TRADE | CAPITAL MARKETS

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2021

The Disclosure and Market Discipline Report has been prepared by Trade Capital Markets (TCM) Ltd as per the requirements of Regulation (EU) No. 2019/2033 and Directive (EU) 2019/2034 issued by the European Commission. Trade Capital Markets (TCM) Ltd states that any information that was not included in this report was either not applicable on the Company's business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position. Trade Capital Markets (TCM) Ltd is regulated by the Cyprus Securities and Exchange Commission under License number 227/14.

Contents

1 INTRODUCTION, SCOPE AND PURPOSE OF THIS DOCUMENT

Trade Capital Markets (TCM) Ltd (“**TCM**” or the “**Company**”) is an investment firm, incorporated in Cyprus as a private limited liability Company under the provisions of the Cyprus Companies Law, Cap. 113. The Company is authorized and regulated by the Cyprus Securities and Exchange Commission (“**CySEC**” or the “**Commission**”) under license number 227/14 for the conduct of designated investment business in the Republic of Cyprus and other jurisdictions and by the Financial Sector Conduct Authority (“**FSCA**”) in South Africa as a foreign Financial Services Provider under license number 47857. The LEI Code of the Company is 549300REMV7VLGS16J07.

In accordance with the operating license granted by CySEC, the Company is permitted to undertake the following regulated investment and ancillary services:

- Reception and transmission of orders in relation to one or more financial instruments;
- Execution of orders on behalf of clients;
- Dealing on own account;
- Portfolio management;
- Provision of investment advice;
- Safekeeping and administration of financial instruments, including custodianship and related services;
- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
- Foreign exchange services where these are connected to the provision of investment services;
- Investment research and financial analysis or other forms.

TCM is focused on offering investment services to retail and professional clients through a “Business-to-Consumer” (**“B2C”**) business segment, representing online trading via the websites www.trade.com and www.finexo.com, and to eligible counterparties through a “Business-to-Business” (**“B2B”**) business segment via the offering of liquidity to other regulated brokers.

In particular, TCM’s core operations entail offering to clients, through online trading platforms, complex financial instruments (**“Contracts for Difference”** or **“CFDs”**) on a number of underlying products such as Currencies, Commodities, Indices, Equities, ETFs, Bonds and Cryptocurrencies. The Company acts as principal (i.e. Matched Principal) to its transactions with clients and provides its service on a cross-border basis.

In addition to CFDs, TCM offers customers a variety of products aimed to satisfy multiple diversification strategies, including real shares and exchange traded instruments via Direct Market Access (**“DMA”**) services, IPO offerings and Asset Management solutions, which include Copy Trading functionalities.

TCM is a wholly owned subsidiary of Trade Capital Holding (“**TCH**” or the “**Group**”), a well-established group with global reach, catering for the needs of professional and retail clients worldwide, by providing strong liquidity and secure access to trading platforms and investment products based on cutting edge technology and innovation.

1.1 Regulatory Context

The Disclosure and Market Discipline Report ("**Pillar III Report**" or the "**Report**") has been prepared in adherence to the new prudential framework which has been enforced since the 26th of June 2021 and which comprises of the following:

- Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27th of November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No. 1093/2010, (EU) No. 575/2013, (EU) No. 600/2014 and (EU) No. 806/2014 (**"IFR"**)
- Directive (EU) 2019/2034 of the European Parliament and of the Council of 27th of November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (**"IFD"**), as this has been transposed into Cyprus legislation through the issuance of Law 165(I)/2021 for the Prudential Supervision of Investment Firms.

Disclosures cover the areas defined in Part Six of the IFR which include the contents depicted within Articles 46 to 53, to the extent applicable to the Company, and which will be presented within this Report.

The IFR in conjunction with the IFD are collectively referred to as the "IFR/IFD" within the scope of this Report.

Legislative regime:

- The IFR contains the prudential requirements for investment firms outlining specifically the regulatory approach for the calculation of the Company's Own Funds, capital requirements and relevant applicable liquidity requirements, as well as characteristics of the Company's corporate governance including the remuneration structure, investment policy and environmental, social and governance risks (**"ESG risks"**).
- The IFD transposes into domestic legislation the prudential supervision of investment firms.

The Report is updated and published annually with all disclosures included being made on a solo basis (note: the Company also prepares and publishes its Pillar III Disclosures on a consolidated basis since it is subject to consolidated supervision based on the relevant provisions of the IFR). Furthermore, the Report must be read in tandem with the Company's audited financial statements for the year ended 31st December 2021, whereby the said date is to be known as the "reference date". The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time.

It is to be noted that under the IFR/IFD, investment firms must self-classify themselves into a class as per the requirements laid out in the aforementioned prudential framework, in order to be able to calculate their own funds requirements. The Company has determined that it falls under the "Class 2" category of "all other investment firms".

1.2 Pillar III Disclosure Policy

The below information provides a summary in regards to important aspects of this Report.

Information Disclosed

All disclosure requirements relating to Pillar III as denoted in Part Six of the IFR, including both quantitative and qualitative information, are met to a standard befitting to the Company's particular characteristics such as to its nature, size, scope and complexity of operations and the internal organization.

Unless stated otherwise, all amounts are in thousands of Euro ("€" or "EUR").

Publication Frequency

All required disclosures in regards to Pillar III within the Report are published on an annual basis in adherence to the Company's obligations towards Part Six of the IFR and Article 44 of the IFD with the audited financial statements of the Company for the year ended 31st December 2021 which are prepared in accordance with the International Financial Reporting Standards ("IFRS").

Publication Location

The Report is published on the Company's websites www.tradecapitalmarkets.com and www.trade.com.

Publication Verification

The Company's External Auditors are tasked with verifying the contents of the Disclosure and Market Discipline Report and in addition to the Company being obliged to publish the said document on an annual basis, the Company must provide to CySEC within five months from the end of the financial year, a copy of the External Auditors report. For the year ended 31st December 2021, the extended deadline provided by CySEC to the CIF industry for the submission of the External Auditor's verification report in relation to Pillar III Disclosures, is 31st of July 2022.

