



Pillar III Disclosures Report 2019

July 2020

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2019 has been prepared by Windsor Brokers Ltd as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and Directives DI144-2014-14, DI44-2014-14(A) issued by the Cyprus Securities and Exchange Commission.

Any information that was not included in this report was either not applicable for 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.

*Windsor Brokers Ltd is regulated by the Cyprus Securities and Exchange Commission under License number **030/04**.*

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GENERAL NOTES

- Windsor Brokers Ltd (the “Company”) has prepared this Disclosures and Market Discipline Report (the “Report”).
- The Report is based on the audited financial statements of the Company for the year ended 31 December 2019.
- The information contained within these disclosures is presented for the purpose of explaining how risks are managed by the Company and to disclose the own funds requirements corresponding to these risks, in line with “Specific publication requirements” as stipulated in paragraph 32 of Section 4 of Part II (“Supervisory measures and powers”) of the Cyprus Securities and Exchange Commission (hereinafter “CySEC”, “Commission”, or “Regulator”) Directives DI144-2014-14 and DI144-2014-14(A), and the requirements of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (the “CRR” or the “Regulation”). The Report has been reviewed by the Company’s Management Body and has been verified by the Company’s external auditor.
- Where the disclosures do not convey the risk profile of the Company, the Company shall publicly disclose the information necessary in addition to that required in accordance with Article 431(1) of the Regulation. However, it shall only be required to disclose information which is material and not proprietary or confidential in accordance with Article 432 of the Regulation.
- The disclosures are published on the Company’s website: <https://en.windsorbrokers.eu/>.
- All figures are stated in US Dollars. Figures are rounded to the nearest thousand except where otherwise stated. Figures in parenthesis, represent negative numbers.
- As at 31 December 2019 the Company did not have any encumbered assets. Furthermore, the Company does not undertake any securitisation activity.
- Where designated as N/A, the relevant requirement is Not Applicable for the Company.

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Specific reference to Articles of the Capital Requirements Regulation

CRR Ref.	High-level summary	Compliance reference
<i>Scope of disclosure requirements</i>		
431(1)	Requirement to publish Pillar III disclosures	Section 1.1
431(2)	Disclosure of Operational Risk information	Section 8
431(3)	Institutions must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	Section 1.1 & 1.2
431(4)	Explanation of ratings decisions to SMEs upon request	N/A
<i>Non-material, proprietary or confidential information</i>		
432	Non-material, proprietary or confidential information	Compliance with this provision is covered through the Pillar III Disclosures
<i>Frequency of disclosure</i>		
433	Frequency of disclosure - Disclosures must be published once a year at a minimum	Section 1.2
<i>Means of disclosures</i>		
434 (1)	Provide disclosures in an appropriate medium	General Notes & Section 1.2
434 (2)	Equivalent disclosures made under other requirements (i.e. accounting) can be used to satisfy Pillar III if appropriate	N/A – Entirely covered with this document
<i>Risk management objectives and policies</i>		
435 (1) (a) 435 (1) (b) 435 (1) (c) 435 (1) (d)	Disclosure of information on strategies and processes, organisational structure of each risk management function, reporting and measurement systems and risk mitigation/hedging policies.	Section 3
435 (1) (e)	Declaration approved by the management body on adequacy of risk management arrangements	Section 3.7
435 (1) (f)	Concise risk statement approved by the management body describing the Company's overall risk profile associated with the business strategy	Section 3.5
435 (2)	Information, including regular, at least annual updates, regarding governance arrangements	Section 2 & 3.3
435 (2) (a)	Number of directorships held by members of the management body	Section 2.2
435 (2) (b)	Recruitment policy of management body members, their experience and expertise.	Section 2.3
435 (2) (c)	Policy on diversity of management body members, its objectives and the extent to which these objectives	Section 2.4

CRR Ref.	High-level summary	Compliance reference
	and targets have been achieved	
435 (2) (d)	Disclosure of whether a separate risk committee is in place, and number of meetings in the year	Section 2.5
435 (2) (e)	Description of information flow on risk to management body	Sections 3.3 & 3.4
Scope of application		
436 (a)	Name of institution	General Notes & Section 1.1
436 (b)	Outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are fully consolidated, proportionally consolidated, deducted from own funds or neither consolidated nor deducted	N/A
436 (c)	Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	Section 1.1
436 (d)	The aggregate amount by which the actual own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	N/A
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries/entities	N/A
Own funds		
437 (1)	Information regarding the Company's Own Funds	Section 4
437 (2)	EBA shall develop implementation standards for article above	Appendix 1
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels	Section 5
438 (b)	Result of ICAAP on demand from competent authority	N/A
438 (c)	Credit risk capital requirement amounts per Standardised Approach exposure class (8% of risk weighted exposure)	Sections 5.4 & 6.5
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class	N/A
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits	Sections 5.4 & 7.2

CRR Ref.	High-level summary	Compliance reference
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable	Sections 5.4 & 8.2
Exposure to counterparty credit risk (CCR)		
439 (a)	Information of the methodology used to assign internal capital and credit limits for counterparty credit exposures	Section 6.6
439 (b)	Discussion of policies for securing collateral and establishing credit reserves	Section 6.1
439 (c)	Discussion of policies as regards wrong-way risk exposures	N/A
439 (d)	Discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	N/A
439 (e)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposures	N/A
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods as applicable	Section 6.4
439 (g)	Notional value of credit derivative hedges and current credit exposure by types of credit exposure	N/A
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type	N/A
439 (i)	The estimation of alpha ("α") if the institution has received the permission of the competent authorities to estimate α	N/A
Capital Buffers		
440 (1) (a)	Geographical distributions of credit exposures	Section 6.4.2
440 (1) (b)	Amount of the institution specific countercyclical buffer	Section 5.1
440 (2)	EBA issue the Regulatory Technical Standards on countercyclical capital buffer	N/A
Indicators of global systemic importance		
441	Indicators of global systemic importance	N/A
Credit risk adjustments		
442	Information regarding the institution's exposure to credit risk and dilution risk	Section 6.3
Unencumbered assets		
443	Disclosures on unencumbered assets	N/A
Use of ECAs		

CRR Ref.	High-level summary	Compliance reference
444 (a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes	
444 (b)	Exposure classes associated with each ECAI.	
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items in the Banking book	Section 6.6
444 (d)	Mapping of external rating to credit quality steps	
444 (e)	Exposure values pre-credit risk mitigation and post-credit risk mitigation, by credit quality step	
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	Section 7.2
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Section 8
Exposure in equities in the Banking book		
447	Information on exposure in equities in the Banking book, including differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used, recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value, types, nature and amounts of the relevant classes of equity exposures, cumulative realised gains and losses on sales in the period and Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital	Section 7.3
Exposure to interest rate risk on positions in the Banking book		
448 (a)	Nature of interest rate risk and key assumptions in measurement models	Section 7.3
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency	N/A
Exposure to securitisation positions		
449	Exposure to securitisation positions	N/A
Remuneration disclosures		
450	Remuneration policy	Section 9
Leverage		
451 (1)	Leverage ratio and analysis of total exposure measure	Section 10

CRR Ref.	High-level summary	Compliance reference
451 (2)	EBA developed implementation standards for points above	Section 10
<i>Use of the IRB Approach to credit risk</i>		
452	Use of the IRB Approach to credit risk	N/A
<i>Use of credit risk mitigation techniques</i>		
453 (a)	Policies and processes, and an indication of the extent to which the Company makes use of on-balance sheet and off- balance sheet netting	Section 6.2
453 (b)	Policies and processes for collateral valuation and management	N/A
453 (c)	Description of types of collateral used by the Bank	Section 6.2
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	N/A
453 (e)	Information about market or credit risk concentrations within the credit mitigation taken	Section 6.2
453 (f)	For exposures under either the Standardised or the Foundation IRB approach, disclosure of the exposure covered by eligible financial collateral and other eligible collateral	N/A
453 (g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives	N/A
<i>Use of the Advanced Measurement Approaches to operational risk</i>		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk	N/A
<i>Use of Internal Market Risk Models</i>		
455	Use of Internal Market Risk Models	N/A

1. INTRODUCTION

1.1 Pillar 3 Regulatory Framework and Scope of Application

The present Pillar III Disclosures report is prepared by Windsor Brokers Ltd a Cyprus Investment Firm (“CIF”) authorized and regulated by the Cyprus Securities and Exchange Commission under license number 030/04.

In accordance with Part Eight of Regulation (EU) No. 575/2013 (the “Regulation” or “CRR”), the Company is required to disclose information relating to its risk management, capital structure, capital adequacy, its risk exposures as well as the most important characteristics of the Company’s governance including its remuneration system. The scope of the disclosures is to promote market discipline and to improve transparency of market participants.

