DRAGON CAPITAL (CYPRUS) LTD

PILLAR III DISCLOSURES

YEAR ENDED 31 DECEMBER 2020

AUGUST 2021

According to Directives DI144-2014-14 and DI144-2014-15 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms

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Dragon Capital

1. OVERVIEW

This report pertains to the "Disclosure and Market Discipline of Investment Firms" regulatory obligation, in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the "CRR" or "Regulation") and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (the "CySEC") for the prudential supervision of investment firms (hereinafter the "Directive"). Under this regulatory obligation Dragon Capital (Cyprus) Limited (hereinafter the "Company") is obliged to provide information on its risk management, capital structure, capital adequacy, its risk exposures as well as the most important characteristics of the Company's corporate governance including its remuneration system. The scope of these disclosures is to promote market discipline and to improve transparency of market participants.

The information that the Company discloses herein relates to the year ended 31 December 2020.

The current regulatory framework (Basel Framework) consists of three Pillars:

- **Pillar I** ('minimum capital requirements') defines rules for the calculation of credit, market and operational risk;
- **Pillar II** ('supervisory review') requires investment firms to estimate their own internal capital requirements through an Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation; and
- **Pillar III** ('market discipline') involves the disclosure of a suite of qualitative and quantitative risk management information to the market.

1.1 Company Incorporation and Principal Activities

Dragon Capital (Cyprus) Limited (the "Company") is domiciled in Cyprus. The Company was incorporated in Cyprus on 2 February 2006 as a private limited liability company under the Cyprus Companies Law, Cap. 113. The Company is authorized and regulated as a Cypriot Investment Firm ("CIF") by the Cyprus Securities and Exchange Commission (CySEC) under License Number 112/10.

According to its CIF license, the Company is authorized to provide the following investment and ancillary services:

Investment Services
1. Reception and transmission of orders in relation to one or more financial instruments; 2. Execution of orders on behalf of clients; 3. Dealing on own accounts; 4. Provision of investment advice; 5. Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis; 6. Placing of financial instruments without a firm commitment basis.

Ancillary Services
1. Safekeeping and administration of financial instruments, including custodianship and related services; 2. Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction; 3. Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings; 4. Foreign exchange services where these are connected to the provision of investment services; 5. Investment research and financial analysis or other forms; 6. Services related to underwriting.

The above services can be offered for the following financial instruments:

Financial Instruments
1. Transferable securities; 2. Money-market instruments; 3. Units in collective investment undertakings; 4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash; 5. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event; 6. Options, futures, swaps and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market; 7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 above and not being for commercial purposes, which have the characteristics of other derivative financial instruments; 8. Derivative instruments for the transfer of credit risk; 9. Financial contracts for differences;

10. Options, futures, swaps, forward-rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF.

1.2 Scope of disclosures

The Company was controlled by Dragon Capital Holding Limited, incorporated in Cyprus, which owned 99,1% of the Company's shares. The ultimate controlling entity was Conebond Limited.

On 9 July 2020 the 99,1% shareholding of Dragon Capital Holding Limited was transferred to Tomas Fiala through an Instrument of Transfer agreement. Tomas Fiala is common UBO for both entities.

The Pillar 3 Disclosures for the year ended 31 December 2020 are prepared on an individual (solo) basis.

1.3 Disclosure Policy

In accordance with the Article 433 of the Regulation (EU) No.575/2013, financial institutions are required to publish the disclosures, required in by Part Eight of the Regulation (EU) No. 575/2013 at least on an annual basis.

The Company is required according to the Directive DI144-2014-14 of CySEC (the "Directive") to provide a copy of the auditor's verification report to CySEC, five months after the end of each financial year, at the latest. For the year ended 31 December 2020 the deadline has been extended to 31st August 2021.

The Company discloses information in relation to its capital requirements on an annual basis. The disclosures are published on the Company's website https://www.dccl.com.cy/ in conjunction with the date of publication of the financial statements.

1.4 Operating environment of the Company

Coronavirus Outbreak

With the recent and rapid development of the Coronavirus disease (COVID-19) pandemic the world economy entered a period of unprecedented health care crisis that has caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments have implemented restrictions on travelling as well as strict quarantine measures throughout the year. Industries such as tourism, hospitality and entertainment have been directly disrupted significantly by these measures. Other industries such as manufacturing and financial services have also been indirectly affected.

In Cyprus, on 15 March 2020, the Council of Ministers in an extraordinary meeting, announced that it considers that Cyprus is entering a state of emergency considering the uncertain situation as it unfolds daily, the growing spread of COVID-19 outbreak and the World Health Organisation's data on the situation. To this end, certain measures have been taken by the Republic of Cyprus since then with a view to safeguarding public health and ensuring the economic survival of working people, businesses, vulnerable groups and the economy at large.

New entry regulations have been applied with regards to protecting the population from a further spread of the disease which tightened the entry of individuals to the Republic of Cyprus within the year. Additionally, a considerable number of private businesses operating in various sectors of the economy had closed for a period of time while a number of lockdown measures, such as the prohibition of unnecessary movements and the suspension of operations of retail companies (subject to certain exemptions), were applied throughout the year. The measures had been continuously revised (lifted or tightened) by the Republic of Cyprus during the year taking into consideration the epidemic status in the country. The objective of these public policy measures was to contain the spread of COVID-19 outbreak and have resulted in minor operational disruption for the Company.

In parallel, governments, including the Republic of Cyprus, introduced various financial support schemes in response to the economic impacts of the COVID-19 coronavirus pandemic. The Company has not applied for such government assistance. The details of all the arrangements that might be available to the Company and the period throughout which they will available are continuing to evolve and remain subject to uncertainty. The Company is continuing to assess the implications for its business when these arrangements are no longer available and has reflected their impact in its stress-scenarios for going concern purposes.

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty through, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome. Management’s current expectations and estimates could differ from actual results. The Company’s management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment. In addition, management will continue to monitor the situation closely and will assess any needs in case the period of disruption becomes prolonged.

Ukraine economic environment

The Company’s operations are primarily Ukraine focused. The Company actively trades debt (Eurobonds, issued by Ukrainian government and corporations) and equity (of Ukrainian companies and companies with assets in Ukraine) financial instruments.

