DRAGON CAPITAL GROUP

CONSOLIDATED PILLAR III DISCLOSURES

YEAR ENDED 31 DECEMBER 2019

SEPTEMBER 2020

According to 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 and amending Regulation (EU) No 648/2012

Table of Contents

Dragon Capital

1. OVERVIEW

Pillar III disclosures are prepared in accordance with the Regulation (EU) No. 575/2013 (“th**e** **Regulation**” or “the **CRR**”). The CRR is directly applicable as a Single Rule book by all Member State institutions, whereas the Directive 2013/36/EU has been transposed by all member state regulatory authorities into local legislation. The transposed Directive of the Cyprus Securities and Exchange Commission (“the CySEC”) is Directive DI144-2014-14 & 14A (“**the Directive**”). In addition, CySEC has issued Directive DI144-2014-15 which includes some national discretions arising from the Regulation.

The regulatory framework consists of three Pillars:

- **Pillar I** sets out the minimum capital requirements;
- **Pillar II** requires an assessment of the capital requirements in light of any specific risks not captured, or not adequately captured, in the Pillar I calculations; and
- **Pillar III** seeks to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management practices.

1.1 Group Information

The Parent Company

The parent company Dragon Capital Holding Limited (the "Company" or the “parent company”) was incorporated and is domiciled in Cyprus on 10 February 2006 as a private limited liability company under the Cyprus Companies Law, Cap. 113. Its registered office is at 15 Agiou Pavlou Street, Ledra House, Agios Andreas, P.C. 1105, Nicosia, Cyprus. The principal activities of the Group are the holding of private equity investments, trading in securities, broker-dealer and any other interest earning activities. The Group also provides advisory and corporate finance services.

The consolidated financial statements of the Company for the year ended 31 December 2019 consist of the Company and its subsidiaries (which together referred to as "the Group").

1.2 Pillar III Regulatory Framework

Pillar III Disclosures report on a consolidated basis is prepared and presented with the purpose of setting out both quantitative and qualitative information required in accordance with Part Eight of the Regulation (Articles 431 to 455). These may differ from the disclosures presented in the Consolidated Financial Statements of Dragon Capital Holding Limited and its Subsidiaries which are prepared based on International Financial Reporting Standards ("IFRS") due to differences between the prudential consolidation basis and the accounting consolidation basis used by the Group as well as differences in definitions used.

The Regulation provides that an entity may omit one or more of the disclosures if it believes that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Group has considered a disclosure to be immaterial, it has stated so in this document.

The Regulation also permits an entity to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The European Banking Authority ("EBA") defines proprietary as "…if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an investment firm's investments therein less valuable." Information is considered as confidential "if there are obligations to customers or other counterparty relationships binding an investment firm to confidentiality." Where the Group has omitted information for either of these two reasons, it has stated this in the relevant section together with the reasons for this.

1.3 Scope of disclosure

These disclosures are made mainly in order to give information on the risks faced by the Group and how these are dealt with, as well as the basis of calculating the Group's capital requirements. This information has been prepared for the purpose of explaining the basis on which the Group has determined and disclosed certain capital requirements and information about the management of risks relating to those requirements and for no other purpose. This document does not constitute any form of financial statement on the Group, nor does it constitute any current or future record or opinion of any business within the Group and must not be relied upon in making any judgement about the Group.

1.4 Disclosure Policy

In accordance with the provisions of Part Eight of the Regulation, the Group has an obligation to publish information relating to risks and risk management on an annual basis at a minimum. The Group's policy is to publish the Pillar III disclosures on an annual basis on its website. The report can be found at: https://www.dccl.com.cy/.

All disclosures made, prior to being published, were reviewed and verified by the Board of Directors which has the ultimate responsibility of the Pillar III disclosures. These Pillar III disclosures are based on information as at 31st December 2019, Dragon Capital Group’s financial year end.

The information provided in this report is based on policies and procedures followed by the Group entities to identify and manage risks for the year ended 31 December 2019 as well as additional information.