1.3 Operating Conditions under COVID-19

Within 2021 the COVID-19 outbreak continued to be one of the highest profile events which affected the entire world and which was declared by the World Health Organization as a pandemic on March 2020. This emerging risk is being closely monitored by the Company to ensure that possible impacts are kept to a minimum and which will not alter the existing operating conditions.

The Company's Senior Management has taken sufficient steps in terms of business continuity and operational integrity and confirms that the pandemic has not negatively affected TCM in terms of operations, liquidity and profitability. Any potential significant events that may occur which may have a material impact on the Company will be handled accordingly in accordance with existing Risk Management practices already employed.

1.4 Events after the Reporting Period

On 24th February 2022, Russian troops invaded Ukraine. The attack has led to significant casualties, dislocation of the population, damage to infrastructure and disruption to economic activity in Ukraine. In response, multiple jurisdictions, including the EU, Switzerland, the UK, the US, Canada, Japan and Australia have imposed economic sanctions on Russia (and in certain cases Belarus). In addition to the imposition of sanctions, a growing number of large public and private companies have stopped or minimized business activities with Russia and Belarus. Further, a number of Russian publicly listed entities have had their listings suspended on certain stock exchanges and been excluded from market indices. The Russian Central Bank temporarily suspended stocks and derivatives trading. The war in Ukraine and related events take place at a time of economic uncertainty and volatility, and the effects are likely to exacerbate the effects of current market conditions. Many sectors/jurisdictions are already facing the impacts of rising commodity prices and increased raw materials costs, as a result of surging consumer demand as the COVID-19 pandemic eases. Supply-chain bottlenecks arising from the effects of the pandemic are heightened by labor shortages and trade restrictions. These conditions may be significantly aggravated by the effects of the war in Ukraine, increasing inflationary pressures and limiting the post-pandemic recovery.

Comparable with the results seen from the volatility caused by the COVID-19 pandemic, the Company saw significant increase in revenues and interest from new clients during the first quarter of 2022. The Company's exposure to Russia, Belarus and the resulting sanctions is non-existent and has not had any impact on the operations.

It is noted that some of the Company's third-party technology vendors are exposed to the current situation due to having some I.T. teams that were located in Ukraine, however, delays in service or projects so far have not had a material impact on deliveries due to robust disaster recovery plans of the vendors.

2 GOVERNANCE AND RISK MANAGEMENT OBJECTIVES AND POLICIES

2.1 The Board of Directors

The Company's Board of Directors (the "**BoD**" or the "**Board**") along with the Senior Management is required, under Article 17(2) of the Investment Services and Activities and Regulated Markets Law of the Republic of Cyprus (the **"Law 87(I)/2017"**), as well as Article 25(1) of European Commission Delegated Regulation (EU) 2017/565 regarding organisational requirements and operating conditions for investment firms (**"Regulation 2017/565"**), to:

- Establish, implement and maintain adequate Risk Management policies and procedures which identify the risks relating to the Company's activities, processes and systems and set the level of risk tolerated by the Company;
- Adopt effective arrangements, processes and mechanisms to manage the risks relating to the Company's activities, processes and systems, based on the acceptable level of risk tolerance; and
- Monitor the adequacy and effectiveness of such arrangements and take necessary measures to address any deficiencies identified.

Furthermore, Paragraph 22 of Law 165(I)/2021 (hereinafter **"Law 165(I)/2021"**) for the Prudential Supervision of Investment Firms and Circular CI144-2014-23 with respect to the Supervisory Function, Governance Arrangements and Risk Management of Cyprus Investment Firms (**"CIFs"**), sets out the governance, control, reporting procedures and requirements that CIFs are required to implement with respect to the treatment of risks. Most notably, Paragraph 22 of Law 165(I)/2021 stipulates that CIFs must ensure that the Board:

- Approves and periodically reviews the strategies and policies on the risk appetite of the CIF;
- Manages, monitors and mitigates the risks the CIF is or might be exposed to; and
- Devotes sufficient time to the consideration of risk issues.

As at the reference date the Company's Board of Directors was constituted by two Executive Directors and four Non-Executive Directors.

2.2 Diversity Policy for the Selection of Members of the Management Body

The Company acknowledges the importance of diversity in all levels of the corporate structure and the subsequent integral part it has in achieving commercial success. A balance of the plethora of factors including but not limited to age, skills, experience, background, race and gender are all instrumental in achieving any of the Company's strategic plans and as such TCM is no exception by considering all abovementioned factors and striving to find an optimum composition.

In addition to seeking diversification through an individualistic approach, the Company is comprehensively committed to creating and maintaining an inclusive and collaborative workplace culture that will in turn provide sustainability for future endeavors.

A target of the Board is that the underrepresented gender constitutes at least one-third of the composition of the Board of Directors. As at the reference date of this Report, the Board included a single female member.

2.3 Number of Directorships Held by Board Members

The following table, as at the reference date of 31st December 2021, depicts the amount of directorships held by each Member of the Board:

Table 1: Position and number of directorships of the Board Members

Name	Position in the Company	Executive Directorships*	Non-Executive Directorships*
Roei Gavish	Executive Director	1	0
George William Rodger	Executive Director	1	0
Michalis Philippou	Non-Executive Director, Independent	1	9
Mark Lauterstein	Non-Executive Director	4	0

Notes on Directorships:

a. Executive or non-executive directorships held within the same group shall count as a single directorship, as per the provisions of Section 9(5) of Law 87(I)/2017.

b. Mrs. Christiana Vasiadou has resigned on 31 January 2022.

c. Mr. Marios Hadjiyiannakis has resigned on 30 June 2022.

**Included position in TCM*

2.4 Risk Management Policy

Functional Risk Management takes place on a consolidated Group-wide basis, with the legal entity ensuring compliance with local regulatory requirements for Risk Management.