Ukraine met the global crisis fueled by the COVID-19 pandemic with strong economic fundamentals. Its key strengths included moderate C/A and fiscal deficits, a high share of crisis-resilient soft commodities in exports (40% of total), and a stable and well-capitalized banking system.

The Ukrainian economy shrinked by an estimated 4.0% in 2020 following four consecutive years of growth averaging 2.9% y-o-y. The decline was caused by quarantine measures, particularly the strict national lockdown from mid-March to mid-May, a shrink in global trade volumes, and a weaker grain harvest.

The Directors believe they are taking appropriate measures to support the sustainability of the Company's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Company's results and financial position in a manner not currently determinable.

The Company's external auditors emphasized in the independent auditor's report for 2020 that due to the uncertainty and current volatility in the Ukrainian market, derived from the political, business and economic environment in Ukraine and from the Coronavirus COVID-19 pandemic, may involve risks to the operations of the Company.

1.5 Regulatory Developments

Furthermore, the capital adequacy and overall risk management requirements that currently apply to the Company under the CRR and CRDIV prudential framework, will be replaced by amended prudential rules established by the EU Regulation 2019/2033 ("Investment Firm Regulation" or "IFR") and the EU Directive 2019/2034 ("Investment Firm Directive" or "IFD"), which shall become applicable on 26th of June 2021. The new rules introduce changes in the methodologies that EU investment firms are required to apply for calculating their exposures to risk and their capital adequacy ratio and in this respect, the Company is in the process of assessing the impact that these changes are expected to have on its solvency position, in order to take timely action and be in a position to adopt the new rules.

2 CORPORATE GOVERNANCE-BOARD AND COMMITTEES

2.1 Board of Directors

The Board of Directors comprises of four members, two (2) which are Executive Directors and two (2) which are Non-Executive (Independent) Directors. The majority of the members of the Board of the Company, including the General Manager, are residents of the Republic of Cyprus. One Executive Director is resident of the Republic of Ukraine, who was approved by CySEC, and provides additional insights and opinions on local Ukrainian financial market developments that help Company align its overall strategy.

The major duties of the Board of Directors are to:

- Formulate the Company's strategy in terms of development of existing and new services;
- Govern the organization by broad/specific policies, procedures and objectives;
- Ensure that the Company maintains and implements adequate internal control mechanism;
- Ensure that the Company complies with its legal obligations to CySEC;
- Assess and review on regular basis the effectiveness of Company's policies, procedures and arrangements in place and their compliance with the relevant Laws and Directives issued by EU governing bodies and the Commission;
- Monitor the performance of the Investment Committee;
- Ensure that sufficient and experienced personnel and resources are available to the Company to carry out its operations;
- Ensure that the Compliance /AMLRO function has necessary authority, expertise, sufficient resources and direct access to all relevant information in order to be able to monitor the activities performed by the employees and assess its knowledge and competence;
- Implement and monitor Internal Capital Adequacy Assessment Process in order to appropriately identify and measure any risks, to set appropriate level of internal capital in relation to Company's risk profile and to apply and further develop a suitable risk-management and internal control systems;
- Ensure that the Board of Directors receives on a regular (at least annual basis) written reports from the Compliance/AML officer, Risk Management Officer and Internal Audit Function, follows up any issues raised as well as ensure that remedial measures have been taken in the event of any deficiencies;

- Approve and oversee the remuneration policy of the Company;
- Appoint and replace Head of Compliance /AML Officer.

Head of Compliance/AML Department, Head of Risk Management Department, Internal Audit service provider are responsible for the provision of periodic (at least annual) reports to the Board of Directors.

The Board of Directors meets on a regular basis. During these meetings, the general strategy of the Company and business-related issues are included in the agenda. All meetings are recorded and filed, both in hard copy and electronic copy. The Company is against of setting specific dates for meeting, as it considered that this would imply only the minimum requirement as imposed by the Cyprus Securities and Exchange Commission and does not support a strong and healthy input from the Board of Directors.

During 2020, the Board met ten (10) times. All meetings of the Board of Directors took place in Cyprus at the Company's premises. The minutes of the Board of Directors signed after each meeting. Furthermore, five (5) resolutions regarding operational matters of the Company were adopted in 2020. All original hard copies of the minutes and resolutions are kept in the Company's premises.

The Board of Directors oversees the Risk Management Function. The Risk Management Function reports directly to the Board. In addition, the members of the Board receive quarterly risk management reports in order to have a general overview of the major types of risks that the Company faces and to keep members up to date.

2.2 Board Recruitment Policy

For the positions opened within the management body of the Company, the selection and recruitment process should be guided by the provision of good repute and sufficient knowledge. The members of the Board of Directors of the Company shall at all times be of good repute and possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board of Directors must reflect an adequately broad range of experiences.

It is crucial for the selection and recruitment process of members of the management body to incorporate the principle of collective adequate knowledge, skills and experience for the understanding of the Company's activities, including the principal risks.

For the approval of the positions within the management body of the Company, the approval of all members of the Board of Directors is required.

2.3 Board Diversity Policy

The main goal of the Diversity in Management Body is to issue the composition of the senior management from highly professional individual despite of sex, nationality, religious believes, skin colour or racial identity. Principal of equality has to apply to the whole selection process of the senior management where the decision is made based on professional assessment.

2.4 Number of directorships held by members of the Board

The table below provides information on the number of directorships each member of the management body of the Company holds at the same time in other entities (including the directorship held in Dragon Capital (Cyprus) Limited). Directorships in organisations which do not pursue predominantly commercial objectives, such as non-profit or charitable organizations, are not taken into account for the purposes of the below. Furthermore, executive or non-executive directorships held within the same group, are considered as a single directorship.

Name of Director	Executive Directorships	Non-Executive Directorships
Mr. Oleksandr Fedorov	1	-
Mr. Ivo Suchy[1]	3	-
Mr. Apollon Athanasiades	1	1
Mr. Soteris Eliophotou	-	1

Note: The information in this table is based only on representations made by the directors of Company.
Note[1]: Mr. Ivo Suchy held three (3) directorships which are under Dragon Capital Group and which consider as one directorship. The remaining two (2) are outside the Dragon Capital Group.