1.5 Coronavirus Outbreak

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringest steps to help contain, and in many jurisdictions, now delay the spread of the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and “locking down” cities/regions or even entire countries. These measures will slow down the broader Cyprus and world economies although the Company’s management is not expecting any specific slowdowns to their operations.

In particular, the Company's staff is working remotely for the self-isolation/quarantine period and the security and the system of the entity is fully working as normal. In addition, the Stock Exchanges where the equities/securities held by the Company are traded across the globe are fully operational. Additionally, the principal investments held by the entity are not expected to have significant Fair Value losses as the Group is very conservative in its valuations. In regards to trading instruments held by the Company, the Trading Book of the entity was secured by a sell-off short positions versus the available portfolio.

2 GOVERNANCE ARRANGEMENTS

2.1 Board of Directors Recruitment Policy

For the positions opened within the management body of the Group, 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 each entity within Group shall at all times be of good repute and possess sufficient knowledge, skills and experience to perform their duties. The overall composition of each 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 Group's activities, including the principal risks.

For the approval of the positions within the management body for each subsidiary of the Group, the approval of all members of the Board of Directors is required.

2.2 Board Diversity Policy

This policy is established and maintained by the regulated Group entities, as required by the relevant regulatory framework. 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.

2.3 Other Directorships

__Parent Company__

The table below provides the number of directorships that each member of the management body of Dragon Capital Holding Limited held in other entities (including the directorship held in Dragon Capital Holding Limited). It shall be noted that, 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
Kallistheni Kitsiou	1	-
Valentina Loizou	1	-
Georgios Kounnou	1	-

Note: The information in this table is based only on representations made by the directors of Dragon Capital Holding Limited.
Note 1: Mrs. Kallistheni Kitsiou resigned on 20/1/2020 and was replaced by Mr. Georgios Kounnou on 20/1/2020.
Note 2: Mrs. Kallistheni Kitsiou held four (4) directorships under the same group.
Note 3: Mrs. Valentina Loizou held four (4) directorships under the same group.
Note 4: Mr. Georgios Kounnou held five (5) directorships under the same group.

Dragon Capital (Cyprus) Limited (CIF)

The table below provides the number of directorships that each member of the management body of Dragon Capital (Cyprus) Limited, the Regulated Company of the Group, held 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
Oleksandr Fedorov	1	-
Ivo Suchy	4	-
Apollon Athanasiades	1	1
Sotiris Eliofotou	-	1

Note: The information in this table is based only on representations made by the directors of Dragon Capital (Cyprus) Limited (CIF).
Note 1: Mr. Ivo Suchy held four (4) directorships as an Executive Director. One (1) of them is under Dragon Capital Group, and the remaining three (3) are outside the Dragon Capital Group.
Note 2: Mr. Apollon Athanasiades held one (1) directorship under Dragon Capital (Cyprus) Limited as a non-executive director, and an executive directorship outside of Dragon Capital Group.

2.4 Reporting and Control

Regulated subsidiaries in the Group have in place procedures which allow the monitoring of exposures in risky areas. These include certain reporting requirements towards the top management where the decision-making is being carried out. All the supervisory functions within the said entities (i.e. Compliance, AML Compliance, Risk Management, Internal Audit and Financial Control functions where these are formed) have an open line of communication with the Board in order to communicate any findings and/or deficiencies they identify in a timely manner and ensure that these will be resolved through the guidance of the management body. In addition, the Risk Management (or responsible individual) of each individual entity is communicating their suggestions and findings to the Board, as and if necessary.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 Risk Management Framework

The Group's risk management framework aims to establish, implement and maintain adequate policies and procedures designed to manage any type of risk related to the Group's activities. The current risk management framework is applied in the activities of and across the Group and is designed to identify potential events that may affect Group's businesses. Risk Management framework manages risks, so they are within Group'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 Group is defined by the organisational structure which clearly specifies reporting lines and allocates functions and responsibilities. The Group maintains internal reporting at various risk types, frequency, and depth of reports.

Risk Management Framework of the Group 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 Group 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 of each subsidiary and further reviewed and approved by the Board of

Directors of each entity. Review is performed in order to identify any deficiencies and promptly react to those, securing the adequacy and effectiveness of the framework.