Risk organization and governance within the Group comprises of three main elements:

- Organizational Structure for effective Risk Management;
- Risk Standards which include policies, procedures and methodologies; and
- Risk Reporting.

Risk Management at Group level is therefore depicted as follows:

Risk is prevalent and arises due to the Company's business activities. Subsequently as a response to the risk posed, a risk strategy has been implemented that aims to ensure substantial growth of the Company in combination with a moderate risk profile through the establishment of an effective Risk Management framework.

The Company has proceeded to establish, implement and maintain an Internal Procedures Manual (hereafter **"IPM"**), which includes all policies, procedures, regulations and mechanisms that the Company maintains in compliance with Law 87(I)/2017.

The Risk Management Policy is present within the IPM and it highlights the procedures and mechanisms that have been established in order to ensure that internal controls are set within the Company in relation to appropriate measures in place, in adherence to the notion of establishing an effective framework to manage risk. Moreover, the Risk Management Policy includes the roles and duties of the Risk Manager and the Compliance and Risk Management Committee, as well as reporting and internal control procedures in place.

The Company aims to follow a continuous, active and systematic Risk Management process of well-defined steps in order to understand, manage and communicate risks from a firm-wide perspective. This is achieved through the effective identification, assessment, treatment and reporting of internal and external risks.

2.5 Compliance and Risk Management Committee

The Company has established a Compliance and Risk Management Committee (the **"Committee"**) that acts independently and its constitution includes two members of the Board that are Non-Executive

Directors, including the Chairman. The Committee was established with the overall aim to have in place a Risk Management and Governance Function which is:

- Appropriate to the nature, scale and complexity of the Company's business and organizational structure;
- Adequate to promote the sound and prudent management of the Company's business; and
- Aimed at protecting the interests of clients and stakeholders.

The members of the Committee must have sufficient knowledge, skills and experience in order to fully understand and monitor the Risk Strategy, the Risk Appetite and the Risk Management policies and practices of the Company.

The Committee in its entirety has the following duties and responsibilities:

- To continuously promote Risk Management ideals and appropriate Risk Management approaches to all departments of the Company;
- To review the Company's current and future Risk Appetite;
- To oversee the implementation of appropriate risk limits to effectively manage the different kinds of risks;
- To provide an overview of the Company's current Risk Management arrangements and identify any deficiencies with the purpose of establishing remedial procedures;
- To assess reports prepared by the Risk Management Function and recommend remedial procedures; and
- To collaborate in a harmonious fashion with all relevant departments with the sole purpose of managing risk and ensuring capital and liquidity levels are at satisfactory standings.

Due to the COVID-19 pandemic, the topics regarding to Risk Management were integrated in the Board of Directors Meetings held within 2021 (5 in total). In addition, a dedicated Compliance and Risk Management Committee meeting was held within 2021.

2.6 Risk Management Function

The Company has established a Risk Management Function and to this effect has appointed a dedicated Risk Manager to implement the Company's Risk Management Policy, as set by the Board and by the Compliance and Risk Management Committee. Furthermore, the Committee must conduct a duly and continuous supervision of the activities relating to the proper operation of the Risk Management Function and ensure that the said function identifies, measures, and reports all risks faced by the Company.

The Risk Management Function has the following duties and responsibilities:

- To adopt prudent policies on Risk Management and internal control;
- To identify and evaluate all the fundamental risks faced by the Company;
- To implement remediation measures to the fundamental risks faced that arise due to the Company's operations in respect to the levels of risk tolerance;
- To provide adequate information in a timely and proper manner to the Committee on the status of risks and controls in place;
- To compile all required risk-related reports and ensure distribution of the said reports to CySEC; and

- To conduct effectiveness reviews on the existing Risk Management Policies and internal control mechanisms and provide a report to the Committee.

The Risk Manager has direct access to the Board.

Both the Chief Compliance Officer (**"CCO"**) and the Risk Manager attend the Committee meetings as well as relevant employees from other departments.

2.7 Compliance and Money Laundering Compliance Functions

The Compliance Function of the Company designs an annual risk-based plan that takes into consideration areas of acute importance, such as material business activity or Business and Regulatory risk, with the reasoning behind this being for the Company to consistently be regulatorily compliant. The Compliance Function covers the areas of:

- Anti-Money Laundering and Financial Crime;
- Monitoring and Surveillance;
- Governance, Code of Conduct and Regulatory Compliance; and
- Regulatory Counselling.

The CCO and the Money Laundering Reporting Officer (**"MLRO"**) both have direct access to the Board.

2.8 Internal Audit Function

The Internal Audit Function's main objectives include continuously monitoring and evaluating the Company by taking into consideration the nature, scale and complexity of the business operations, as well as providing judicious advice, knowledge and recommendations to ensure compliance with relevant legal and regulatory frameworks. The Internal Audit Function operates independently from other functions of the Company.

The Internal Audit Function has the following duties and responsibilities:

- To establish, implement and maintain an audit plan which will aim at examining and evaluating whether the Company's systems, internal control mechanisms and agreements are adequate and effective;
- To issue recommendations based on the evaluation of the audit plan's examinations and to subsequently assist the Board on the effectiveness of existing control arrangements;
- To verify compliance with any potential recommendations on matters including corporate governance and management;
- To provide an impartial and independent appraisal on all Company activities;
- To compile and distribute, in a timely and accurate manner, the Annual Internal Audit Report to the Board; and
- To ensure that relevant records are kept with respect to all Internal Audit activity conducted.

The Internal Audit Function has direct access to the Board.

2.9 Risk Management Strategies and Objectives

The Company implements a plethora of Risk Management strategies in order to mitigate different types of risks, including metrics such as Key Risk Indicators ("**KRIs**") and maximum tolerable exposure limits. A focal part of the Company's capital management strategy lies in the continuous monitoring of the Capital Adequacy Ratio and the assurance that the said ratio will be in exceedance of the regulatory minimum benchmark.