2.5 Risk Committee

Having assessed the complexity and scale of the Company's trading activity, it's size and scale of business, the Company did not set up a Risk Committee. Risk issues are covered by the Risk Management Department of the Company with direct reporting to the management body. The Company trades non-complex instruments only-Eurobonds and bonds, equities with relatively small amount of derivative trades. Clients of the Company have access to Eurobonds, bonds and equities only. No derivatives are provided to clients.

2.6 Investment Committee

The purpose of the Investment Committee is to contribute towards the formation of Company's trading policy by examining investment opportunities and analysing their potential.

The Investment Committee's main responsibilities are:

- To meet at least annually;
- To provide a framework on which investment decisions for investment of own funds are based;
- To develop own funds trading policies and procedures;
- To set the Company's trading policy;
- To predetermine the markets and the financial instruments in which the Company operates;
- To deal with any other matters relating to Company's investment activity;
- To be in close cooperation with Risk Management Function, which is responsible for the ICAAP practical process and implementation, in order to develop recommendations for trading limits;
- To communicate the above decisions to the Board of Directors.

Provision of a framework on which investment decisions are based:

— Decisions are taken with a majority vote;
— In case of an unusual event occurring in the markets, the Investment Committee will reassess its position with an extraordinary meeting;
— Meetings are called with 48-hours notice to members.

During 2020, the Investment Committee met one (1) time.

2.7 Information flow on risk to the Management Body

The Board receives reports on risk management, compliance, anti-money laundering and internal audit issues at least annually. The following table presents the main pieces of information provided to the Board on risk-related issues:

Information	Report prepared by:	Report received by:	Frequency
Risk Management Report	Risk Manager	Board, CySEC	Annually
Compliance Report	AML/ Compliance Officer	Board, CySEC	Annually
AML Compliance Report	AML/ Compliance Officer	Board, CySEC	Annually
Internal Audit Report	Internal Auditor	Board, CySEC	Annually
Suitability Report	External Auditor	Board, CySEC	Annually
Audited Financial Statements	External Auditor	Board, CySEC	Annually
ICAAP	Risk Manager	Board, CySEC (upon request)	Annually

3 RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 Risk Management Framework

The Company's risk management framework aims to establish, implement and maintain adequate policies and procedures designed to manage any type of risk related to the Company's activities, processes and systems. The current risk management framework is designed to identify potential events that may affect Company's operations. Risk Management framework manages risks, so they are within Company's risk appetite and provides reasonable assurance regarding the achievement of its mission and its objectives. Communication of information at all relevant levels of the Company is defined by the organisational structure which clearly specifies reporting lines and allocates functions and responsibilities. The Company maintains internal reporting at various risk types, frequency, and depth of reports.

The Risk Management Framework of the Company consists of three (3) major elements:

1. Risk Management Policy
2. ICAAP
3. Trading Book Policy

All elements of the framework are interconnected and aim to address various types of risks from different perspectives. Risk Management Policy covers all major risks faced by the Company in its daily operations and ways to control and mitigate them. ICAAP covers risks not fully covered by Risk Management Policy and set standards for overall risk tolerance and acceptance. Trading Book Policy provides additional guidelines for mitigation techniques and controls of risk, covered in Risk Management Policy and additionally integrates risk tolerance levels set by the ICAAP in daily operations.

Risk Management Framework (including Risk Management Policy, ICAAP process (including ICAAP Report), Trading Book Policy) are reviewed on regular basis, at least annually, by Head of Risk Department and further reviewed and approved by the Board of Directors. Review is performed in order to identify any deficiencies and promptly react to those, securing the adequacy and effectiveness of the framework.

3.2 Risk Management Function

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify.

The Head of the Risk Department is responsible for:

- Establishing, implementing and maintaining adequate risk management policies and procedures which identify the risks relating to Company's activities, processes and systems;
- Setting Dragon's risk tolerance;
- Developing internal control mechanisms, effective procedures for risk assessment, effective control and safeguard arrangements for information processing systems;
- Adopting effective arrangements, processes and mechanisms to manage the risks relating to the Company's activities, processes and systems in light of the set risk tolerance;
- Analyzing for the Investment Committee the potential hazards associated with the recommended framework on which the investment decisions/advice are based;
- Credit assessment (quality and financial analysis of client) to which a credit of loan is granted according to Dragon's risk criteria and limits;
- Monitoring of investment risk undertaken by Dragon for each client, counterparty and as a whole;
- Monitoring of brokerage and own account transactions as regards to adherence to established risk limits;
- Monitoring of day-to-day operational risks;
- Building and promoting a risk awareness culture within the Company, including ICAAP, and providing the relevant training;
- Ensuring that the Company complies with its continuous prudential supervision obligations to CySEC such as the submission of Capital Adequacy Ratio, contribution to Investors Compensation Fund, etc.;
- Monitoring the adequacy and effectiveness of its risk management policies and procedures;
- Monitoring the level of compliance by Dragon and its employees with the arrangements, processes and mechanisms adopted;

- Monitoring the adequacy and effectiveness of measures taken to address any deficiencies in the risk management policies, arrangements and procedures;
- Reporting to Senior Management/Board of Directors at least annually on risk management issues (submission of annual Risk Management Report), indicating in particular whether appropriate remedial measures have been taken.

Risk limit monitoring

All trading activities are counted without delay towards the corresponding limits of Trading Book Limits System and every trader should be informed promptly of the limits relevant to them and of their current level of utilization.

All individual positions are aggregated into the overall risk position at least once a day at the close of trading.

3.3 Internal Audit Function

The Internal Audit function ensures that there is adequate planning, control and recording of all audit and review work performed, that there is timely reporting of findings, conclusions and recommendations to the Board of Directors, and that matters or risks highlighted in the relevant reports are followed up and resolved satisfactorily.

The Internal Audit function is outsourced and has the following responsibilities:

- To establish, implement and maintain an audit plan and to examine and evaluate the adequacy and effectiveness of IT systems, internal control mechanisms and arrangements;
- To issue recommendations based on the result of the audit;
- To verify compliance with the recommendations;
- To report in relation to internal audit matters to the Senior Management, the Board of Directors and to the regulators.