3.2 Investment Committee

The Group's regulated subsidiaries, Dragon Capital (Cyprus) Ltd, has formed an Investment Committee as per the relevant regulatory requirements. The purpose of the Investment Committee is to contribute towards the formation of Dragon's Capital (Cyprus) Ltd 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 is 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 in;
- To deal with any other matters relating to Company's investment activity;
- 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 of the entity.

Provision of a framework on which investment are based:

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

3.3 Internal Audit Function

Group entities, where deemed necessary, have formed an Internal Audit Function, as per the regulatory requirements each entity operates in.

3.4 Compliance Department

Group entities, where deemed necessary, have formed a Compliance Function, as per the regulatory requirements each entity operates in.

3.5 Anti-Money Laundering Compliance Officer

Group entities, where deemed necessary, have appointed an Anti-Money Laundering Compliance Officer, as per the regulatory requirements each entity operates in.

4 BOARD DECLARATION OF MANAGEMENT BODY

The Board of Directors of each individual entity of the Group is responsible to ensure that each Company's risk management arrangements are sufficient and to provide assurance that the risk management systems put in place are adequate with regards to the Group's profile and strategy.

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

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

A review of the business concept and policies shows that the business concept's general requirements for the individual risk areas of each regulated entity 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, regulated subsidiaries of the Group have 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 on order to mitigate market fluctuation effect. Along with that based on the regulated subsidiaries of the Group, its organizational processes, internal governance, risk management framework and risk profile, the subsidiaries deem 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")

ICAAP Overview and Methodology

In accordance with Directive DI144-2014-14 of the CySEC:

- The Group shall 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 it considers adequate to cover the nature and level of the risks to which it is, or might be, exposed;
- These strategies and processes shall be subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the Group.

The process takes into consideration any interdependencies within the Group. The Board of Directors of each entity of the Group has the responsibility for approving the entity's ICAAP, subject to the applicable regulatory framework.

The ICAAP process will be presented and analysed in an ICAAP report, which is annually updated by the Risk Manager or the individual allocated the responsibility of leading the risk management function of every entity. This process can be broken down into the following stages:

- **Risk Identification and Assessment:** A comprehensive risk register consolidates the risks the Group entities face. Every risk is assessed in terms of Impact and Probability of Occurrence in order to produce that risk's Profile (Low/Medium/High);
- **Capital Planning exercise:** This exercise consists of projecting the capital adequacy ratio and overall solvency position into the future, based on the financial projections produced by the entity for the three years following the ICAAP reference date;
- **Stress Testing:** The process is based on the Capital Planning tool and forward-looking stress tests, drawing on a set of extreme yet plausible adverse scenarios, with the purpose of testing the resilience of profitability and overall solvency position to stress;
- **Pillar II Capital Allocation and Next Steps:** According to the results of the previous, the Pillar II capital may be allocated to cover any material exposures, as well as any

additional controls and mitigation measures may be taken, for the Group entities to be better covered against its material Pillar II risk exposures.

7 OWN FUNDS

7.1 Composition of Own Funds and Capital Adequacy Ratio

Own Funds and Minimum Capital Requirements	31 December 2019
	$'000
Common Equity Tier 1 Capital	
Share capital	24
Share premium	74.965
Retained Earnings	203.153
Audited profit for the year	108.959
Accumulated Other Comprehensive Income	(10.629)
Common Equity Tier 1 Capital before deductions	**376.472**
Deductions from Common Equity Tier 1 Capital	
Intangible Assets	(68)
Additional deductions of CET1 Capital due to Article 3 CRR	(90)
Additional Valuation Adjustment ("AVA")	(384)
Total Common Equity Tier 1 Capital after deductions	**375.930**
Additional Tier 1 Capital	**-**
Tier 2 Capital	**-**
Total Own Funds	**375.930**
Capital Requirements	
Credit risk	12.657
CVA Risk	127
Market Risk	60.110
Operational Risk	11.812
Additional capital requirements for the large exposure excess in the Trading Book	-
Total Capital Requirements	**84.706**
Capital Adequacy Ratio	**35,50%**

Authorised Share Capital

There were no changes in the authorised share capital during 2019.