Management of the Company's capital structure and any adjustments made are performed in accordance with the following objectives:

- To maintain financial solidity while respecting predetermined risk appetite targets;
- To preserve existing levels of financial flexibility, capital and liquidity to cultivate organic growth;
- To adequately allocate capital among the various business lines according to strategic objectives;
- To ensure the Company's resilience in stress scenario events whilst managing concentration to counterparties; and
- To meet the expectations of stakeholders including but not limited to debt and equity investors, External Credit Assessment Institutions ("**ECAIs**") and shareholders.

Investment Firms, in adherence to the requirement dictated by the IFR/IFD framework, must maintain a minimum Capital Adequacy Ratio of 100% and based on the Company's activities, systemic importance, size and interconnectedness, prudent Risk Management is achieved on the basis of:

- **Pillar I Risks:** These being Risk-to-Clients (**"RtC"**), Risk-to-Markets (**"RtM"**) and Risk-to-Firm (**"RtF"**), which are collectively referred to as "K-Factor" proxies;
- **Pillar II Risks:** These risks refer to projections on the applicable Pillar I K-Factors under different scenarios classified as idiosyncratic and system-wide and to other risks which are not quantified under Pillar I (fully or partially) and are deemed to be of major significance. Such risks include Credit, Technology, Business/Strategic, Compliance/Regulatory, Reputational and Residual Risk. The projections and the differing scenarios are reflected in the Internal Capital Adequacy and Risk Assessment (**"ICARA"**) Process; and
- **Additional Risks:** Risks not fully captured under Pillar I in terms of carrying capital requirements, but that are reflected as additional disclosures, with such risks to include Concentration Risk on non-trading book activity and Liquidity Risk in the form of attaining certain minimum requirements.

2.10 Internal Capital Adequacy and Risk Assessment Report

The Internal Capital Adequacy Assessment Process Report ("**ICAAP Report**") is published on an annual basis and is constructed based on the Guidelines GD-IF-02 issued by CySEC. These guidelines address the distinctive components and framework for the implementation of the ICAAP Report, which is a key component of Risk Management, providing the principles on how the provisions in terms of the ICAAP should be interpreted and applied in practice. The guidelines further prescribe how a CIF should develop an integrated and firm-wide risk culture based on a full understanding of the risks it faces and how they are managed, taking into account the levels of risk tolerance and risk appetite.

The ICAAP Report comprehensively highlights the additional risks that are not covered in Pillar I, with those risks including Regulatory, Compliance, Business, Reputational, Concentration and Liquidity Risks. Further to the identification of the said risks, the ICAAP Report's intention is to quantify the Company's required capital in relation to these risks and in effect how this required capital is used for risk mitigation and control purposes.

A key notion that is captured within the ICAAP Report is the significance of the Company's compliance with regulatory frameworks of jurisdictions in which the Company's trading platform is accessible from. To this effect the Company monitors closely regulatory requirements and responds comprehensively to enquiries or industry-wide regulatory actions by regulators.

With the enforcement of IFR/IFD, the ICAAP has been substituted with the Internal Capital Adequacy and Risk Assessment (**"ICARA"**) Process, whereby additional add-ons are required to be applied onto existing K-Factors applicable to the Company.

2.11 Board Risk Appetite Statement

The Risk Appetite Statement as dictated by the Board, indicates the level of risk that the Company is prepared to incur given its strategic and business objectives. The Risk Appetite Statement is defined using both qualitative and quantitative parameters and highlights the conditions by which the Company can operate under varying levels of singular or aggregated risks.

The Risk Appetite Statement is one of the main strategic oversight tools used by the Company's Board in tandem with several KRIs as well, to provide alerts in cases where set risk thresholds have been breached and require immediate attention. As a pre-emptive measure and for proper internal Risk Management controls to be in place, risk limits have been imposed to keep risks at manageable levels on a continuous basis.

The following risks have been highlighted by the Board as being of paramount importance and to this effect the Company has established internal controls to manage them:

- Credit Risk (including TCD and CON)
- Operational Risk (including AUM, COH, ASA, CMH and DTF)
- Liquidity Risk
- Regulatory Risk

The Risk Appetite Statement is regularly being revised by the Board to identify any stress events that may result in unfavorable developments on the Company's risk levels and will trigger the deployment of remedial action.

The overall risk profile of the Company can be described as medium risk, as a plethora of Risk Management procedures have been incorporated within TCM to mitigate potential threats that could cause detrimental effects. Moreover, the Company considers that in addition to the applicable K-Factors which are outlined further in the Report, that particular emphasis has to be placed on the management of Concentration Risk and Liquidity Risk. Finally, a Recovery Plan as well as a Business Continuity Plan ("**BCP**") have been introduced in an effort to anticipate potential stress scenarios and set effective procedures to remediate adverse effects emanating from said stress scenarios.

2.12 Levels of Defense

The Company's overall governance, system and control framework is deployed on the basis of the three levels of defense model which distinguishes among:

- **First Level:** Functions that own and manage risks – Business Management and Operational Functions.
- **Second Level:** Functions that oversee risks – Compliance and Risk Management Functions.
- **Third Level:** Functions that provide independent assurance – Internal and External Audit Functions.

3 CAPITAL MANAGEMENT AND ADEQUACY

3.1 Capital Management

In adherence to regulatory requirements, the Company must perform a Capital Adequacy Report on a quarterly basis, whereby it quantifies and expresses as a percentage its capital in relation to its Pillar I risks.