The Senior Management and the Board of Directors assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the regulatory obligations and to take appropriate measures to address deficiencies. The internal auditor issues the written reports to the Senior Management/Board on an annual basis, containing information on regulatory compliance, risk management/compliance and other internal audit findings indicating in particular whether the appropriate remedial measures have been taken into consideration with regards to any deficiencies. These reports on the same matters are presented and discussed during the meetings of the Board of Directors. In cases of serious irregularities such as money embezzlement, money laundering, market manipulation, etc., the Board of Directors is immediately informed in order for immediate actions to be taken.

3.4 Compliance and Anti-Money Laundering Compliance Officer

During 2020, the Compliance and AMLCO Function were performed by the same person. The Compliance and Anti-Money Laundering Compliance Officer is independent of all operational and business functions and reports directly to the Board of Directors. More specifically this officer is responsible for the following:

- To design and build upon the general principles of Dragon, the internal policies, procedures and controls relevant to the prevention and suppression of money laundering and terrorist financing;
- To communicate with employees on information is known to be related with money laundering or terrorist financing activities or might be related with such activities and to evaluate such information;
- To develop and establish the Client Acceptance Policy, which require submission to the Board of Directors for approval;
- To review and update the AML Manual as may be required from time to time, and for such updates to be communicated to the Board for their approval;
- To implement the guidelines and broad instructions issued by the member of the Board of Directors responsible for AML, and create efficient and transparent processes to be followed across the Company, based on the said broad instructions and guidelines;
- To receive information from the Company's employees which is considered to be knowledge or suspicion of money laundering or terrorist financing activities or might be related with such activities. The information is received in a written report form ("Internal Suspicion Report");

- To evaluate and examine the information received in a written report form and to take appropriate actions;
- To ensure the preparation, maintenance and update of the lists of Clients categorised following a risk-based approach;
- To detect, record and evaluate, at least on an annual basis, all risks arising from existing and new Clients, new financial instruments and services, and amend and update the systems and procedures applied by the Company for the effective management of the aforementioned risks;
- To identify the third person, which the Company relies and/or shall rely for applying customer due diligence and identification procedures of the Clients, by providing his written consent for the relevant reliance. The written consent must be kept in the personal records of the third person;
- To ensure that the branches and subsidiaries of the Company, if any, that operate in countries outside the EEA, have taken all necessary measures for achieving full compliance with the provisions of the Manual, in relation to Client identification, due diligence and record keeping procedures;
- To provide advice and guidance to the employees of the Company on subjects related to money laundering and terrorist financing;
- To acquire the knowledge and skills required for the improvement of the appropriate procedures for recognising, preventing and obstructing any transactions and activities that are suspected to be associated with money laundering or terrorist financing;
- Provision of training as required;
- Timely submission of the Monthly Prevention statement to CySEC;
- The preparation of the Annual Report;
- To respond to all requests and queries from the Unit and CySEC, and to provide all requested information and fully cooperate with the Unit and CySEC;

The Compliance and Anti-Money Laundering Compliance Officer has access to the documents and information required for performing her duties and responsibilities.

3.5 Policies for hedging and mitigating risk

The Company controls and mitigates its exposure to risk by following procedures outlined in main risk management policies and internal procedures:

1. General risk management policy that consists of:
    - Credit Risk Policy
    - Market Risk Policy
    - Operational Risk Policy
    - Credit and Loan Granting Guarantee Assessment
2. Trading Book Limit System
3. Internal Operations Manual

Credit risk is the risk that the Company may suffer losses as a result of customers and/or counterparties defaulting on their contractual obligations. The risk primarily arises from client and counterparty trading.

The principles which govern the Company and its credit risk responsibilities and procedures are as follows:

- The Company operates within a well-defined credit granting criteria;
- The Company has a clearly established process in place for approving new trading limits and amendments and reviews of limits already in existence;
- Risk Management must set trading limits for counterparties before counterparties can begin trading where credit exposures arises;
- Only Head of Risk Management can approve the limits;
- The Company has procedures in place which allow for timely monitoring of trading limits;
- The Company has escalation procedures in place for managing and resolving trading limit breaches.

Market Risk is the risk of loss due to movements in financial market prices or volatilities. With regards to managing its exposure to market risk, the Company performs daily mark-to-market valuations on unsettled trades (which includes pending settlement) and traded positions, with the additional measure of a stop-loss methodology in place. This very process of managing the exposure to market risk is performed fully automated and is integrated in the back/middle office system of the Company.

Liquidity risk – The Company is convinced that the main liquidity risks that Dragon faces are funding liquidity risk, which refers to the ability to meet investment and funding requirements arising from the cash flow mismatches and market liquidity risk, the risk that Dragon is unable to close out open positions quickly enough and in sufficient quantities at a reasonable price to avoid adverse financial impacts.

The risk management department provides a liquidity risk management framework. Further it monitors the liquidity risk, manages short and long term liquidity positions and evaluates and manages liquidity related contingencies.

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. The following tools are considered as a first line of defence when managing and mitigating operational risk:

- **Audit oversight** – This consists of the management response to the audit points which will be raised through the annual internal and external audits;
- **Work-Flows** – All work flows are to be thoroughly documented by each department, which will highlight manual processing and automated processing. Processes which are manual should have adequate controls, possibly "four-eye" principal applied;
- **Operational Procedures** – Detailed procedures, which will include screen-shots and descriptive text for each specific process, illustrating how the process is actually performed;
- **Incident Log** – This log is to record all incidents, regardless of financial loss to the Company (as just because no financial loss has occurred 'today' with an incident, this does not necessarily remain true of future incidents of a similar nature. This log will contain full

diagnoses of the incident and the subsequent action taken/introduced to reduce if not eliminate repetition occurring;

- **Key Risk Indicators** – These are simple measures that provide an indication of whether risks are changing over time. Such early warning signs include, but are not limited to, audit points, staff turnover, trade volumes, new products/lack of knowledge, etc. The assumption being that operational risk events are more likely to occur when these indicators increase;
- **Casual Networks** – Describe how losses can occur from a cascade of different causes, of which the causes and effects are linked through conditional probabilities. Adopting such bottom-up models improves the understanding of losses since they focus on the drivers of risk.

Strictly following its risk assessment process, the Company implements and utilizes several risk mitigation techniques for non-centrally cleared derivatives and accompanying risks. The Company closely monitors and updates where necessary techniques applied. Among the techniques utilized the following can be observed: timely confirmations, portfolio reconciliations, mark-to-market valuation, dispute resolution, trading limits and stop loss limits systems, large exposure report.