The authorised share capital of the Group amounts to US$23.565 and consists of 23.565 ordinary shares of US$1 each.

Issued Share Capital

There were no issues of share capital for the year ended 31 December 2019.

On 12 April 2018, the Group issued 3.479 shares of US$1 each and 931 shares of US$1 each, at a premium US$12.449,63 and US$11.173,47 each respectively. Furthermore, on 31 December 2018, the Group issued 626 shares of US$1 each at par.

Deductions from Own Funds

As at 31st December 2019, the Group deducted from its CET1 capital its intangible assets, additional valuation adjustment ("AVA"), as well as its contribution to the Investors Compensation Fund as required by CySEC in Circular C162, in accordance with Part Two of the Regulation.

The Group's Capital Adequacy Ratio for the year ended 31 December 2019 stood at 35,50%.

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

7.2 Balance Sheet reconciliation

Balance Sheet Description as per audited Financial Statements	**31 December 2019 $'000**
Share Capital	24
Share Premium	74.965
Retained Earnings	203.153
Audited profit for the year	108.959

Accumulated Other Comprehensive Income	(10.629)
Total Equity as per Audited Financial Statements	**376.472**
Deductions	
(Less: Intangible Assets)	(68)
(Less: Contribution to the Investors Compensation Fund)	(90)
(Less: Additional Valuation Adjustment ("AVA"))	(384)
Total Own Funds as per CoRep	**375.930**
Total Own Funds	**375.930**

7.3 Own funds disclosure template under the transitional and fully phased in definition

31 December 2019	**Transitional Definition**	**Fully - phased in Definition**
	$'000	**$'000**
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	74.988	74.988
Retained earnings	312.112	312.112
Accumulated Other Comprehensive Income	(10.628)	(10.628)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**376.472**	**376.472**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
(-) Intangible assets	(68)	(68)
(-) Additional Deductions of CET1 Capital due to Article 3 CCR	(90)	(90)
(-) Additional Valuation Adjustment ("AVA")	(384)	(384)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(542)**	**(542)**
Common Equity Tier 1 (CET1) capital	**375.930**	**375.930**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**375.930**	**375.930**
Tier 2 (T2) capital	**-**	**-**

Total capital (TC = T1 + T2)	**375.930**	**375.930**
Total Risk Weighted Assets	**1.058.809**	**1.058.809**
Capital ratios and buffers		
Common Equity Tier 1	35,50%	35,50%
Tier 1	35,50%	35,50%
Total capital	35,50%	35,50%

Definitions:

The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Group 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 Group expressed as a percentage of the total RWAs for covering Pillar I risks.

The Total Capital ratio is the Own Funds of the Group 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 Adequacy Ratio

Risk Type – 31 December 2019	**RWAs**	**Pillar 1 Capital Requirement**
	$'000	**$'000**
Credit	158.214	12.657
Market	751.368	60.110
of which Equity market risk	533.695	42.696
of which Commodity market risk	-	-
of which Interest rate market risk	180.406	14.433
of which FX market risk	37.267	2.981
Operational	147.644	11.812
CVA	1.583	127
Large exposures in the Trading Book	-	-
Total	**1.058.809**	**84.706**

As at 31st December 2019, the Group's Capital Adequacy Ratio stood at 35,50%. The Group is required to maintain a minimum ratio of Own Funds to Risk Weighted Assets ("RWAs") of 8% for Pillar I risks, plus a capital conservation buffer which for 2019 amounted to 2,5% according to the relevant transitional implementation provisions, resulting to an overall minimum of 10,5%.