The current regulatory framework comprises of three pillars. The focus of this Report is Pillar III.

- **Pillar I** covers the calculation of risk weighted assets (“RWAs”) for Credit Risk, Market Risk and Operational Risk;
- **Pillar II** covers the Supervisory Review and Evaluation Process (“SREP”), which assesses the Internal Capital Adequacy Assessment Process (the “ICAAP”) and provides for the monitoring and self-assessment of an institution’s capital adequacy and internal processes;
- **Pillar III** covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

Following WB’s own assessment, conducted in 2019, utilizing CySEC’s decision tree and the relevant provisions as stipulated in CySEC’s Directive 144-2014-14 and Regulation EU No.575/2013, reached the conclusion that it is subject to the consolidated supervision of CySEC. It is further noted, that Windsor Holdings Ltd, the parent company of WB, is not required by the International Financial Reporting Standards and/or Companies Law and/or any other legislation to prepare consolidated audited financial statements. Therefore, the Company is making the disclosures on a standalone (solo) basis.

The Company does not foresee any material practical or legal impediment to the prompt transfer of own funds or repayment of liability to its parent.

The Report is based on the audited financial statements of the Company for the year ended 31 December 2019.

The information contained in this report is reviewed by the Company’s external auditors who prepared and submit to the CySEC their auditor’s verification report. The Company’s auditor is PKF Savvides & Co Limited.

The Pillar III Disclosures report has been reviewed and approved by the Company’s Board of Directors.

As with all investment firms, the Company is exposed to a variety of risks and in particular to credit risk, market risk and operational risk. As such, the Board of Directors (“BoD” or the “Board”) and the Senior Management have the overall responsibility for the internal control systems in the process of “Capital Adequacy Assessment” and they have established effective processes to ensure that the full spectrum of risks faced by the Company is properly identified, measured, monitored and controlled to minimize adverse outcomes.

1.2 Frequency and means of disclosure

In line with Article 433 of the Regulation, the Company's Management, taking into consideration the size and complexity of the Company's operations has decided that the Pillar 3 disclosures will be prepared and published on an annual basis, in conjunction with the date of issuance of the Company's financial statements, on the Company's website <https://en.windsorbrokers.eu/>.

Due to the COVID-19 pandemic, CySEC issued the Circular C381 on Pillar III disclosures in light of COVID-19., through which it extends the deadline for the publication of the Pillar III disclosures for the year ending 31st December 2019, up to 31/07/2020. The extension takes into consideration that the remittance date of the annual audited financial statements for 2019 has been extended up to 31st July 2020. As per the Article 433 of the CRR "Annual disclosures shall be published in conjunction with the date of publication of the financial statements".

Therefore, the Pillar 3 disclosures for 2019 are published in July 2020.

1.3 Company Information

Windsor Brokers Limited is an Investment Firm incorporated in the Republic of Cyprus through the Department of Registrar of Cyprus and Official Receiver under the Cyprus Company Law, Cap 113 as a Limited Liability Company with registration number **HE119081**. It offers financial products and market making services to individuals and corporate clients.

The Company obtained its license from CySEC on 20/05/2004, with license number 030/04; the Company is 100% owned by Windsor Holdings Ltd incorporated in the Republic of Cyprus through the Department of Registrar of Cyprus and Official Receiver. During 2019, the Company, regulated by CySEC, was authorized to offer the following investment and ancillary services:

Investment 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.

Ancillary services

- Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments only if Windsor Brokers Ltd is involved in the transaction.

In December 2019, WB was authorized to provide three additional ancillary services:

- Safekeeping and administration of Financial Instruments for the account of Clients, including custodianship and related services such as cash/collateral management
- Foreign exchange services where these are connected to the provision of investment services
- Investment research and financial analysis or other form of general recommendation relating to transactions in Financial Instruments.

1.4 COVID-19

With the recent and rapid development of the Coronavirus disease (COVID-19) outbreak the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or

even suspend normal business operations. Governments, including the Republic of Cyprus, have implemented restrictions on travelling as well as strict quarantine measures.

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty at this stage, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome.

The Company is responding to the widening COVID-19 outbreak by enabling alternative work arrangements to maintain business continuity. The overall operations are not expected to be materially affected, although some delays in certain processes may be observed. The bottom line is expected to remain unaffected by the COVID-19 outbreak as the latest internal data suggest.

2. INTERNAL GOVERNANCE

Internal Governance refers to the formal set of structures, communication lines, procedures and rules that govern the operations of the Company. Robust governance arrangements include a clear organizational structure, well defined lines of responsibility, effective risk management processes, control mechanisms and remuneration policies. The main responsibility for internal governance lies with the Board of Directors.

A clear organizational structure, with well defined roles and responsibilities, promote accountability and transparency which are important elements for a strong risk management framework. The Company's organizational structure is outlined in the following chart:

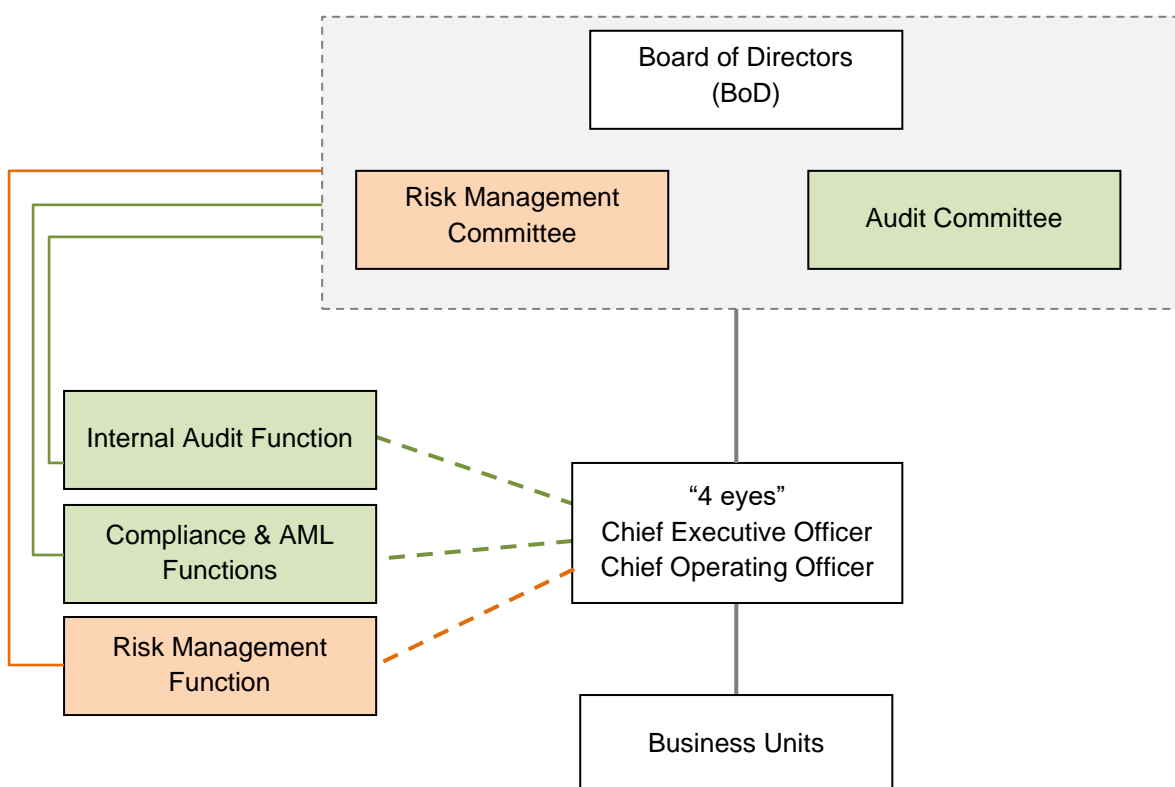


Figure 1: WB Organisational Structure

2.1 Board of Directors

The Company's Board of Directors consists of individuals of sufficiently good repute and sufficiently experienced as to ensure the sound and prudent management of the Company. As at the reference date of this report, WB's Board of Directors was constituted by three Executive Directors and three Non-Executive Directors, two of which are independent Non-Executive Directors.

The BoD is responsible to determine and explicitly state the Company's strategic goals and monitor the progress towards their achievement. Additionally, it is responsible for determining the internal structure of the Company, the reporting lines and assigning responsibilities and accountabilities, so it ensures the separation of duties and the prevention of conflicts of interests. Having set the Company's strategic goals and structure, the BoD is responsible for leading WB towards meeting its goals through the approval of appropriate policies, procedures and rules for its internal operations.