4 BOARD DECLARATION OF MANAGEMENT BODY

The Board of Directors judges that the Company's risk management arrangements are sufficient and provide assurance that the risk management systems put in place are adequate with regards to the Company's profile and strategy.

The Board of Directors also is responsible to ensure and review that the Company's overall risk profile associated with its business strategy, business concept and key ratios.

The Board's judgment was made on the basis of the business concept adopted, the material and reports presented to the Board by the Company's general management, Internal Auditor, Risk Manager and Compliance Officer, and on the basis of supplementary information and statements obtained by the Board.

A review of the business concept and policies shows that the business concept's general requirements for the individual risk areas are reflected in the more specific limits set by the individual policies. A review of the Board of Directors' guidelines shows that the individual policies are reflected in the underlying guidelines for the general management and powers conferred, and that the actual risks are within the limits set by the said policies and powers.

The Board of Directors judges on this basis that the business concept, policies, guidelines and the actual risks within the individual areas are consistent.

5 RISK STATEMENT

Managing risk effectively in an adverse, complex and continuously changing risk environment requires a strong risk management culture. To this end, the Company has as a goal to operate with a minimum capital adequacy ratio of 11% which reflects and fully covers future increases in prudential requirements. Further updates of risk statement will reflect the constantly changing environment of financial markets in order to mitigate market fluctuation effect. Along with that based on the business of the Company, its organizational processes, internal governance, risk management framework and risk profile, the Company deems it proper to maintain ICAAP Capital Adequacy Ratio at the level of 15% to cover all potential risks under Pillar I and II.

6 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ("ICAAP")

According to the provisions of Section 68 of the CySEC's Investment Services and Activities and Regulated Markets Law, all Cyprus Investment Firms should have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed. To this effect, the Company has updated its ICAAP.

The Company's ICAAP contains detailed step-by-step process of current risk mitigation, steps necessary to maintain internal capital assessment process and further steps for expanding activity and the range of traded instruments. The Board of Directors approved the revised ICAAP.

This ICAAP report is produced annually and represents the Company's own assessment of its internal capital requirements. Following careful review of business of the Company, its risk profile, which is based on the size of the Company and complexity of the activities performed, the Company deems it proper to apply simple monitoring methods. The Company's approach to calculating its own internal capital requirements has therefore been to take the minimum capital required for risks under Pillar I as the starting point with further calculation of necessary overheads covering risks not fully covered under the Pillar I approach and risks not covered at all under Pillar II.

The ICAAP Report is prepared for the Senior Management and the Board of Directors of the Company. Based on the business of the Company, its organizational processes, internal governance, risk management framework and risk profile, the Company deems it proper to maintain a Pillar II Capital Adequacy Ratio at the level of 15% to cover all potential risks under Pillar I and II.

7 OWN FUNDS

7.1 Composition of Own Funds and Capital Adequacy Ratio

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

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

CySEC requires each investment firm to maintain a minimum ratio of Own Funds to Risk Weighted Assets ("RWAs") of 8% for Pillar I risks, plus the relevant capital buffers, as applicable. In addition, the CySEC may impose additional capital requirements for risks not covered by Pillar I. For the year ended 31st December 2020, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus a capital conservation buffer of 2,5% and an institution-specific countercyclical capital buffer of 0%, resulting to an overall minimum of 10,50%. The capital conservation buffer has to be met entirely out of Common Equity Tier 1 capital.

Own Funds

The Own Funds of the Company as at 31st December 2020 comprised entirely of Common Equity Tier 1 (CET1) items and is presented in Table 1 below. The level of Own Funds was at $25.665k and the Capital Adequacy Ratio was 84,89%. The calculations of Capital Adequacy Ratio contain the information disclosed in the audited financial statements for the year ended 31 December 2020.

Table 1: Own Funds and Minimum Capital Requirements

Own Funds and Minimum Capital Requirements	31 December 2020
	$'000
Common Equity Tier 1 Capital	
Share capital	10
Share premium	22.678
Retained Earnings	(4.397)
Audited profit for the year	7.518
Common Equity Tier 1 Capital before deductions	**25.809**
Deductions from Common Equity Tier 1 Capital	
Additional deductions of CET1 Capital due to Article 3 CRR	(98)
Additional cash buffer	(2)
Additional Valuation Adjustment ("AVA")	(44)
Total Common Equity Tier 1 Capital after deductions	**(144)**
Additional Tier 1 Capital	**25.665**
Tier 2 Capital	**-**
Total Own Funds	**25.665**
Capital Requirements	
Credit risk	365
CVA Risk	4
Market Risk	1.020
Operational Risk	938
Additional capital requirements for the large exposure excess in the Trading Book	92
Total Capital Requirements	**2.419**
Capital Adequacy Ratio	**84,89%**

Authorised Share Capital

During 2020 there were no changes in the authorised share capital of the Company.

Issued Share Capital

During 2020 there were no changes in the authorised issued capital of the Company.

Deductions from Own Funds

As at 31st of December 2020, the Company deducted from its CET1 capital its contribution to the Investors Compensation Fund (ICF) and the 3 per thousand additional cash buffer for the ICF as required by CySEC Circulars C162 and C334 respectively, and its additional valuation adjustment ("AVA") relating to the requirements for prudent valuation, based on its fair valued assets and liabilities relating to positions in financial instruments.

Capital Adequacy Ratio

The Company's Capital Adequacy Ratio for the year ended 31 December 2020 stood at 84,89%, which exceeded the minimum required threshold of 10,50% (8% plus buffers, as analysed above).