The Capital Adequacy Ratio ("**CAR**") that the Company is subject to and must pertain at all times should be in excess of 100%, which is decomposed as follows:

Table 2: Decomposition of Regulatory Capital Own Funds Requirements

Type of Capital	Percentage Amount	Description
Common Equity Tier 1 Ratio (CET1)	56%	Minimum Capital Ratio Benchmarks
Tier 1 Ratio	75%	
Total Own Funds Ratio	100%	

As at the reference date of the 31st of December 2021, the composition of the Company's Own Funds on a Solo basis is depicted in the following table:

Table 3: Template EU IF CC1.01 - Composition of Regulatory Own Funds

		(a)	(b)
		Amounts (EUR'000)	Source based on reference numbers/letters of the balance sheet in the audited financial statements (Cross Reference to EU IF CC2)
Reference	**Common Equity Tier 1 (CET 1) capital: instruments and reserves**		
1	**OWN FUNDS**	**6,943**	
2	**TIER 1 CAPITAL**	**6,943**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**6,943**	
4	Fully paid up capital instruments	8	Reference 1 (Shareholder's Equity)
5	Share premium	5,242	Reference 2 (Shareholder's Equity)
6	Retained earnings	1,804	Reference 3 (Shareholder's Equity)

10	Adjustments to CET1 due to prudential filters	(8)	
27	CET1: Other capital elements, deductions and adjustments	(103)	Reference 1 & 2 (Assets)
28	**ADDITIONAL TIER 1 CAPITAL**	-	
40	**TIER 2 CAPITAL**	-	

Note: *On 5th of October 2021 an additional 1.000 Ordinary Shares were issued at a premium of € 1,999 per share and allotted to Trade Capital Holding (TCH) Ltd.*

As at the reference date of the 31st of December 2021, the composition of the Company's assets and liabilities structure reconciled with the regulatory Own Funds is depicted in the following table:

Table 4: Template EU IF CC2 - Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements

		(a)	(c)
		Balance sheet as in published/audited financial statement (EUR'000)	Cross Reference to EU IF CC1
		As at period end	
Reference	**Assets - Breakdown by asset classes according to balance sheet in the published/audited financial statements**		
1	Trade and other receivables (non-current assets) (Investors Compensation Fund Contribution)	58	Reference 27
2	Cash and cash receivables (ICF Buffer)	45	Reference 27
3	Non-current assets (other)	439	
4	Current assets (other)	10,671	
	Total Assets	**11,213**	
Reference	**Liabilities - Breakdown by liability classes according to balance sheet in the published/audited financial statements**		
1	Non-current liabilities	105	
2	Current liabilities	4,054	
	Total Liabilities	**4,159**	
Reference	**Shareholder's Equity**		
1	Share capital	8	Reference 4
2	Share premium	5,242	Reference 5
3	Retained earnings	1,804	Reference 6
	Total Shareholders' Equity	**7,054**	

The Company recorded a Capital Adequacy Ratio of 270.52% which is in excess of the regulatory minimum of 100%, and the Company's eligible capital is solely comprised of CET1 Capital. For further information you can refer to Table 9 of this Pillar 3 disclosures report.

Moreover, the Company's applicable Own Fund Requirement consisted of the Fixed Overheads Requirement ("**FOR**"), as it yielded a higher amount than the Permanent Minimum Capital Requirement ("**PMCR**") and the K-Factor Requirements.

Under the IFR/IFD regulatory capital measurement methodology, as at the reference date, the minimum capital requirement for the Pillar I risks of the Company is as follows:

Table 5: Capital Requirements under Pillar I, in EUR'000

FOR	Capital Requirements
Annual Fixed Overheads of the Previous Year	10,266
Fixed Overhead Requirement	**2,566**

A more granular analysis of the derivation of the FOR, as well as constitution of the K-Factors per proxy follows in Section 3.2.

3.2 Capital Requirements

3.2.1 Permanent Minimum Capital Requirement

The Company, being subject to the IFR/IFD framework, and owing to it being permitted to undertake the regulated investment service of dealing on own account, is obliged to have a PMCR equal to 750,000 EUR.

3.2.2 Fixed Overheads Requirement

The Company has to take into consideration the FOR, which is calculated annually based on the latest audited financial statements, with the required amount being derived as being one quarter of the annual fixed overheads of the previous year after the distribution of profits, with the relevant figures depicted in Table 6.

Table 6: Fixed Overheads Requirement Calculation, in EUR'000

Metric	Amount
Total Expenses of the Previous Year (After Distribution of Profits)	23,526
(-) Total Deductions	(13,260)
Annual Fixed Overheads of the Previous Year (After Distribution of Profits)	10,266
Fixed Overhead Requirement	**2,566**

3.2.3 Total K-Factor Requirement

Under the IFR/IFD regulatory capital measurement methodology, as at the 31st of December 2021, the applicable Pillar I risks of the Company were identified as follows:

Table 7: Analysis of Pillar I Risks

Risk Type	Measurement Method Used and Narrative Description
Risk-to-Client (RtC)	RtC metrics cover the full spectrum of different MiFID services of the way investment firms service clients and by definition is the most important metric as it captures the risk of potential harm posed by investment firms to clients. RtC is defined as the sum of client Assets Under Management (**"AUM"**), Client Money Held (**"CMH"**), Assets Safeguarded and Administered (**"ASA"**) and Client Orders Handled (**"COH"**), multiplied by relevant coefficients per K-Factor. **AUM** Captures the risk of harm to clients from mis-management of client portfolios or poor execution and provides reassurance to clients in terms of the continuity of service of portfolio management and ongoing investment advice. Measured as the value of assets managed under discretionary portfolio management and non-discretionary investment advice of an ongoing nature. This includes assets where management is formally delegated to another firm but excludes assets where management is formally delegated to the firm. Calculated as a rolling average of the total value of the monthly assets under management for clients, measured on the last business day of each of the previous 15 months, excluding the three most recent monthly values. AUM is the arithmetic mean of the remaining 12 monthly values. K-AUM = AUM x 0.02% **CMH** Captures the risk of harm to client money safeguarded by the investment firm taking into account the legal arrangements in relation to asset segregation. Risk to clients may arise in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. Measured as the value of client money held by the investment firm. Calculated as a rolling average of the total value of the daily client money held for clients, measured at the end of each business day of each of the previous 9 months, excluding the three most recent months. CMH is the arithmetic mean of the daily values from the remaining 6 months. K-CMH (segregated) = CMH x 0.4% K-CMH (non-segregated) = CMH x 0.5% **ASA** Captures the risk of harm to client financial instruments or assets safeguarded by the investment firm and ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on their own balance sheet or in third-party accounts. Measured as the value of assets safeguarded and administered for clients by the investment firm. This includes assets which the investment firm has delegated to another entity, as well as assets for which another entity has delegated the safeguarding and administration to the investment firm. Calculated as a rolling average of the total value of the daily assets safeguarded and administered for clients, measured at the end of each business day of each of the previous 9 months, excluding the three most recent months. ASA is the arithmetic mean of the daily values from the remaining 6 months. K-ASA = ASA x 0.04% **COH** Captures the risk of harm to clients of the investment firm which executes orders as part of execution-only services to clients, or when an investment firm is part of a chain for client orders.