2.2 Number of directorships

As per the provisions of paragraph 9 of Law 87(I)/2017 regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets (the “Law”), a director of a CIF that is significant in terms of its size, internal organization and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

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

According to the provisions of paragraph 9 (4) of the Law, executive or non-executive directorships held within the same group shall count as a single directorship.

Despite the fact that the Company is not considered significant in terms of size, the Company's Board of Directors makes an effort to ensure that none of the directors have too many directorships that would not allow them to devote sufficient time to the Company. The number of directorships held by the members of the Board, all of which have been approved by the CySEC, are outlined in the table below:

Name	Position within the Company	Other Directorships	
		Executive Directorships	Non-Executive Directorships
Hanna N.I. Abu Aitah	Executive Director	1	1
Issa N.I. Abu Eita	Executive Director	1	1
Andreas Kontos (appointed on 15 th May 2019)	Executive Director	1	-
Naji N.I. Abu Aitah	Non-Executive Director	1	1
Petros Florides	Independent, Non-Executive Director	-	3
Panayiotis Kanellopoulos	Independent, Non-Executive Director	1	2

Table 1: Number of directorships

2.3 Recruitment Policy for the selection of members of the Board of Directors

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the BoD and ensure appropriate succession planning. The persons proposed for appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities.

Factors considered for the appointment of directors include the following:

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subjects;
- Knowledge of and experience with financial institutions (“fit-and-proper”);
- Integrity, honesty and the ability to generate public confidence;

- Knowledge of financial matters including understanding financial statements and financial ratios;
- Demonstrated sound business judgment;
- Conflicts of interest and independence of mind;
- Time commitment;
- Collective suitability.

With regards to the actual knowledge, skills and experience of the members of the Board, the Board of Directors comprises of professionally qualified members who have collectively varied experiences and skills, including, amongst others, finance, accounting, legal, banking, investments, risk management, etc. Additionally, each independent Director has a strong background in his field adding specialised value to the Company's Board of Directors.

2.4 Diversity policy with regards to the selection of Board members

Diversity is increasingly seen as an asset to organizations and linked to better economic performance; it is an integral part of how the Company does business and imperative to commercial success. The Company acknowledges the value of having a diverse and skilled BoD which includes and makes use of "differences" in skills, experience, background, race and gender between BoD members. A balance of these differences is considered when determining the optimum composition of the BoD.

2.5 Risk Management Committee

Although the Company is not considered a significant CIF, as it does not meet the thresholds of the Circular C228, it utilizes Board Committees which support and advise the management body. The Board has established a Risk Management Committee ("RC") in order to better handle the risks arising from the conduct of its business.

The Risk Management Committee consists of three non-executive directors, two of which are independent non-executive directors. The committee meetings attend also the CEO and the Risk Manager. The members have varied experiences and backgrounds, relating to accounting, banking, investments, risk management, etc, adding as such the necessary value to risk management.

The RC meets as and when required to carry out its functions. During 2019, the RC held five (5) meetings.

The main role of the RC is to advise the BoD on the Company's overall current and future risk appetite and strategy and assist the BoD on overseeing the implementation of that strategy by the Senior Management. The Committee shall review and, if appropriate, challenge the process undertaken by the business in setting its Risk Appetite.

The main responsibilities of the RC include the following:

- Recommending to the Board of Directors the Company's risk strategy and risk appetite for each of the identified risks, given the Company's risk capacity;
- Ensuring that identified risks are managed and controlled by the relevant person(s);
- Ensuring that the identified risks are appropriately monitored and, where necessary, appropriate actions are taken;
- Ensuring that the relevant persons are fully aware of the necessity to be alert to any potential risks, not identified up to date, given the continuously changing environment.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 Risk Strategy

Risk is an everyday part of the Company's business model; the Company's business activities expose it to risk, which may adversely affect its profitability and strategic goals. In order for the Company to manage its expectations towards risk and to achieve its business objectives without jeopardising its reputation, it has established proper organisational measures, through the implementation of sound risk management and internal control systems and by appropriately balancing opportunities and risks. The risk strategy of the Company is the responsibility of the BoD.

At Windsor Brokers, risks are identified and managed in the business by following the principles of Enterprise Risk Management, which supports the Senior Management in embedding effective risk management and strong risk culture. Two comprehensive risk related frameworks are implemented, namely the Risk Appetite Framework and the Risk Management Framework, throughout the Company. The establishment of the two frameworks fosters continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. It also ensures a consistent approach to monitoring, managing and mitigating the risks the Company accepts and incurs in its activities.

Risk Appetite defines the level of risk Windsor is willing to take across the different risk types. It is key for the Company's decision-making process, including business, planning, new product approvals and business change initiatives. By applying mandate and scale limits across the company, WB enables and controls specific activities.

The risk governance arrangements and risk management tools established, enable the Company to identify, assess, monitor, manage and report its risks. The Risk Committee considers risk matters relevant to the business and advises the Board accordingly, based on the findings and recommendations of the Risk Manager.

The management of risk is ingrained into each level of the business, with all employees being responsible for the understanding and managing of risks, though the ultimate accountability resides with the Board. This is done by specifying responsibilities according to the "Three Lines of Defence" ("3LoD"). Each line is overseen by the next, resulting in a strong design, implementation, remediation, monitoring and testing framework, with independence and robust governance.

Internal stress tests are another important element in WB's risk and capital management. They often include potential adverse macroeconomic, geopolitical and operational risk events that could have material impact on the Company based on its business model and its key operating markets.

3.2 Risk Management Framework

The Company follows a continuous, active and systematic Risk Management Process of well-defined steps which, when taken in sequence, enable continual improvement in decision-making by providing management with a greater insight into organizational risks and their impact.

Risk management is a continuous, active and systematic process to understand, manage and communicate risk. The mission of the RMF is to support viability and growth through effective and timely identification, assessment, treatment, monitoring and reporting of material risks.

Managing risk effectively for a company operating in a continuously changing environment requires a strong risk management culture. To this end, the Company has been continuously taking steps towards establishing effective organizational arrangements and strong internal organizational controls to ensure that it:

- undertakes adequate risk identification and management;
- establishes the necessary policies and procedures;
- sets and monitors the relevant limits; and
- complies with the applicable laws and regulations.

An effective risk management framework is defined by the implementation of the following steps:

Establishing the context defines the scope for the risk management process and sets the criteria against which the risk will be assessed. The scope is determined within the context of WB's organizational objectives.

Risk identification is the process for identifying and categorizing risks that could harm the Company. The outcome of this process is the risk register, a list that consists of all potential threats to the Company.

Risk assessment is the process of determining the overall potential risk arising from an individual threat after estimating the impact from such a threat and the likelihood of occurrence.

Risk treatment is the process of selecting and implementing measures to handle the risks. These measures target either the likelihood or the severity of the threat or both. Risk treatment is highly related to the risk appetite of the Company, as the latter defines whether a risk is acceptable, needs to be controlled or rejected. The selection of particular measures considers the risk appetite of the Company, the available resources and associated costs.

Risk monitoring is the ongoing process of tracking risk management execution and continuing to identify and manage new risks.

Risk reporting involves all tools used for providing the senior management with an overview of the risk profile of the business. Such tools include but are not limited to reports, memos and dashboards that illustrate risks both at given point in time and over an extended time period for monitoring trends and changes.

Communication and Consultation refers to continual and iterative processes that the Company conducts to provide, share or obtain information and to engage in dialogue with stakeholders regarding the management of risk.

The Company's BoD receives regularly written reports, which contain a description of the implementation and effectiveness of the overall control environment for investment services and activities, ancillary services and other business, and a review of the risks that have been identified, analysed, planned as well as remedies undertaken or to be undertaken.

The RC ensures that all different types of risks taken by the Company are monitored and reported to the Board of Directors. Moreover, the RC is responsible for making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified.

The Senior Management (executive directors) is responsible for the monitoring of the adequacy and effectiveness of the risk management policies and procedures in place, the level of compliance, by the Company and its relevant persons, with the policies and procedures adopted as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures, including compliance failures.

It is the responsibility of each department to monitor and assess its risks, as well as arrange for the management of its risks. All departmental managers and staff, are accountable for the management of risks relevant to their area of responsibility. Their responsibility lies in the identification, reporting and management of risks. The head of each department is responsible for creating an appropriate risk culture that allows for risk taking while not compromising the opportunity for growth.

3.3 Risk Governance

Risk Governance is a hierarchical structure that governs decision-making in the area of Risk Management. It includes the organizational structure of Risk Management as well as set of rules, instructions, policies and procedures.