Further information in relation to the Company's Own Funds at year end is provided in the tables below:

Table 2: Balance Sheet reconciliation

Balance Sheet Description as per audited Financial Statements	**31 December 2020 $'000**
Share Capital	10
Share Premium	22.678
Retained Earnings	(4.397)
Audited profit for the year	7.518
Total Equity as per Audited Financial Statements	**25.809**
Deductions	
(Less: Contribution to the Investors Compensation Fund)	(98)
(Less: Additional cash buffer)	(2)
(Less: Additional Valuation Adjustment ("AVA"))	(44)
Total Own Funds as per CoRep	**(144)**
Total Own Funds	**25.665**

Table 3: Own funds disclosure template under the transitional and fully phased in definition

31 December 2020	Transitional Definition	Fully - phased in Definition
	$'000	**$'000**
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	22.688	22.688
Retained earnings	3.121	3.121
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**25.809**	**25.809**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
(-) Additional Deductions of CET1 Capital due to Article 3 CCR	(98)	(98)
(-) Additional Cash Buffer	(2)	(2)
(-) Additional Valuation Adjustment (“AVA”)	(44)	(44)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(144)**	**(144)**
Common Equity Tier 1 (CET1) capital	**25.665**	**25.665**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**25.665**	**25.665**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**25.665**	**25.665**
Total Risk Weighted Assets	**30.232**	**30.232**
Capital ratios and buffers		
Common Equity Tier 1	84,89%	84,89%
Tier 1	84,89%	84,89%
Total capital	84,89%	84,89%

Definitions:

The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total Risk Weighted Assets (“RWAs”) for covering Pillar I risks.

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total RWAs for covering Pillar I risks.

The Total Capital ratio is the Own Funds of the Company expressed as a percentage of the total RWAs for covering Pillar I risks.

8 PILLAR I CAPITAL REQUIREMENTS

8.1 Risk Weighted Assets ("RWAs") and Capital Requirement

The capital requirements for the five risks covered by Pillar I are as follows:

Table 4: Capital requirement by risk category

Risk Type – 31 December 2020	RWAs	Capital Requirement
	$'000	$'000
Credit	4.558	365
Market	12.749	1.020
of which FX market risk	-	-
of which Commodity market risk	-	-
of which Equity market risk	7.494	600
of which Interest rate market risk	5.255	420
Operational	11.725	938
CVA	50	4
Large exposures in the Trading Book	1.150	92
Total	**30.232**	**2.419**

8.2 Credit Risk

General

Credit risk arises when a failure by counter parties to discharge their obligation could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has no significant concentration of credit risk. The Company has policies in place to ensure that the sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

Capital Requirements

The Standardized Approach is used for measuring Credit Risk. The table below presents the allocation of RWAs and capital requirements for Credit Risk by asset class as at 31st December 2020:

Table 5: Credit Risk summary table

Exposure Class – 31 December 2020	RWAs	Minimum Capital requirement
	$'000	$'000
Corporate	669	53
Institutions	3.882	311
Other Items	7	1
Total	**4.558**	**365**

Table 6: Average exposures and original exposures net of provisions per asset class

Asset Classes – 31 December 2020	Original Exposure Amount, net of specific provisions	Average Exposure
	$'000	$'000
Corporate	669	352
Institutions	19.407	20.832
Other Items	23	27
Public sector entities	-	87
Total	**20.099**	**21.298**

Table 7: Geographical distribution of exposures

Exposure Class– 31 December 2020	CY	CZ	UK	Other	Total
	$'000	$'000	$'000	$'000	$'000
Corporate	615	-	-	54	**669**
Institutions	789	7.825	10.784	9	**19.407**
Other Items	23	-	0	0	**23**
Total	**1.427**	**7.825**	**10.784**	**63**	**20.099**

Table 8: Original exposures by residual maturity and asset class

Allocation of exposures by residual maturity – 31 December 2020	Up to 3 months	More than 3 months	Total
	$'000	$'000	$'000
Corporate	669	-	**669**
Institutions	19.407	-	**19.407**
Other Items	23	0	**23**
Total	**20.099**	**0**	**20.099**

Table 9: Distribution of exposures by industry

Exposures by Asset Class by Industry Segment – 31 December 2020	Banking/Financial services	Other	Total
	$'000	$'000	$'000
Corporate	651	18	**669**
Institutions	19.407	-	**19.407**
Other Items	2	21	**23**
Total	**20.060**	**39**	**20.099**

Nominated External Credit Assessment Institutions ("ECAIs") used for calculating Risk Weighted Assets under the Standardised Approach

The Company uses external ratings of Fitch as one of the eligible External Credit Assessment Institutions recognized by CySEC. The Company has chosen to use Fitch Ratings for all asset classes under the Standardised Approach. The use of Fitch Rating is in compliance with the requirements of the Regulation and is used consistently for all exposures in a specific asset class. These ratings are used for all relevant exposure classes if the exposure is rated under these ratings.

Table 10: Exposure Class table

CQS	Ratings	Institutions			Sovereigns Risk Weight	Corporate Risk Weight
	Fitch	Sovereign method	Credit Assessment Method			
			Maturity >3 months	Maturity 3 months or less		
1	AAA to AA-	20%	20%	20%	0%	20%
2	A+ to A-	50%	50%	20%	20%	50%

3	BBB+ to BBB-	100%	50%	20%	50%	100%
4	BB+ to BB-	100%	100%	50%	100%	100%
5	B+ to B-	100%	100%	50%	100%	150%
6	CCC+ or lower	150%	150%	150%	150%	150%

The exposures are classified into the above exposure classes, and are then ranked into respective Credit Quality Steps that determine the risk weight to be used in accordance with the provisions of the Regulation.

The Company uses the same external ratings technique for the items not included in the trading book when applicable.

Table 11: Exposures before and after Credit Risk mitigation by Credit Quality Step

Credit Quality Step – 31 December 2020	**Exposure values before Credit Risk Mitigation**	**Exposure values after Credit Risk Mitigation**
	$'000	**$'000**
CQS 1	-	-
CQS 2	5	5
CQS 3	-	-
CQS 4	2	2
CQS 5	1	1
CQS 6	-	-
Unrated	20.068	20.068
Not applicable	23	23
Total	**20.099**	**20.099**

Table 12: Exposures by credit quality step per asset class

Asset classes	CQS 1 $'000	CQS 2 $'000	CQS 3 $'000	CQS 4 $'000	CQS 5 $'000	CQS 6 $'000	Unrated $'000	N/A $'000	Total $'000
Corporate	-	-	-	-	-	-	669	**-**	**669**
Institutions	-	5	-	2	1	-	19.399	**-**	**19.407**
Other Items	-	-	-	-	-	-	-	23	**23**
Total	**-**	**5**	**-**	**2**	**1**	**-**	**20.068**	**23**	**20.099**

Table 13: Exposures before and after credit risk mitigation

Asset classes	Exposure values before credit risk mitigation $'000	Exposure values after credit risk mitigation and volatility adjustment $'000	Value of Exposures secured by Financial Collaterals $'000
Corporates	669	669	**-**
Institutions	19.407	19.407	**-**
Other Items	23	23	**-**
Total	**20.099**	**20.099**	**-**

Counterparty Credit Risk

Counterparty Credit Risk (CCR) may be defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, repurchase agreements and long settlement transactions.