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 Group has no significant concentration of credit risk. The Group 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 2019:

Exposure Class – 31 December 2019	RWAs	Minimum Capital requirement
	$'000	$'000
Institutions	4.073	326
Corporate	146.666	11.733
Other Items	7.475	598
Total	**158.214**	**12.657**

The table below outlines the average exposure in 2019, broken down by asset class:

Asset Classes – 31 December 2019	Original Exposure Amount	Original Exposure Amount (solo) [1]	Average Exposure (solo) [2]
	$'000	$'000	$'000
Institutions	37.912	7.055	15.012
Corporate	146.666	567	731
Other Items	7.475	47	87
Total	**192.053**	**7.669**	**15.830**

[1] The information included in the 'Original Exposure Amount (solo)' relate only to the figures reported on a solo basis for the CySEC's regulated entity, Dragon Capital (Cyprus) Ltd.

[2] The information included in the 'Average Exposure (solo)' relate only to the figures reported on a solo basis for the CySEC's regulated entity, Dragon Capital (Cyprus) Ltd.

The table below illustrates the geographical distribution of the Group's exposures before CRM:

Exposure Class– 31 December 2019	CY	UKR	UK	Other	Total
	$'000	$'000	$'000	$'000	$'000
Institutions	1.209	-	24.372	12.331	**37.912**
Corporate	38.287	92.844	217	15.318	**146.666**
Other Items	2.518	4.954	-	3	**7.475**
Total	**42.014**	**97.798**	**24.589**	**27.652**	**192.053**

The table below provides a breakdown on the original exposures by residual maturity and asset class:

Allocation of exposures by residual maturity – 31 December 2019	Up to 3 months	More than 3 months	Not applicable	Total
	$'000	$'000	$'000	$'000
Institutions	24.008	13.904	-	**37.912**
Corporate	112.205	34.461	-	**146.666**
Other Items	7.468	6	1	**7.475**
Total	**143.681**	**48.371**	**1**	**192.053**

The table below outlines the Group's exposures by asset class and industry area net of any specific provisions and before applying Credit Risk Mitigation:

Exposures by Asset Class by Industry Segment – 31 December 2019	Banking/Financial services	Other	Total
	$'000	$'000	$'000
Institutions	37.912	-	**37.912**
Corporate	10.732	135.934	**146.666**
Other Items	-	7.475	**7.475**
Total	**48.644**	**143.409**	**192.053**

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

The Group uses credit rating of the following rating agency, as eligible ECAIs: Fitch.

In case a financial institution is not rated, management assesses the information available in relation to the creditworthiness and financial strength of the institution (based on the requested and publicly available information), as well as whether the institution is regulated in the country of incorporation.

Assignment of risk weights is based on the provisions of Chapter 2 Title II of CRR and in certain cases when credit ratings are not available for the particular exposure, sovereign ratings or rating of central government of the relevant country to which the exposure relates to are used instead (based on the provision of CRR).

The Group has used the credit quality step mapping table below to map the credit assessment to credit quality steps ("CQS"):

Credit Quality Step	Fitch
1	AAA to AA-
2	A+ to A-
3	BBB+ to BBB-
4	BB+ to BB-
5	B+ to B-
6	CCC+ and below

The table below analyses the Group's exposures before and after Credit Risk mitigation by Credit Quality Step:

Credit Quality Step – 31 December 2019	Exposure values before Credit Risk Mitigation	Exposure values after Credit Risk Mitigation
	$'000	$'000
CQS 1	-	-
CQS 2	20.511	5.736
CQS 3	11.929	11.929

CQS 4	-	-
CQS 5	-	-
CQS 6	-	-
Unrated	159.613	156.840
Total	**192.053**	**174.505**

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 Group's open derivative positions as at 31 December 2019 is presented in the following table:

Derivative types – 31 December 2019	Positive Fair Value	Negative Fair Value	Nominal Value	Exposure Amount before CRM	Exposure Amount after CRM	RWAs	Capital Requirements
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
FX swaps	1.765	(1.779)	-	1.765	1.765	353	28

The table below outlines the Group's exposure to Reverse Repurchase Transactions:

Type of exposure – 31 December 2019	Exposure Amount before CRM	Volatility adjustment to the exposure	Financial collateral adjusted value (Cvam)	Exposure Amount after CRM	RWAs	Capital Requirements
	$'000	$'000	$'000	$'000	$'000	$'000
Reverse Repurchase Transactions	24.008	-	17.547	6.461	1.292	103

Collateral Management/Valuation

The Group does not require collateral in respect of its trade and other receivables.