The Company deploys the three lines of defense model (“3LoD”) for effective risk management. Each of the three “lines” plays a distinct role within the organization’s wider governance framework. The model distinguishes among three groups or “lines”:

- 1st Line: Functions that own and manage risks – the operational functions. The first line of defence is primarily responsible to set up the processes and procedures through identifying, managing/mitigating, monitoring and reporting threats and risk(s).
- 2nd Line: Functions that oversee risks – primarily the Compliance, AML and Risk Management functions. The second line of defence is responsible for assessing, evaluating and measuring risks; identifying issues and requesting remedial action where necessary, by issuing guidance to the first line where necessary.

3rd Line: Functions that provide independent assurance – primarily the Internal Audit function. The third line of defence is responsible to check and report on the first and second line of defence as to whether the processes and procedures incorporated by the relevant departments are complying with the regulations and internal processes.

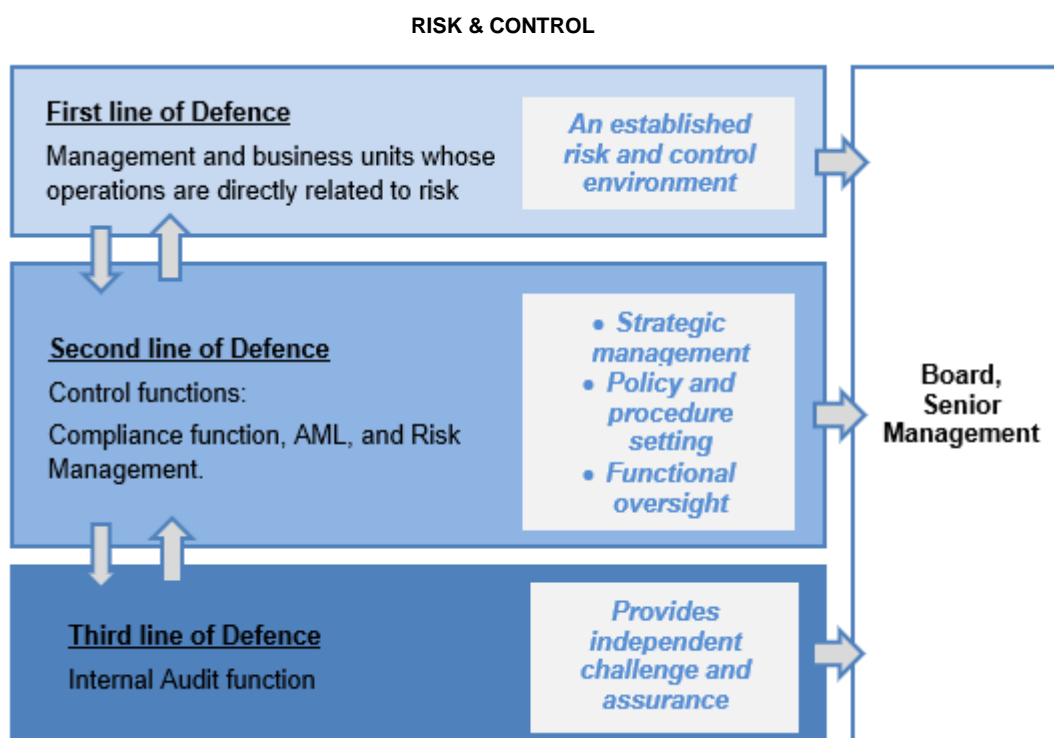


Figure 2: Three lines of defence

The Company has implemented an organizational chart with clear reporting lines and responsibilities in regard to risk management. Although risk management is the responsibility of each employee within the Company, the responsibility to develop a proper risk management infrastructure lies with the following three bodies:

Board of Directors (“BoD” or “the Board”): The BoD has the ultimate responsibility for the risk appetite of the Company and retains the overall responsibility for risks. It is responsible for setting and

updating the risk appetite, in consultation with the Risk Committee, at least annually. The Board must approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks the Company is or might be exposed to.

Risk Management Committee (“RC” or “Risk Committee”): The main role of the RC is to advise the BoD on the Company’s overall current and future risk appetite and strategy and assist the BoD on overseeing the implementation of that strategy by the Senior Management. The Committee shall review and, if appropriate, challenge the process undertaken by the business in setting its Risk Appetite.

Risk Management Function (“RMF”): The RMF is responsible to ensure that all material risks are identified, measured and promptly reported.

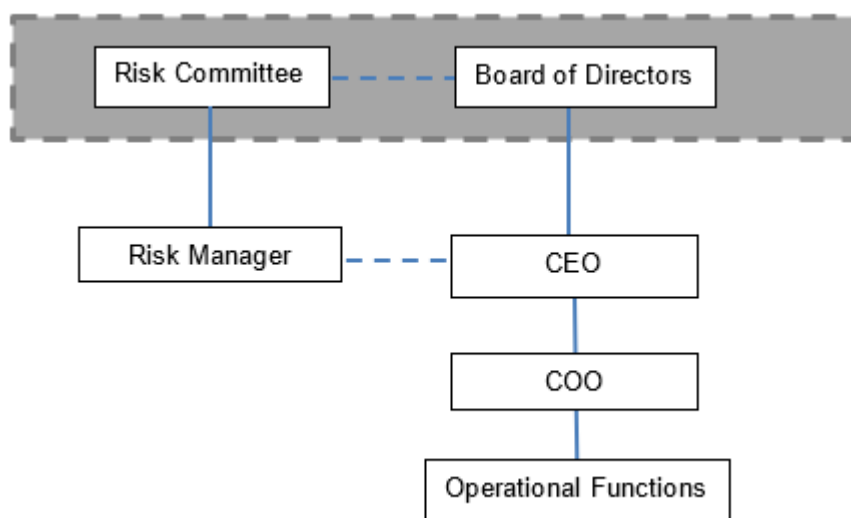


Figure 3: Risk Governance structure

Risk Governance within Windsor Brokers comprises of the following three elements:

1. Organizational structure that ensures independence and direct access to the BoD;
2. Risk standards, including policies, procedures and methodologies;
3. Risk Reporting (details in section 3.4).

As it falls under the consolidated supervision of CySEC, the risk management of the group is conducted by WB’s Risk Management Function, which ensures compliance with applicable regulatory requirements.

3.4 Risk Reporting and Control

The purpose of risk reporting is to provide the Senior Management and the Board of Directors with an overview of the risk profile of the business, both at a given point in time and over an extended time period. Additionally, it allows management to identify potential threats and proactively focus on areas of high risk or sensitive for the day-to-day operations of the firm. Risk reporting enables WB to take preventative and corrective actions in order to mitigate risk.

The following table lists all risk related reports issued within WB.

Report Name	Report Description	Issuer	Recipient	Frequency
Risk Register	A log for documenting risks and actions to manage each risk	Risk Management	Senior Management, Risk Committee	Bi-annually, Ad-hoc
Risk Dashboard	A report highlighting key performance and risk metrics against established limits.	Risk Management	Senior Management, Risk Committee	Monthly/ Quarterly
COREP (PI CAR)	Reports presenting the Company's capital adequacy calculations, large exposure geographical breakdown and leverage ratio calculations.	Finance, Risk Management	Senior Management, Risk Committee, CySEC	Quarterly
ICAAP Report (PII CAR)	Presents the Company's current and future capital requirements.	Risk Management	Senior Management, BoD	Annually
Annual Risk Management Report	Outlines the Company's risk profile and provides recommendations for enhancing Risk Management	Risk Management	Senior Management, BoD, CySEC	Annually
Annual Compliance Report	Assessment of the Company's level of compliance with its obligations against applicable laws	Compliance	Senior Management, BoD, CySEC	Annually
Annual AML Compliance Report	Provides information for the effectiveness of the policy, practices, measures, procedures and controls applied for the prevention of money laundering and terrorist financing	Anti-money Laundering Officer	Senior Management, BoD, CySEC	Annually
Internal Audit Report	Provides information for the effectiveness of the internal policies, practices, measures, procedures and controls applied within WB.	Internal Audit	Senior Management, BoD, CySEC	Annually
Pillar III Disclosures	Disclosure of information relating to risk management, capital structure, capital adequacy and risk exposures	Risk Management, Finance	Senior Management, BoD, CySEC, Public	Annually

Table 2: Risk related reports within WB

3.5 Risk Profile

WB offers products and market making services to retail and professional clients. The Company provides clients the ability to trade with financial instruments. As a market maker, the Company acts as

the counterparty to clients' trades. The exposures resulting from its market making activities are consequently hedged based on the Company's Risk Management Policy.

The Company acts on a principal capacity whereby it is the sole execution venue for the execution of orders booked through MT4. Such clients' orders are either executed against the Company's own trading book or through other prime brokers.

Business Risk is the uncertainty around expected profits because of uncertainties inherent in the business such as competition, change in customer tastes and preferences.