The minimum capital requirement calculated for the Company's open derivative positions as at 31 December 2020 is presented in the following table:

Table 14: Counterparty Credit Risk Summary

Derivative types – 31 December 2020	Positive Fair Value	Negative Fair Value	Nominal Value	Exposure Amount before CRM	Exposure Amount after CRM	RWAs	Capital Require ments
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
FX Derivatives	9	-	1.562	25	25	5	0

Financial Assets – Impairment

- *Financial Instruments and contract assets*

The Company recognises loss allowances for ECLs on:

— Financial assets measured at amortised cost;

— Debt investments measured at FVOCI; and

— Contract assets.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following which are measured at 12-month ECLs:

— Debt securities that are determined to have low credit risk at the reporting date; and

— Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- The borrower in unlikely to pay its credit obligations to the Company in full, without resource by the Company to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

▪ *Measurement of ECLs*

ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

▪ *Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation; or

— The disappearance of an active market for a security because of financial difficulties.

- *Presentation of allowance for ECL in the statement of financial position*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

- *Write-off*

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

As at 31st of December 2020, the Company has been recognised a reversal of impairment on receivables amounting to $5.834k. In addition, the Company has been recognised a provision for impairment of trade receivables amounting to $741.

8.3 Market Risk

General

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Company's financial assets at fair value through profit or loss are susceptible to market price risk arising from uncertainties about future prices of the investments. The Company's market price risk is managed through diversification of the investment portfolio.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign Exchange Risk

Currency risk is the risk that the value of financial assets and liabilities and short-term borrowings will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the functional currency. The Company and its customers are active in financial instruments which are denominated in various currencies therefore have open foreign exchange positions resulting from such transactions. The Risk management department assigned small limits for open foreign exchange positions, since Dragon does not engage actively in proprietary foreign exchange trading.

Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Company's capital requirements and RWAs for market risk for 31 December 2020 are analysed as follows:

Table 15: Market Risk Capital Requirements and Risk Weighted Assets

31 December 2020	RWAs	Minimum Capital Requirement
	$'000	$'000
Market Risk		
of which FX market risk	-	-
of which Commodity market risk	-	-
of which Equity market risk	7.494	600
of which Interest rate market risk	5.255	420
Total	**12.749**	**1.020**

8.4 Operational Risk

General

Operational Risk is the potential risk associated for incurring losses in relation to employees, contractual specifications and documentation, technology, infrastructure failure and disasters, external influences, and customer relationship. The Operational Risk process consists of five generic steps: Identity, assess, report, treat and monitor operational risks across all departments of the Company.

The significant operational risk event is one that affect or is likely to affect any or all of the following:

- Reputation of the Company, regardless of monetary value, i.e. regulatory action, including the regulatory/supervisory visits of the announcement of either, or
- The ability of the Company to perform its day-to-day business, i.e. major system or premises outage.

All operational risk events are properly documented.

The Company considers the Basic Indicator Approach as the most appropriate method to assess its ongoing operational risk capital requirements. Accordingly, the Company has applied the average, on a three-years basis, of the net income (relevant Indicator) calculated in accordance with the requirements of the Regulation, based on which it has calculated a minimum capital requirement of $938k for this risk.

The table below shows the Capital Requirements for Operational Risk as at 31st December 2020:

Table 16: Capital Requirements and Risk Weighted Assets for Operational Risk

31 December 2020	2018	2019	2020
	$'000	$'000	$'000
Fees and commission income	144	1.529	417
Interest and dividend	4.056	1.892	3.904
Net profit/(loss) on financial assets at fair value	(1.911)	5.886	4.736
Foreign exchange transactions loss	(191)	(153)	(2)
Net finance expenses/bank expenses	(656)	(534)	(356)
Total	**1.442**	**8.620**	**8.699**
Average of three years	**6.253**		
Capital Requirement	**938**		
Risk Weighted Assets	**11.725**		

OTHER RISKS

8.5 Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The risk management department performs the following tasks regarding liquidity risk:

- Provides the framework for liquidity risk measurement
- Monitor liquidity risk
- Manage liquidity position (short and long term)

- Evaluate and manage liquidity related contingencies

This particular attention is paid when setting limits to risk, in the case of insufficient market liquidity of individual products, of not being able to conclude contracts or not being able to conclude them on the expected terms for the purpose of managing positions and that payment obligations can be met on settlement dates or in respect of margin calls.

8.6 Other Market Price Risk

The Company is exposed to financial risks arising from changes in equity security prices. The Company monitors the mix of equity securities in its portfolio so as to mitigate its exposure to this market price risk.

8.7 Compliance Risk

Compliance Risk is the risk of financial loss, including fines and other penalties which arises from non-compliance with laws and regulations of the state and the CySEC. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

8.8 Legal Risk

The trading and investment activities of the Company could lead to significant legal risk. Such risk may include, but it is not limited to:

- Failure to correctly document transactions resulting in disputes over terms of agreements;
- Lack of authority of the counterparty to enter the transaction;
- Terms of agreement not in accordance with the Law;
- Transactions may be challenged on the ground that they are not suitable for the counterparty customer given their financial sophistication, financial conditions or lack of disclosure.

It is responsibility of the management of the Company to ensure that there is always adequate legal protection for all deals entered into the counterparties. Trades are concluded on the basis of clear and correctly documented agreements, unless this has already been ensured by corresponding Stock Exchange terms and conditions. Trading documentation standards are simple to apply and not represent substantial departure differentiation from market practice. At the same time, a trade is transacted, the terms are clear and completely agreed and documented. Prior to the conclusion of agreements in connection with trading, brokerage, customer service and underwriting activities, it should be checked whether, and, if so, to what extent they are legally enforceable. Any legal risk is disclosed to Heads of departments, the General Manager and the Compliance/Anti-Money Laundering Compliance Officer.