	Measured as the value of client orders arising out of the receipt and transmission of client orders of the execution of client orders. The value of a derivative transaction is the value of the notional, but there are adjustments applicable to interest rate derivatives. Transactions entered by the investment firm in its own name are excluded. Calculated as a rolling average of the total value of the daily client orders handled, measured at the end of each business day of each of the previous 6 months, excluding the three most recent months. COH is the arithmetic mean of the daily values from the remaining 3 months. K-COH (cash trades) = COH x 0.1% K-COH (derivatives) = COH x 0.01% The Company's overall RtC position is at an acceptable level, with the capital charges associated with the proxies being at low levels, and with the following risk mitigation practices being employed: In regards to AUM, the Company ensures that the Asset Management department is adequately staffed with competent personnel that satisfy all of the Commission's requirements in terms of skill, knowledge and experience. Moreover, all strategies are back-tested, clients are allowed to enter their own stop loss values and are duly notified if drawdown percentages exceed the 10% benchmark. In regards to CMH, the Company holds client funds in segregated accounts, separate from TCM's funds. In addition, the Company cooperates with credit institutions that are of sound reputation and that are accredited by ECAIs. Moreover, funds are diversified amongst the aforementioned institutions to mitigate Concentration Risk, and daily reconciliations are performed and recorded in an adequate fashion. In regards to COH, the Company performs best execution monitoring to determine if client orders have suffered due to poor execution, with metrics taken into consideration including but not limited to likelihood of execution, slippage and speed of execution. Such monitoring is documented in monthly reports to the Company's Senior Management and remediation actions take place to improve execution metrics if deemed necessary. In regards to the RtC metric as a whole, the Company offers Negative Balance Protection ("**NBP**") to its clients, meaning that they are protected in exceptional market conditions where there is a price change in the underlying that is sufficiently large and sudden, and which results in clients having a negative account value. This means that client losses are limited to the total funds that are in the clients' trading account.
Risk-to-Market (RtM)	RtM metrics apply to all trading book positions, which include in particular positions in debt instruments, equity instruments, collective investment undertakings, foreign exchange and gold, and commodities. RtM is comprised of Net Position Risk (**"NPR"**) and Clearing Margin Given (**"CMG"**). Non-trading book positions must also be included, where these give rise to Foreign Exchange Risk or Commodity Risk. **NPR** Captures the risk that is attributed to a change in value of financial instruments that arise from factors including market fluctuations and instrument-specific parameters such as volatility and correlations. Measured as the value of transactions recorded in the investment firm's trading book or the value of transactions in non-trading book positions which give rise to Foreign Exchange Risk or Commodity Risk. Calculated in accordance with the Market Risk provisions of Regulation (EU) 575/2013 of the European Parliament and of the Council on the Prudential Requirements for Credit Institutions and Investment Firms (**"CRR")**, using the Standardised Approach. The default methodology to calculate RtM is using K-NPR. Investment firms however may obtain approval by the competent authority to calculate RtM using K-CMG if they are able to demonstrate and justify that this methodology is appropriate based on the main activities conducted.

	The Company has opted to calculate RtM using the K-NPR approach, and the overall RtM position is at an acceptable level, with the capital charges associated with the proxies being at low levels. In regards to NPR, due to the fact that the Company has implemented the Matched Principal Trading execution model, it is never exposed to Net Position Risk throughout the execution of financial instrument transactions as it hedges the risk arising from the execution of its clients' orders.
Risk-to-Firm (RtF)	RtF metrics capture the risk of Trading Counterparty Default (**"TCD"**), Concentration Risk for Trading Book exposures to counterparties (**"CON"**) and Operational Risks from Daily Trading Flow (**"DTF"**). RtF is defined as the sum of TCD, CON and DTF. **<u>TCD</u>** Captures the risk of harm to the investment firm by counterparties to over-the-counter derivatives, repurchase transactions, securities and commodities lending or borrowing transactions, long settlement transactions, margin lending transactions or any other securities financing transactions. In addition, TCD captures the additional risk posed by recipients of loans granted by the investment firm on an ancillary basis as part of an investment service that fail to fulfil their obligations. Measured as the value of derivatives, securities financing transactions and related transactions in an investment firm's trading book that give rise to a risk of counterparty default, with some exclusions applying. Calculated by multiplying the value of the exposures, based on replacement cost and an add-on for potential future exposure, by risk factors, accounting for mitigating effects of effective netting and the exchange of collateral. K-TCD = Alpha x Exposure Value x Risk Factor x Credit Valuation Adjustment **<u>CON</u>** Captures the risk of harm to the investment firm by counterparties, including issuers of instruments in which the firm maintains positions, where the exposure values are derived from the summation of TCD and NPR on a transaction level, with a capital charge being enforced only when the maximum allowable limit as determined in relation to the investment firm's Own Funds, is exceeded. Due to the Company applying the Matched Principal execution model, the NPR exposures, which are calculated on a net notional amount basis per issuer of instrument, as relevant, do not affect the k-CON calculations. Measured as the value of derivatives, securities financing transactions and related transactions in an investment firm's trading book, on a per counterparty basis to assess the concentration on an individual level, with the limits being classified as 25% of the investment firm's Own Funds for counterparties classed as "individual client or group of connected clients" and 100% of the Own Funds for "credit institutions or investment firms". Calculated by taking into consideration the exposure value (**"EV"**), the own funds requirement of the total exposure (**"OFR"**), the exposure value excess (**"EVE"**), the maximum allowable limit, the duration of the excess and the counterparty type. A capital charge shall be applied only upon a breach by a counterparty of the maximum allowable limit, with the capital charge defined as the Own Funds Requirement for the Excess (**"OFRE"**). K-CON (OFRE) = (OFR/EV) x EVE **<u>DTF</u>** Captures the risk of harm to the investment firm in the form of Operational Risk due to large volumes of trades concluded for its own account or for clients in its own name in one day which could result from inadequate or failed internal processes, people and systems or from external events.