Reputational Risk is the risk that an action, transaction, investment, or event will reduce trust in the firm's integrity and competence by clients, counterparties, investors, regulators, employees, or the public.

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events; it includes legal risk (the potential losses due to regulatory or legal action) and people risk (risks to the organization and its performance that can be attributed to the workforce; they include behavioral actions, deliberative (human fraud) and non-deliberative (human error), organization structure, capabilities, deployment, mobility, attraction, retention, talent and succession management and issues pertaining to employee relations).

Compliance (including Regulatory and AML Risk) is exposure to legal penalties, financial forfeiture and material loss that may result from failing to act in accordance with industry laws and regulations, internal policies or prescribed best practices. Regulatory risk is associated to potential changes in the legislations that govern the Company's operational activities which may adversely affect the financial performance and position of the Company.

Credit Risk is the risk of default on a debt from a counterparty's inability to meet its financial obligations.

Market Risk is the risk that the value of an investment will decrease due to changes in market factors. Market risk is decomposed to Equity Risk, Interest Rate Risk, FX Risk and Commodities Risk.

Concentration Risk is the risk from exposures that may arise within or across different risk categories and may produce losses large enough to threaten the institution's health or ability to maintain its core operations or a material change in the Company's risk profile. The interaction between the different risk exposures may stem from a common underlying risk driver or from interacting risk drivers.

Liquidity Risk can be divided into two sub-categories: funding liquidity risk and asset liquidity risk. Funding Liquidity risk is the risk that the Company will be unable to meet its current or future obligations. Asset Liquidity risk is a risk that for a certain period of time a given financial asset, security, or commodity cannot be traded quickly enough in the market without impacting the market price.

Technology Risk is any threat for technology failures to disrupt the Company's normal business such as information security incidents or service outages.

3.6 Risk Appetite

Risk appetite represents the amount of risk an organization is willing to accept in pursuit of its strategy or of a desired financial performance (return). The BoD, following the recommendations of the Risk Committee, is responsible for annually setting and updating the risk appetite and monitoring the Company's risk profile. Risk appetite is expressed in both quantitative and qualitative terms and covers both on-balance sheet and off-balance sheet threats.

Risk appetite is an expression of the type and amount of risk the Company is prepared to take. It promotes consistent, risk-informed decision-making aligned with strategic objectives and it also supports robust corporate governance by setting clear risk-taking boundaries.

On an annual basis, the Board considers the nature and extent of the Company's risks that it is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control systems. The risk appetite is considered in the context of the regulatory environment, the sectors in which WB operates and WB's culture.

The Board of Directors and the Senior Management use a combination of different and complementary skills to assess the risks facing the business. In determining its risk appetite, the Board considers amongst others:

- Updates provided by Senior Management on key strategic and operational matters;
- The short-term and long-term strategic plan;
- Significant matters that have been reserved for the Board;
- Risk assessments conducted by the risk management function;
- The reports of the internal audit.

The Board has agreed a risk appetite that provides the reference point against which to benchmark risk management reviews and risk mitigation activity within the organization. The risk appetite defines the boundaries within which risk-based decision-making can occur and outlines the expectations for the operation of the control environment.

Windsor Brokers will not accept any threat of "High Risk" post mitigation. The Company is willing to bear or retain risks that are assessed as "Low", "Medium-Low" or "Medium-High" (only if related to its core business) in pursuit of its objectives.

Risks are regularly reviewed, challenged, prioritized and monitored by the Senior Management, the Audit and Risk Committees and the Board to determine the overall risk profile both qualitatively and quantitatively. The level of risk considered appropriate to accept in achieving strategic objectives is reviewed and validated by the Board annually. The appropriateness of mitigating actions is determined in accordance with the Board approved risk appetite for the relevant area.

3.7 Board of Directors Declaration - Adequacy of Risk Management Arrangements

The Board of Directors considers that the risk management arrangements and procedures are adequate given the size and complexity of the Company's activities, and in particular, the Board of Directors confirms that the risk management systems put in place are adequate with regard to the Company's risk profile and strategy and in line with the principle of proportionality.

4. OWN FUNDS

According to Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 (“Regulation 1423/2013”), Own Funds comprise of the following elements:

- I. Tier 1 Capital (consisting of the sum of the Common Equity Tier 1 capital (“CET1”) and Additional Tier 1 capital of the institution),
- II. Tier 2 Capital.

As at 31 December 2019, the Company’s regulatory capital base consisted of Common Equity Tier 1, which includes share capital and retained earnings. From CET1, the Company deducts its intangible assets and Investors Compensation Fund contribution. The Company did not have any Additional Tier 1 capital or Tier 2 as at 31 December 2019.

The Company has applied the methodology referred to in Article 2 of Regulation 1423/2013, to provide a reconciliation of the own funds items to the audited financial statements. The table below provides the Company’s own fund structure as at 31 December 2019 in line with the aforementioned regulation:

Regulatory Own Funds	31 December 2019
	USD’000
As per Balance Sheet	
Share Capital	1,509
Share Premium	-
Retained Earnings	37,164
Total Equity as per Balance Sheet	38,673
Less Other Intangible Assets	(13)
Less Contributions to ICF	(94)
Common Equity Tier 1 Capital	38,567
Additional Tier 1 Capital	-
Total Tier 1 Capital	38,567
Tier 2 Capital	-
Total Own Funds as per capital requirements	38,567

Table 3: Reconciliation of Balance Sheet and regulatory own funds

Share Capital

As at 31 December 2019, the Company’s share capital consisted of 600,000 ordinary shares of EUR 1.71 each, which was issued at a premium. All ordinary shares rank equally and carry one vote.

Deductions from Own Funds

In accordance with Articles 7 and 36 of the CRR, the Company deducts the following items from its CET1 capital:

- Intangible Assets, amounting to USD 13k;
- Investors Compensation Fund (“ICF”) contribution amounting to USD 90k.
- Cash buffer for extraordinary contribution to the ICF amounting to USD 4k.

More information on the main features of the Company’s capital instruments and Own Funds, is provided in Appendix 1.

5. CAPITAL REQUIREMENTS

The Company must have own funds which are at all times more than or equal to the sum of its capital requirements. Pillar I sets out the minimum regulatory capital requirements for banks and investment firms to cover credit, market and operational risk.

WB is subject to minimum capital requirements equal to 8% of its risk weighted assets, plus capital buffers. Capital requirements are fragmented further to requirements for Common Equity Tier 1 ratio and Tier 1 ratio, which are set to 4.5% and 6% respectively.

5.1 Capital Buffers

The Central Bank of Cyprus, acting as the designated macroprudential authority of Cyprus, has set the following macroprudential capital buffers.

- Capital Conservation Buffer (“CCB”);
- Institution-specific Countercyclical Capital Buffer (“CCyB”);
- Other systemic important institutions (“O-SII”) buffer.

The Capital Conservation buffer requirement, as described under paragraph 52 of Directive D1144-14-2014, was set at 0.625% for the period between 1 July 2016 and 31 December 2016 and increases gradually by the same amount up to a maximum of 2.5% in 2019. For the period between 1st January 2019 to 31st December 2019, the CCB was 2.5%.

In 2018 the Central Bank of Cyprus decided, in accordance with the powers vested in it by section 5(2) of the Macroprudential Oversight of Institutions Law, 2015, to exempt a number of Cyprus Investment Firms (CIFs), including Windsor Brokers, from the requirement to maintain an institution-specific Countercyclical Capital Buffer (CCyB), due to their small and medium-size. The exemption continued for the period between 1st January 2019 to 31st December 2019.

The Company is not required to maintain a systemic buffer.

In 2019, CySEC issued the Policy Statement on the Risk Management Arrangements of Cyprus Investment Firms Providing Investment Services in CFDs, with which it imposes an additional capital buffer of Common Equity Tier 1 to investment firms that have market risk transfer arrangements in place with entities domiciled in jurisdiction that do not have or are unlikely to have an adequate prudential regime. This capital requirement must be equal to the higher value of either a) €2,000,000, or b) 2% of their total risk exposure. The additional capital buffer for Windsor Brokers, as at 31st December 2019, was calculated to 2% of the total risk exposure or €3.1mln.

The Capital Adequacy Ratio (“CAR”) expresses the Company’s capital base as a proportion of the total Risk Weighted Assets. Even though the basic total capital adequacy ratio remains at 8%, the introduction of the capital buffers, as noted above, increased the minimum regulatory requirements to 12.5%.