9 REMUNERATION POLICY

The Company's Board of Directors is responsible for adopting and maintaining the remuneration policy and overseeing its implementation to ensure it is fully operating as intended. Furthermore, the Company's Board approves any subsequent material exemptions made for individual staff member and changes the remuneration policy and carefully consider and monitor their effects. In addition, the Board ensures that the Company's remuneration policies and practices are appropriately implemented and aligned with the Company's overall corporate governance framework, corporate culture, risk appetite and the related governance processes. Also, the Board of Directors provides effective input in accordance with their roles into the setting of bonus polls, performance criteria and remuneration awards where those functions have concerns regarding the impact on staff behaviour and the riskiness undertaken.

The Company's remuneration system is based on the following principles:

- Long-term value creation;
- Remunerate achievement of results on the basis of prudent, responsible risk taking;
- Attract and retain the best professionals;
- Reward the level of responsibility and professional path;
- Ensure fairness and competitiveness
- Benchmark performance against the market;
- Ensure transparency in its remuneration policy.

Remuneration characteristics

The Company's remuneration policy is structured taking into account the environment in which it operates and the results it achieves. It includes the following elements:

- **Fixed remuneration** based on the level of responsibility and the professional path of the employee within the Company, which constitutes a relevant part of total pay; and
- **Variable remuneration** linked to the achievement of previously established targets and prudent risk management.

Variable Remuneration

The variable remuneration within the Company is performance-based. Individual decisions are based on performance during the reference year and are measured against the Company and personal objectives. Separate objectives are set for risk takers and non-risk takers building a firm ground for independent control and limiting the risk appetite. Performance measures are both quantitative and qualitative. Variable remuneration is paid in cash.

The Company's Board of Directors is ultimately responsible for the maintenance and adoption of the remuneration policy as well as for overseeing its implementation.

The Risk Manager in collaboration with the Compliance/AML Officer of the Company are responsible to regularly check if the remuneration policy needs to be updated and draft the according changes to the policy. Furthermore, they prepare decisions regarding the remuneration of the staff.

The remuneration policy of the Company is based upon the performance of key management and employees and the profitability of the Company in general. For the year 2020, the Company paid only fixed remuneration to its key management and employees.

An analysis of the remuneration paid to Senior Management and other staff whose actions have a material impact on the risk profile of the Company, as at 31 December 2020, is provided in the table below:

Table 17: Aggregate Remuneration by Senior Management and Other Staff

Position / Role	No. of beneficiaries	Fixed Remuneration $'000	Variable Remuneration $'000	Total Remuneration $'000
Senior Management (incl. Executive & Non-Executive Directors)	9	312	-	**312**
Other staff	-	-	-	-
Total	**9**	**312**	-	**312**

The fees of non-executive directors cover the period that they serve as members of the Board.

Other Staff includes members of staff whose actions have a material impact on the risk profile of the Company and are not included in the other positions of the tables.

The following table presents the aggregate remuneration per business line as at 31 December 2020, for those categories of staff whose professional activities have a material impact on the risk profile of the Company:

Table 18: Aggregate Remuneration by Business Area

Business Area	No. of Beneficiaries	Fixed Remuneration $'000	Variable Remuneration $'000	Total Remuneration $'000
Control Functions & Non-Executive Directors	5	140	-	**140**
Other members of staff whose actions have a material impact on the risk profile of the Company	4	172	-	**172**
Total	**9**	**312**	**-**	**312**

10 LEVERAGE RATIO

The Basel III framework introduced a simple, transparent, non-risk based Leverage Ratio to act as a credible supplementary measure to the risk-based capital requirements. The Leverage ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the total exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014, amending the Regulation with regards to the Leverage Ratio. The Leverage Ratio is calculated at the end of each quarter.

The minimum requirement for the purposes of Leverage Ratio is currently assessed at 3%. The Company's Leverage ratio as at 31st of December 2020 was 64,40%.

The table below provides a reconciliation of accounting assets and Leverage Ratio exposures:

Table 19: Summary reconciliation of accounting assets and leverage ratio

N/N	Item description	Applicable Amounts $'000
1	Total assets as per published financial statements	41.755
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	-
5	Adjustments for securities financing transactions "SFTs"	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(194)

8	**Total leverage ratio exposure**	**41.561**

The table below provides a breakdown of the exposure measure by exposure type:

Table 20: Leverage ratio common disclosure

Leverage Ratio common disclosure	
31 December 2020	**Leverage Ratio exposures $'000**
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	41.680
(Asset amounts deducted in determining Tier 1 capital)	(144)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**41.536**
Derivative exposures	
Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	9
Add-on amounts for PPE associated with all derivatives transactions (mark-to-market method)	16
Total derivative exposures	**25**
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
Counterparty credit risk exposure for SFT assets	-
Total securities financing transaction exposures	**-**
Other off-balance sheet exposures	
Other off-balance sheet exposures	**-**
Capital and total exposures	
Tier 1 Capital	**25.665**
Total Leverage Ratio Exposures	**41.561**
Leverage Ratio	**61,75%**

The table below provides a breakdown of total on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by asset class:

Table 21: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

31 December 2020		**Leverage Ratio exposures $'000**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**41.536**
EU-2	Trading book exposures	**21.462**
EU-3	Banking book exposures, of which:	**20.074**
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	19.382
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	-
EU-10	Corporate	669
EU-11	Exposures in default	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	23

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

The Leverage Ratio is determined and monitored on a quarterly basis based on the calculations under Pillar I. If such monitoring triggers the need for certain actions (an increase in Tier 1 capital and/or a reduction in exposure amounts), these decisions-including the time line-are prepared by a dedicated cross-functional team consisting of representatives from Finance, Risk and Compliance (this is the same process that is in place for the minimum capital requirements).

Furthermore, it is the Company's intention to consider the impact on the Leverage Ratio while making relevant capital adequacy calculations under Pillar II.

Factors that had an impact on the Leverage Ratio during the period

The Leverage Ratio of Company over the financial year 2020 ranged between 55,10% in March 2020, to 70,82% in June 2020, to 67,99% in September 2020 and to 61,75% in December 2020. The main reason for this fluctuation is the initial increase and subsequent decrease in the Company's exposure measure from March to December 2020.