Collateral has been provided by a subsidiary company for the obligation of two related companies which are measured at fair value through profit or loss, for two loans, one loan for US$95.000k and another loan for US$47.500k, plus ancillary, pledging the shares held by the subsidiary company in those two companies.

In addition, regarding its Reverse Repurchase Transactions, the Group has taken Ukrainian sovereign bonds as collateral. As at 31 December 2019, these bonds were amounting to US$ 21.315k.

The table below outlines the Group's exposures by asset class before and after Credit Risk Mitigation, which are covered by financial collaterals:

Asset Classes– 31 December 2019	Exposure amounts before CRM	Exposure amounts after CRM	Exposures secured by Financial Collateral
	$'000	$'000	$'000
Institutions	37.912	20.365	17.547
Corporate	146.666	146.665	-
Other Items	7.475	7.475	-
Total	**192.053**	**174.505**	**17.547**

Financial Assets – Impairment

- *Financial Instruments and contract assets*

The Group recognises loss allowances for ECLs on:

— Financial assets measured at amortised cost;

— Debt investments measured at FVOCI; and

— Contract assets.

The Group 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 Group 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 Group's historical experience and informed credit assessment and including forward-looking information.

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

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

— The borrower in unlikely to pay its credit obligations to the Group in full, without resource by the Group 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 Group 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 Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

- *Credit-impaired financial assets*

At each reporting date, the Group assesses whether financial assets carried at amortised cost 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 Group on terms that the Group 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.

- *Write-off*

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group 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 Group 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 Group 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 Group's procedures for recovery of amounts due.

As at 31st of December 2019, the Group has been recognised a total impairment loss amounting to US$ 10.090k. Impairment losses on financial assets and contract assets recognised in profit or loss were as follows:

Impairment losses	31 December 2019 $'000
Impairment charge – loans receivable (undrawn amount)	(2.508)
Impairment charge – loans receivable	(4.391)
Impairment charge – trade and other receivables	(3.191)
Total	(10.090)

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 Group's financial assets at fair value through other comprehensive income and 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 Group'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 Group 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 monitors all limits for open foreign exchange positions.

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 Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group'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 Group entities' functional currency. The Group is exposed to foreign exchange risk arising from various currency exposures. The Group's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Group's capital requirements and RWAs for market risk for 31 December 2019 are analysed as follows:

31 December 2019	RWAs	Pillar 1 Capital Requirement
	$'000	$'000
Market Risk		
of which Equity market risk	533.695	42.696
of which Commodity market risk	-	-
of which Interest rate market risk	180.406	14.433
of which FX market risk	37.267	2.981

Total	**751.368**	**60.110**

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 Group.

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

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

All operational risk events are properly documented.

The Group considers the Basic Indicator Approach as the most appropriate method to assess its ongoing operational risk capital requirements. Accordingly, the Group 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 US$11.812k for this risk.

The table below shows the Capital Requirements for Operational Risk as at 31st December 2019:

31 December 2019	2017	2018	2019
	$'000	**$'000**	**$'000**
Net income (Relevant Indicator)	70.926	17.952	147.352
Average of three years	78.743		
Capital Requirement	**11.812**		
Risk Weighted Assets	**147.644**		

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 Group has procedures with the object of minimising such losses including 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:

- 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 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 Group is exposed to financial risks arising from changes in equity security prices. The Group 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. 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 Group.

8.8 Legal Risk

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

- Failure to correctly document transactions resulting in disputes over terms of arrangements;
- 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 sophistications, financial conditions or lack of disclosure.

It is responsibility of the management of each entity of the Group 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, 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, Head of Risk Department and Head of Compliance/AML Department of each individually entity of the Group.

9 LARGE EXPOSURES

As at 31st December 2019, the Group's total exposure subject to the shareholder limits was amounting US$79.211k, being 21,07% of the Group's Own funds. As a result, the aforementioned exposure exceeded the:

— 20%, 10% and 2% large exposure limits set by points (f) to (h) of paragraph 61(1) of CySEC Directive 144-2014-14 & 14(A) with regards to a CIF's exposure to its shareholders with more than 10% holding of its share capital, and their connected persons.