5.2 Approaches for calculating Capital Requirements under Pillar I

The CRR provides some flexibility for firms to choose which methodology to follow when calculating Pillar I capital requirements. Windsor Brokers has adopted the following approaches:

Credit Risk: *Standardised approach* – assesses capital requirements using standard industry-wide risk weightings based on a detailed classification of asset types, ratings and maturity

Counterparty Credit Risk: *Mark to Market method (MTM)* – used for derivatives which is the sum of the current market value of the instrument plus an add-on that accounts for the potential change in the value of the contract over its residual maturity.

Market Risk: *Standardised approach* – a calculation is prescribed that depends on the type of contract, the net position at a portfolio level, and other inputs that are relevant of the position. The calculation captures both systematic risk (i.e. risk from changes in the broader market/sector) and idiosyncratic risk (i.e. risk from factors affecting the specific security)

Operational Risk: *Basic Indicator approach* – own funds requirements for operational risk is equal to 15% of the average over three years of the relevant indicator as set out in Article 316 of the Regulation.

5.3 Internal Capital Adequacy Assessment Process

Further to the requirements of Pillar I, a more detailed approach on managing risks is achieved through the preparation of the Internal Capital Adequacy Assessment Process (“ICAAP”) report prepared in line with the guidelines issued by the CySEC.

The ICAAP report acts as an important tool for decision making, as it approaches the risk assessment from a holistic internal perspective enabling the Company to assess risks, reduce residual risk and enable more precise future decision making.

The ICAAP presents an overview of Windsor’s approach to risk and capital management and aims to assist the Company ensure that it holds sufficient internal capital to support its current and planned operations, as well as to strengthen its internal control systems and overall risk culture. The ICAAP report also describes how the Company uses the ICAAP within its business and strategic decision making. ICAAP policies and procedures are reviewed on an annual basis.

The last ICAAP, with reference date 31/03/2019, was approved by the Risk Committee and Board of Directors. The report showed that the Company has a balanced risk profile, a strong financial and capital position, effective risk management policies / procedures and maintains enough capital to absorb potential future losses both under business as usual and under stressed conditions. The Company expects to update the ICAAP report within 2020.

5.4 Capital Adequacy

The Company’s Own Funds and Capital Requirements as at 31st of December 2019, are presented below:

Capital Requirements Pillar 1	31 December 2019	31 December 2018
	USD’000	USD’000
Common Equity Tier 1	38,567	35,756
Additional Tier 1 Capital	0	0
Total Tier 1 Capital	38,567	35,756
Tier 2 Capital	0	0
Total Own Funds	38,567	35,756

<i>Risk Weighted Assets</i>		
Credit Risk	13,743	25,925
Market Risk	143,772	18,982
Operational Risk	13,851	17,963
Total Risk Weighted Assets	171,366	62,870

Table 4: Capital Requirements

The Company maintained a strong capital position over 2019, providing significant comfort against current and expected risk exposures. The table below benchmarks WB's CAR against the regulatory minimum capital requirements.

	Company's ratio	Minimum Regulatory Requirements (including capital buffers)*
CET1 ratio	22.51%	8.50%
Tier 1 ratio	22.51%	10.50%
Total Capital ratio	22.51%	12.50%

Table 5: Capital ratio against minimum requirements

*Capital Buffers as shown in section 5.1.

6. CREDIT RISK

Credit risk is defined as the potential that a counterparty may fail to meet its obligations in line with agreed terms. Counterparty credit risk is the risk that the counterparty (defined as any natural or legal person) to a transaction could default prior to the final settlement of the cash-flows of the transaction.

6.1 Credit Risk Management

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

- deposits with banks;
- deposits with financial institutions, including liquidity providers;
- unrealised profits.

Credit risk management is based on established policies, procedures and controls. Specifically, management of credit risk is performed as follows:

- maintenance of policies that limit credit exposures to any particular counterparty including credit institutions and liquidity providers;
- counterparty creditworthiness assessments and periodic monitoring of counterparties;
- maintenance of a Risk Appetite Policy, which includes investment guidelines and restrictions;
- monitoring on a regular basis of the credit exposures within the treasury portfolio;
- maintenance of a Margin Requirements Policy and stop loss limits on trading. Stop loss limits are in place and monitored on a daily basis to ensure that any potential losses that might arise are mitigated.

Further to the above, the Company has policies to diversify credit risk and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Regulation (Part Four – Large Exposures).

6.2 Credit Risk Mitigation

WB employs a range of techniques and strategies to actively manage credit risks. Policies and procedures govern the protection mechanisms applied by the Company. These mechanisms aim to control credit risk taking into consideration concentrations in individual names and geographical regions. The mitigation measures are divided into 2 main categories:

- Setting and monitoring risk limits
- Netting off

Credit risk management is accomplished through the maintenance of predetermined exposure limits to any particular counterparty, including but not limited to banks and liquidity providers. Risk limits are imposed to the level of counterparty, credit rating and country. The limits are reviewed annually or when there is a material change in the risk-taking capacity or risk appetite of the Company.

Credit risk mitigation is also applied for WB's CFD positions. The Company requires margin from its clients, in the form of cash, in order to mitigate any credit risk arising from open positions. Additionally, the Company collateralises the mark to market exposure of its derivative portfolio with its Liquidity Providers on a net basis.

As the Company does not use financial collaterals, other than the margin requirements, the value of its exposures before and after credit risk mitigation are the same. Details on the Company's credit exposures can be found in Section 6.4.

The Company does not have market or credit risk concentrations within the credit mitigation taken.

6.3 Credit Risk Adjustment

6.3.1 Definition of "past due" and "impaired"

Past due

The definition of "past due" for accounting purposes, in accordance with IFRS 9 - "Financial Instruments" (Appendix A), is as follows: "A financial asset is past due when a counterparty has failed to make a payment when contractually due".

Impaired

An asset must not be carried in the financial statements at more than the highest amount to be recovered through its use or sale. If the carrying amount exceeds the recoverable amount, the asset is described as impaired. In such cases the Company reduces the carrying amount of the asset to its recoverable amount, and recognises an impairment loss.

6.3.2 Impairment of financial assets

From 1 January 2018, the Company assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at AC and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Company measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income within "net impairment losses on financial and contract assets".

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantee contracts, a separate provision for ECL is recognised as a liability in the statement of financial position.

For debt instruments at FVOCI, an allowance for ECL is recognised in profit or loss and it affects fair value gains or losses recognised in OCI rather than the carrying amount of those instruments.

Expected losses are recognised and measured according to one of two approaches: general approach or simplified approach.

For trade receivables including trade receivables with a significant financing component and contract assets and lease receivables the Company applies the simplified approach permitted by IFRS 9, which uses lifetime expected losses to be recognised from initial recognition of the financial assets.

For all other financial asset that are subject to impairment under IFRS 9, the Company applies general approach - three stage model for impairment. The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1.

Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").

If the Company determines that a financial asset is credit impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. Additionally the Company has decided to use the low credit risk assessment exemption for investment grade financial assets.

6.3.3 Value adjustments and provisions for impaired exposures

The Company has the following types of financial assets that are subject to the expected credit loss model as at 31st December 2019:

- trade receivables
- cash and cash equivalents

Net impairment losses on financial and contract assets recognised in profit or loss in 2019 was US\$121.352.

6.4 Capital Requirements for Credit Risk

The Company follows the Standardized Approach under Pillar I for calculating its credit risk capital requirements, as specified in CRR. It categorizes assets in line with the exposure class and uses the regulatory prescribed methodology to assign applicable risk weights.

The tables below indicate the Company's credit risk exposure under Pillar 1, as at the end of 2019 in accordance with the requirements of Part Eight, Title II "Technical Criteria on Transparency and Disclosure", Article 442 of CRR.

6.4.1 Total and average amount of net exposures

The following table presents the total and average amount of net exposures during 2019, broken down by different types of exposure classes. Exposure classes that are not relevant to the Company's activities are not presented in the table.

The average net exposures correspond to the average of the quarterly net amounts by exposure class. Net exposures relate to amounts post value adjustments but before the application of credit conversion factors.

Exposure Class as at 31 December 2019	Net value of exposures at the end of the period	Average net exposures over the period
	USD'000	USD'000
Sovereign	106	125
Institutions	22,618	21,220
Corporates	7,838	10,804
Retail	64	89
Other items	386	457
Total	31,012	32,695

Table 6: Total and average net amount of exposures

6.4.2 Exposures by geographical distribution

The following table presents the geographical distribution of the exposures, broken down in significant areas by material exposure classes. It is noted that the geographical analysis is based on country of operation/residence of the customer/counterparty.