	Measured as the value of transactions entered into by the investment firm dealing on own account or through the execution of orders on behalf of clients in its own name. It excludes transactions included in COH. The value of a derivative transaction is the value of the notional, but there are adjustments applicable to interest rate derivatives. Calculated as a rolling average of the total value of the daily trading flow, measured at the end of each business day of each of the previous 9 months, excluding the three most recent months. DTF is the arithmetic mean of the daily values from the remaining 6 months. K-DTF (cash trades) = DTF x 0.1% K-DTF (derivatives) = DTF x 0.01% The Company's overall RtF position is at an acceptable level, with the capital charges associated with the proxies being at relatively high levels in comparison with the metrics of RtC and RtM, mainly due to the influence of the Company's trading book, and with the following risk mitigation practices being used: In regards to TCD, the Company utilises client used margin as collateral in order to counteract the exposure value and ensure that the TCD metric is adequately managed. In regards to CON, the Company monitors on a daily basis exposures that arise from its clients' trades in order to take action against the maximum allowable limit being breached. In regards to DTF, the Company is partnered with reputable counterparties to rely on the execution of orders, with counterparties being assessed both on an ex-ante basis in the form of due diligence being performed, and on an ex-post basis, both on a monthly and annual basis depending on the assessment being conducted. In addition, the Company's Dealing department monitors in real-time the flow of orders and escalates any unusual activity such as high rejection rates to the counterparties for further analysis.

The following table outlines the Company's Pillar I risks on a Solo basis, decomposed into their respective capital requirements as at the reference date:

Table 8: Solo K-Factor Requirements per K-Factor, in EUR'000

	Metric	2021	
		Factor Amount	K-Factor Requirement
RtC	AUM	117,281	23
	CMH	21,642	87
	ASA	87,876	34
	COH	226,473	23
	Total RtC	**-**	**167**
RtM	NPR	-	94
	Total RtM	**-**	**94**
RtF	TCD	-	1,413
	DTF	191,045	19
	CON	-	351
	Total RtF	**-**	**1,783**
	Total K-Factors	**-**	**2,044**

It is evident that the Company is primarily exposed to the RtF proxy, mainly due to the exposures arising from its trading book. As aforementioned in Section 2.14, the Company considers that its current risks are adequately addressed and that no significant incident will cause a deterioration in the present solvency position.

The Company has developed processes, management tools and a control infrastructure in order to enhance and mitigate risks that are inherent in the conducted activities. Technology and the dependence of the Company on it plays a paramount role in the establishment and maintenance of the appropriate governance framework. Where possible the Company has the technology and expertise to mitigate the risk should a technology counterparty experience a failure and multiple providers are utilized in a failover scheme.

Several risk reporting, monitoring and mitigating actions have been established by the Company and include:

- KRIs being used to quantify potential risks and the said KRIs are constantly being refined to adhere to the adaptive nature that risks pose;
- The establishment of an internal risk registry to catalogue every identified risk; and
- The creation of an incidence and risk report portal whereby all risk-oriented events are catalogued and evaluated.

Table 9: Capital Excess/Ratio, in EUR'000

31 December 2021	Fully-phased in	Reference
Capital		
Common Equity Tier 1	6,943	
Additional Tier 1	-	
Tier 2	-	
Total Own Funds	**6,943**	***a***
Own Funds Requirement		
K-factor Requirement	2,044	*b*
Fixed Overhead Requirement	2,566	*c*
Permanent Minimum Capital Requirement	750	*d*
Minimum Own Funds Requirement	**2,566**	***e = (higher of b, c, d)***
Capital Excess/Ratio		
Capital Excess	**4,377**	***a-e***
Capital Ratio	**270.52%**	***a/e***

3.3 Concentration Risk

The Company considers the Concentration Risk metric as being of paramount importance and closely monitors any such arising exposures. Concentration Risk is defined as a large exposure to a single client or group of clients for exposures emanating exclusively in the trading book of the Company. Non-trading book items are not subject to the Concentration Risk metric under Pillar I under IFR/IFD and do not carry a capital charge.

The large exposure limits, also referred to as maximum allowable limits, are decomposed as follows:

- Individual Client or Group of Connected Clients: 25% of the Company's Own Funds
- Credit Institution or Investment Firm: 100% of the Company's Own Funds

Trading book Concentration Risk carries a capital charge when the aforementioned limits are breached, and such capital charges are quantified and translated as CON, with a complete calculation approach and methodology employed being already outlined within Table 7 in Section 3.2.3.

Due to the fact that the Company employs the Matched Principal execution model, it ensures that no capital charge is present for NPR which is a contributing factor in the overall calculation of CON, which is effectively a Risk Management practice used to limit the prevailing exposures.

Moreover, since TCD is another metric whereby CON is derived from, the fact that the Company uses risk mitigation techniques which are accepted under IFR/IFD in the form of Collateral, ensures that the Exposure Value arising from TCD which counts towards CON is reduced on a transaction level.

In addition, the Company applies trading limits in order to successfully manage its Concentration Risk to counterparties in an effort to not breach the maximum allowable limit per counterparty type as aforementioned.

