	N/A
54b	of which holdings existing before 1 January 2013 and subject to transitional arrangements	N/A
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	N/A
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	N/A
56a	Residual amounts deducted from Tier 2capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No. 575/2013	N/A
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	N/A
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No. 575/2013	N/A
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	N/A

Transitional Own Funds Disclosure		Amount as of 31/12/2020
		USD '000
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	N/A
	Of which: possible filter for unrealised losses	N/A
57	Total regulatory adjustments to Tier 2 (T2) capital	N/A
58	**Tier 2 (T2) capital**	–
59	**Total capital (TC = T1 + T2)**	**74.360**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013(i.e. CRR residual amounts)	N/A
	Of which: Items not deducted from CET1 (Regulation (EU) No. 575/2013residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	N/A
	Of which: Items not deducted from AT1 items (Regulation (EU) No. 575/2013residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)	N/A
	Items not deducted from T2 items (Regulation (EU) No. 575/2013residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	N/A
60	**Total risk weighted assets**	**297.416**
Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount)**	**25,00%**
62	**Tier 1 (as a percentage of total risk exposure amount)**	**25,00%**
63	**Total capital (as a percentage of total risk exposure amount)**	**25,00%**
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7,10%
65	of which: capital conservation buffer requirement	2,50%
66	of which: countercyclical buffer requirement	0,10%
67	of which: systemic risk buffer requirement	0,00%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	25,00%
69	[non relevant in EU regulation]	
70	[non relevant in EU regulation]	
71	[non relevant in EU regulation]	

Transitional Own Funds Disclosure		Amount as of 31/12/2020
		USD '000
Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	N/A
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	N/A
74	Empty set in the EU	N/A
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	N/A
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	N/A
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	N/A
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	N/A
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	N/A
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A
84	Current cap on T2 instruments subject to phase out arrangements	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A