Exposure by geographical distribution as at 31 December 2019								
Asset Class (USD'000)	UK	Switzerland	Jordan	Singapore	Cyprus	Palestine	Other ¹	Total
Sovereign	-	-	-	-	106	-	-	106
Institutions	12,098	5,454	-	3,262	408	-	1,396	22,618
Corporates	436	-	4,600	-	393	1,448	961	7,838
Retail	-	-	-	-	64	-	-	64
Other items	-	-	-	-	386	-	-	386
Total	12,534	5,454	4,600	3,262	1,357	1,448	2,366	31,012

Table 7: Exposures by geographical distribution

6.4.3 Exposures by Industry

The table below presents the credit exposures by industry and exposure classes:

Distribution of exposures by industry as at 31 December 2019			
Exposure Class	Financial	Other	Total
	USD'000	USD'000	USD'000
Sovereign	-	106	106
Institutions	22,618	-	22,618
Corporates	6,437	1,401	7,838
Retail	-	64	64
Other items	-	386	386
Total	29,055	1,957	31,012

Table 8: Distribution of exposures by industry

6.4.4 Exposures by Residual Maturity

The table below presents credit exposures by residual maturity and exposure classes. The exposure refers to on-balance sheet items whereas the "net exposure value" is calculated by deducting credit risk adjustments from the gross amount.

Net exposure value as at 31 December 2019					
Exposure Class	< 3 months	>3 months <= 1 year	> 1 year	No stated maturity	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Sovereign	-	-	-	106	106
Institutions	18,305	484	-	3,896	22,618
Corporates	5,686	-	-	2,152	7,838
Retail	-	-	-	64	64
Other items	-	-	-	386	386
Total	23,991	484	-	6,537	31,012

Table 9: Exposures by Residual Maturity

¹ Other geographical areas with exposure above 1,000 USD include Luxembourg, USA, Belize, Lebanon, Kuwait, Denmark, UAE, Greece, Ireland, Isle of Man and Malaysia.

6.5 Own Funds Requirements against Exposures

Once the risk weighted assets are calculated for all the exposure classes, these are multiplied by 8% in order to calculate the capital requirements for credit risk purposes. The table below presents the own funds requirements for each of the applicable exposure classes set out in Article 112 of the Regulation:

Exposure Class	Exposure	RWA	Capital Requirements
	USD'000	USD'000	USD'000
Sovereign	106	106	8
Institutions	22,618	5,390	431
Corporates	7,838	7,835	627
Retail	64	48	4
Other items	386	364	29
Total	31,012	13,743	1,099

Table 10: Own funds requirements per asset class

6.6 Use of external credit assessment institutions

The Company uses external credit assessment, and specifically the long-term credit assessments, by accredited ECAs, namely Moody's, Standard & Poor's ("S&P") and Fitch, to determine the risk weight of an exposure. The Company follows the provisions of JC/CP/2017/61 for the mapping of credit ratings with corresponding credit quality steps ("CQS"). This approach gives it access to multiple independent credit assessments.

Where credit assessments result in different CQSs, the Company follows the provisions of CRR for determining the applicable risk weight. Specifically:

- i. where only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the risk weight for that item;
- ii. where two credit assessments are available from nominated ECAs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned;
- iii. where more than two credit assessments are available from nominated ECAs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.

The use of ECAI assessments is in compliance with the requirements of Article 138 of the Regulation. The credit assessments produced by ECAs are used consistently and continuously for all exposure classes without exceptions. The Company uses the same approach for its entire portfolio unless there are material differences in the way it performs its business.

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

- i. Where a specific instrument has a credit assessment, the specific credit assessment is used for determining the risk weight to be assigned to that item;
- ii. Where a specific instrument does not have a credit assessment, the credit assessment of the issuer is used;
- iii. Where neither the specific instrument and nor its issuer a credit assessment, the relevant exposure shall be treated as unrated as per the provisions of the CRR.

The ECAI ratings are not taken into account where exceptions or discretions as per the CRR apply.

The exposure values associated with each CQS are presented in the table below:

Asset Class (USD'000)	CQS						No Rating	Total
	1	2	3	4	5	6		
Sovereign	-	-	106	-	-	-	-	106
Institutions	4,983	16,319	-	-	405	24	887	22,618
Corporates	-	147	-	-	-	7	7,684	7,838
Retail	-	-	-	-	-	-	64	64
Other	-	-	-	-	-	-	386	386
Grand Total	4,983	16,466	106	0	405	31	9,021	31,012

Table 11: Exposure values associated with each CQS

The table below provides the exposures to credit risk values after credit risk mitigation under the standardised approach by risk-weight and exposure class.

Exposure classes USD'000	Risk weight						Total	Of which unrated
	0%	20%	50%	75%	100%	150%		
Sovereign	-	-	-	-	106	-	106	-
Institutions	-	31,302	399	-	893	24	22,618	887
Corporates	-	-	147	-	7,549	142	7,838	7,684
Retail	-	-	-	64	-	-	64	64
Other items	22	-	-	-	364	-	386	386
Total	22	31,302	546	64	8,912	166	31,012	9,021

Table 12: Exposure values per risk weight

7. MARKET RISK

Market risk is the risk of a change in the actual or effective market value, or earnings of a portfolio of financial instruments, caused by adverse movements in market variables such as equities, bonds, commodities, currency exchange, interest rate, etc.

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

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

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

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

Foreign Exchange Risk: is the financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the Company.

7.1 Market Risk Management

Given the Company's operations, the Company is exposed to all of the aforementioned risks. To this end, a number of policies have been set to minimize market risk exposures; the risk management controls in place include the following:

- monitoring of market risk exposures on a continuous basis and active hedging of positions, taking into account notifications from the Dealing / Trading Room;
- maintenance of a Market Risk Management Policy and a Risk Appetite Policy, which include investment guidelines and restrictions, including asset allocation targets, maximum duration requirements for bonds and structured products, to manage the treasury portfolio and mitigate any potential market risks;
- denomination of the Company's assets in USD, which is the Company's functional and presentation currency, to minimise possible exposures to foreign exchange losses;
- establishment and control of foreign exchange limits, through the establishment of maximum value of exposure to a particular currency, as well as through the utilization of sensitivity analysis.

7.2 Capital Requirement calculation for Market Risk

The Company uses the Standardised Approach for the purposes of calculating the minimum capital requirements for market risk. The table below presents the RWAs and capital requirements for market risk in relation to outright products. It is noted that the Company does not undertake any securitisation activity.

2019	RWAs	Capital requirements
	USD'000	USD'000
Outright products		
Traded Debt Instruments risk (general and specific)	8,555	684
Equity risk (general and specific)	36,068	2,886
Foreign exchange risk	87,416	6,993
Commodity risk	11,733	939
Total	143,772	11,502

Table 13: Market Risk under the standardised approach

7.3 Exposures not included in the trading book

As at 31 December 2019, the Company did not have any exposures in equities that were not part of its Trading Book.

The Company's banking book includes interest-bearing deposits with various financial institutions. However, its income and operating cash flows are substantially independent of changes in market interest rates. Additionally, the Company does not have any loans the repayment of which could be affected from changes in the interest rates. Hence the Company's interest rate risk from position not included in the trading book is considered minimal.

8. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate and / or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk. The operational risk umbrella comprises of a number of risks as follows:

- Business Continuity Risk;
- Legal and Compliance Risk;
- Business Process and Control Failure Risk;
- Risk of unforeseen situations / External Fraud;
- Internal Fraud Risk;
- People Risk;
- Outsourcing Risk;
- Information Technology and Information Security Risk.

8.1 Operational Risk Management

The Company recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance. To that effect, the management of operational risk is geared towards:

- Maintaining a strong internal control governance framework;
- Managing operational risk exposures through a consistent set of processes that drive risk identification, assessment, and control and monitoring.

As operational risk encompasses a number and wide range of risks, the controls implemented are as wide to cover them. Such mitigation techniques include, amongst others, the following:

- Implementation of internal control procedures, such as the four-eye principle, approvals, reconciliations as well as recording and monitoring of calls. Key Performance Indicators are also used to regularly monitor the performance of personnel;
- Establishment of various arrangements to ensure business continuity and controls in relation to data and information security, such as a detailed Business Continuity and Disaster Recovery plan, controlled access, antivirus systems, alerts on phishing emails, etc.;
- Performance of enhanced monitoring and review procedures by the Company's Compliance department for the purposes of managing legal and compliance risk. An Anti-Money Laundering ("AML") Policy has been developed including procedures to identify and manage money laundering and terrorist financing risks, as well as the know-your-customer procedures;
- Establishment of an in-house internal audit function which evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures;
- Establishment of a People Risk Management Framework which aims to foster risk culture by strengthening people management practices and enhancing the skills and knowledge of employees
- Performance of due diligence on third parties before entering into outsourcing arrangements and maintenance of a program of regular assessment against agreed service levels.