3.4 Liquidity Risk

Liquidity Risk is the risk of loss corresponding to the Company's inability to meet its cash or collateral requirements as they arise, at a reasonable cost. The primary objective in managing Liquidity Risk is to ensure that the funding of activities is performed in the most cost-effective way, while adhering to regulatory constraints which are introduced in a quantifiable manner within IFR/IFD.

The principles and standards applicable to the management of Liquidity Risk are defined by the established liquidity tolerance level as part of the Company's risk appetite exercise, with the minimum Liquidity Requirement being defined as one third of the Company's FOR. In essence, IFR/IFD stipulates that liquid assets must exceed the aforementioned minimum threshold in order to ensure that an orderly wind-down may take place.

Regular analysis and reporting of Liquidity Risk is conducted, along with diversification practices to reduce non-trading book Concentration Risk, and prudent cash management is implemented. The Company has procedures in place to ensure that the minimum cash buffers are not breached and that the held liquid assets always exceed the Liquidity Requirement.

As of the 31st of December 2021, the Company's liquid assets amounted to €4.666 thousand, which exceeded the Liquidity Requirement of €855 thousand by a considerable amount.

4 REMUNERATION

The remuneration system that is implemented by the Company incorporates elements such as fixed remuneration, variable remuneration and other benefits such as bonuses that an employee or executive receives during employment, taking into consideration the provisions stipulated in Law 87(I)/2017 as amended. Where applicable, severance payment also constitutes remuneration as well. The remuneration levels applied and practiced are appropriate to the Company's size, internal organization, nature, scope and complexity of pertained activities.

The Company has established a Remuneration Policy which applies to all employees, service providers and affiliates, with the Board of Directors having the overall responsibility to implement, monitor and review the said policy and with Senior Management ensuring that all persons remunerated by the Company have knowledge of and understand the Remuneration Policy. The said policy's philosophy is to promote sound and effective Risk Management, as well as long-term perspective by discouraging excessive risk-taking by employees and external business partners, as well as providing sufficient incentives for personnel to achieve the Company's business targets. Furthermore, the Remuneration Policy has been constructed in a way that promotes an appropriate code of conduct that ensures avoidance of potential conflicts of interest that may negatively impact the Company as well as its clients.

The Company is committed to base its remuneration practices on a gender-neutral approach, thus mitigating any potential for there to be a gender pay gap. This notion is prevalent on a Company-wide basis and does not only include Executive & Non-Executive Directors, Control Functions and Other Material Risk Takers.

The two main remuneration structures incorporated by the Company within the established remuneration system, are the fixed and variable remuneration types.

Fixed Remuneration

The remuneration system consisting of fixed remuneration, is structured on the basis of employee compensation being attributed to metrics such as skills, experience and competencies that are commensurate with the requirements, size and scope of the position. Remuneration is aimed to be competitive to attract and retain employees as well as give the Company the capability to achieve its strategic objectives.

Fixed remuneration is payable to employees in fixed monthly instalments.

Variable Remuneration

The remuneration system consisting of variable remuneration, is predicated on the industry objective of retaining cost flexibility while attracting and retaining employees. It has the advantage of being able to differentiate performance outcomes and drive behaviours through appropriate incentive systems that can also positively influence culture.

The Company's variable remuneration system availability is bifurcated in the following categories:

- To all employees by means of a performance-related bonus.
- To employees of certain departments via commissions on client deposits and/or spreads.

This remuneration system reflects sustainable and risk-adjusted performance, as well as performance in excess of what is required to fulfil the employee's job description as part of the terms of employment, and does not exceed 100% of the fixed component of the total compensation for each individual.

Aggregated Quantitative Information

The existing remuneration system utilised is concerned with practices relating to categories of members of staff whose professional activities have a material impact on the Company's risk profile, such as the Executive & Non-Executive Directors, Control Functions and Other Material Risk Takers.

Table 10 which follows, serves to disclose the remuneration of the aforementioned parties within 2021, whilst segregating the remuneration figures into fixed and variable, with a clear indication of the number of individuals constituting each classification category.

In adherence to Article 30(2) of the IFD, the Company ensures that appropriate ratios are in place between Fixed and Variable remuneration per classification type, taking into consideration the existing business activities and present risks.

Table 10: Accumulated Remuneration per Classification Type, in EUR'000

Classification	Number of Persons	Fixed	Variable*	Total Remuneration	Ratio between Fixed and Variable Remuneration
Executive & Non-Executive Directors	4	238	40	278	6:1
Control Functions	3	284	68	352	4:1
Other Material Risk Takers	5	265	129	394	2:1
Overall	**12**	**786**	**237**	**1,024**	**3:1**

Notes on Remuneration:

** The entirety of variable remuneration consisted of cash payments*

Further to the above, the Company discloses the following in regards to its remuneration practices:

- No amounts of deferred remuneration have been awarded for previous performance periods that are due to vest in the 2021 financial year, or due to vest in subsequent years.
- No amounts of deferred remuneration is due to vest in the 2021 financial year that is paid during the financial year and that is reduced through performance adjustments.
- There is no guaranteed variable remuneration of any form.
- No severance payments have been awarded in previous years that have been paid out during the 2021 financial year.
- No severance payments have been awarded during the 2021 financial year.

5 APPENDIX

Table 11: Template EU IF CCA: Own Funds: Main Features of Own Instruments Issued by the Firm

		(a)
		Common Equity Tier 1 Capital
Reference		
1	Issuer	Trade Capital Markets (TCM) Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Public or private placement	Private
4	Governing law(s) of the instrument	Cyprus Law
5	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	8,000
7	Nominal amount of instrument	1.000
8	Issue price	EUR 2.000
9	Redemption price	N/A
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	05/08/2013 – 05/10/2021
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
22	Existence of step up or other incentive to redeem	No
23	Noncumulative or cumulative	Non-cumulative
24	Convertible or non-convertible	Non-convertible
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	No
32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A
34	If write-down, permanent or temporary	N/A

35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the intrument (signposting)	N/A