These exposures relate to intercompany exposures within the Group. During 2020, the Group went through a restructuring where a change of shareholder took place. As a result, the Group considers that as of the end of September 2020, it will comply with the abovementioned large exposure limits to its shareholders and their connected persons.

10 REMUNERATION POLICY

The Board of Directors of each entity within the Group is responsible for adopting and maintaining the remuneration policy and overseeing its implementation to ensure it is fully operating as intended. Furthermore, each 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, each Board within the Group ensures that each entity’s remuneration policies and practices are appropriately implemented and aligned with the Group’s overall corporate governance framework, corporate culture, risk appetite and the related governance processes. Also, the Board of each entity of the Group 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 Group’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 Group’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, 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 Group is performance-based. Individual decisions are based on performance during the reference year and are measured against the Group 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 Risk Managers and the Compliance/AML Officers of each entity within the Group 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 Group is based upon the performance of key management and employees and the profitability of the Company in general.

10.1 Aggregate information on remuneration broken down by business area

The table below provides a breakdown of aggregate remuneration by business area, for those categories of staff whose activities have a material impact on the risk profile of the Group:

Business Area	No. of beneficiaries	Fixed Remuneration $'000	Variable Remuneration $'000	Total Remuneration $'000
Senior Management (incl. Executive & Non-Executive Directors)	4	92	-	92
Control Function	6	275	-	275
Total	**10**	**367**	**-**	**367**

10.2 Aggregate information on remuneration, broken down by senior management and other members of staff whose actions have a material impact on the risk profile of the Group

The table below provides a breakdown of aggregate remuneration by senior management and members of staff whose actions have a material impact on the risk profile of the Group.

	No. of Beneficiaries	Fixed Remuneration $'000	Variable Remuneration $'000	Total Remuneration $'000
Senior Management	4	92	-	**92**
Other members of staff whose actions have a material impact on the risk profile of the Group	6	275	-	**275**
Total	**10**	**367**	**-**	**367**

11 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 Group's Leverage ratio as at 31st of December 2019 was 68,21%.

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

Summary reconciliation of accounting assets and Leverage Ratio exposures	
31 December 2019	**Applicable Amounts $'000**
Total assets as per consolidated financial statements	503.560
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
Adjustments for derivative financial instruments	-
Adjustments for securities financing transactions "SFTs"	2.693
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
Other adjustments	44.922
Total Leverage Ratio exposure	**551.175**

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

Leverage Ratio common disclosure	
31 December 2019	**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)	523.252
(Asset amounts deducted in determining Tier 1 capital)	(542)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**522.710**
Derivative exposures	
Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	1.765
Total derivative exposures	**1.765**
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	24.008
Counterparty credit risk exposure for SFT assets	2.692
Total securities financing transaction exposures	**26.700**
Other off-balance sheet exposures	
Other off-balance sheet exposures	**-**
Capital and total exposures	
Tier 1 Capital	**375.930**
Total Leverage Ratio Exposures	**551.175**
Leverage Ratio	**68,21%**

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

Breakdown of total on balance sheet exposures by asset class		
31 December 2019		**Leverage Ratio exposures $'000**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**522.710**
EU-2	Trading book exposures	**356.430**
EU-3	Banking book exposures, of which:	**166.280**
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	12.139
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	-
EU-10	Corporate	146.666
EU-11	Exposures in default	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	7.475

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 Group's intention to consider the impact on the Leverage Ratio while making relevant capital adequacy calculations under Pillar II.

In addition to the above, the Group has adopted a stricter limit compared to the current 3% limit for monitoring Leverage Ratio. The Group’s leverage ratio as at 31 December 2019 is 68,21%.

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

Over the financial year 2019, the Leverage Ratio of the CySEC’s regulated entity, Dragon Capital (Cyprus) Ltd, reported on a solo basis, ranged between 66,80% to 83,98%, with an average 76,85%. The main reason for these ups and downs was the fluctuation in the Company’s leverage exposure measure (denominator).