8.2 Capital Requirement for Operational Risk

The Company uses the Basic Indicator Approach ("BIA") for the calculation of the capital requirements in relation to operational risk. As per Article 315 of CRR, under the Basic Indicator Approach, the own

funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator. The average over three years is calculated on the basis of the last three twelve-monthly observations at the end of the financial year.

Based on the relevant calculations, the operational risk capital requirement as at 31st December 2019 is as follows:

Operational risk capital requirements - BIA	31 December 2019
	USD'000
Year 1	5,879
Year 2	5,226
Year 3	11,057
Average	7,387
Risk Weighted Exposure	13,851
Capital Requirements	1,108

Table 14: Capital Requirements for Operational Risk

9. REMUNERATION POLICY AND PRACTICES

Following the provisions of the Regulation (EU) No 575/2013, and CySEC Circulars C138 and C145, the Company has adopted a remuneration policy through which aims to ensure that it has risk-focused remuneration controls and procedures which are consistent with and promote effective risk management. The Remuneration Policy applies to all employees and/or relevant persons/staff members (“staff²”), as per the legislative requirements.

The BoD, in its supervisory function, periodically, and at least annually, reviews the principles of the Remuneration Policy and is responsible for its implementation. As per the requirements of Directive DI144-2014-14, the Risk Committee, shall assist the BoD in examining the incentives provided to all staff through the remuneration policies and procedures set by the Company.

The Remuneration Policy covers total remuneration (i.e. fixed and variable). The remuneration system incorporated by the Company includes the measures taken for the avoidance of conflicts of interest.

9.1 Nomination, Remuneration and Corporate Governance Committee

Upon the release of the Audited Financial Statements 2018, in April 2019, the Board of Directors considered necessary to reassess the necessity of having a Nomination, Remuneration and Corporate Governance Committee (“NRCGC”). The BoD unanimously concluded that the NRCGC will be discontinued effected 18th April 2019, based on the grounds of the Company no longer qualifying as a significant CIF. The function of the Committee though will not be discontinued but will be incorporated into and become part of the BoD function.

9.2 Key design characteristics of the remuneration system

The Company's Policy is in line with its business strategy, objectives, values and long-term interests and based on the Circular is designed in such a way as not to create incentives that may lead relevant persons to favour their own interest. It also incorporates measures to avoid conflicts of interest (e.g. when it comes to the remuneration of its employees, having directly or indirectly an impact on Clients' best interests) and to promote code of conduct requirements as well as promote investor protection and serve Clients' best interest.

Furthermore, the Policy considers the role performed by relevant persons, the type of products offered, and the methods of distribution as to prevent potential conduct risk and conflict of interest risks and to ensure the company adequately manages any related residual risk.

Moreover, the Company's Policy is consistent with sound and effective risk management and intended to deter risk-taking beyond the Company's expressed risk appetite and risk tolerance levels. Further, staff engaged in Control Functions (Compliance Officer, Risk Manager, Money Laundering Compliance Officer) are only remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

² Relevant persons/staff, for the purposes of the Remuneration Policy, are natural persons, client-facing front-office staff, sales force staff, service providers (call centres), tied agents, who directly or indirectly are providing relevant services to clients on behalf of the Company and/or are involved in the provision of investment and/or ancillary services and whose remuneration may create inappropriate incentives to act against the best interests of clients.

The applicability of the Company's Policy is reviewed at least annually by the Board of Directors, in the context of an internal review for compliance with the relevant legislation as well as to confirm applicability, viability and alignment with the industry's remuneration standards (e.g. to ensure base salary levels are not set at artificially low levels).

Fixed remuneration

Fixed remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role.

Variable remuneration

The Company has a "variable remuneration scheme" in place whereby the employees may receive variable remuneration in addition to their monthly fixed salary paid in cash. The Company would not award, pay or provide guaranteed variable remuneration.

The variable remuneration reflects a sustainable and risk adjusted performance as well as performance in excess of that required to fulfil the employee's job description as part of the terms of employment. The variable remuneration should give no rise to conflicts of interest between company's employees and clients.

Deferral policy

The variable remuneration component could be subject to deferral. In cases where a variable remuneration component of a particularly high amount is awarded, even though such component has been approved by the shareholders, a large portion of the amount should be deferred as per the Directive DI144-2014-14. The length of the deferral period shall be established in accordance with the business cycle, the nature of the business, its risks and the activities of the person in question.

Payments related to early Termination

Payments related to the early termination of an agreement reflect the performance achieved over time and shall not reward failure or misconduct.

Remuneration and Capital

The Company shall ensure that the total variable remuneration, including the biannual bonus remuneration, does not prevent its ability to strengthen its capital base. The Policy underlines the link between the Company's variable remuneration costs and the need to manage its capital base including forward-looking capital planning measures. Where the Company needs to strengthen its capital base, its variable remuneration arrangements should be sufficiently flexible to allow it to direct the necessary resources towards capital building.

The measurement of performance used to calculate variable remuneration components or pools of variable remuneration components and allocation of variable remuneration includes an adjustment for all types of current and future risks and takes into account the cost of the capital and the liquidity required.

9.3 Link between pay and performance

The Company operates an annual appraisal process which establishes objectives for all staff covering both financial and non-financial metrics, specific behavioural competencies including compliance and risk management behaviours with regards to the Company's policies and procedures. The Company considers this process to address fully the requirement of Items (a) and (b) of Paragraph 21 of the Directive on "Variable elements of remuneration" DI144-2014-14.

The Company's policy ensures that remuneration is linked with performance and the total amount of remuneration is based on a combination of the performance assessment of:

- i. the individual (quantitative as well as qualitative criteria are taken into account; annual performance evaluation and performance rating are taken into account),
- ii. the business unit concerned, and
- iii. the overall results of the Company (as long as conflicts of interest are mitigated, as described in this Policy).

The Board of Directors of the Company take into account, when determining remuneration awards, the need to ensure an appropriate ratio between fixed and variable pay.

The fixed remuneration is determined on the basis of the role and position, including professional experience, seniority, education, responsibility, job complexity, local market conditions, etc. The performance-based (or variable) remuneration motivates and rewards staff for contributing to sustainable results, performing in accordance with agreement(s) and set expectations for the Company, strengthening long-term client relations, generating income and increasing the shareholders' value.

For variable elements of remuneration:

1. The fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration of the staff, whereby certain principles shall apply, including amongst others, the following:
 - (a) The variable component shall not exceed 100% of the fixed component of the total remuneration for each staff member,
 - (b) The Company's shareholders may approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided the overall level of the variable component shall not exceed 200% of the fixed component of the total remuneration for each staff member.
 - (c) Any approval of a higher ratio must be carried out in accordance with the following procedure:
 - i. the shareholders shall be notified in advance,
 - ii. the shareholders shall act upon a detailed recommendation by the Company giving the reasons for, and the scope of, an approval sought, with reference to the staff affected, their functions and the expected impact on the requirement to maintain a sound capital base,
 - iii. the measurement of performance for calculation of variable remuneration components shall include adjustment for all types of current and future risks and take into account the cost of capital / liquidity required;
2. Performance is assessed in accordance with the long-term outcomes taking into account the underlying business cycle of the Company and its business risks, with high consideration given to the qualitative results,
3. The total variable remuneration shall not limit the ability of the Company to strengthen its capital base,
4. The policy is fully flexible, allowing for the non-payment of the full portion of the variable remuneration components.

9.4 Aggregate quantitative information on remuneration

The table below provides aggregate quantitative information on the remuneration of the staff whose actions have a material impact on the risk profile of the Company. Such staff include, the executive directors, the heads of control functions and other risk takers.

Business area	Remuneration		
	No.	USD'000	
		Fixed	Variable
Executive Directors	3	303	-
Control Functions	6	232	4
Other	4	151	4
Total Remuneration	13	686	8

Table 15: Remuneration by business area

It is noted that there were no amounts of deferred remuneration awarded, paid out and reduced, and there were no individuals remunerated by EUR 1 million or more.

10. LEVERAGE

In accordance with the CRR, Article 429, the leverage ratio shall be calculated as an institution's capital measure divided by the institution's total exposure measure, expressed as a percentage. The capital measure is defined as Tier 1 capital while the exposures measure is defined as the sum of the exposures values of all assets and off-balance sheet items not deducted when determining the capital measure.

Risk of excessive leverage means the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

A minimum leverage ratio is not set within CRD IV, however, the Basel Committee has set an indicative threshold of 3% for a minimum leverage ratio for monitoring purposes. Currently, there is no requirement to meet capital requirements based on leverage ratio.

The leverage ratio shall be calculated using the following two capital measures:

- i. Tier 1 capital: fully phased-in definition, which is the amount of Tier 1 capital without taking into account the derogations advised by the CRR,
- ii. Tier 1 capital: transitional definition, which is the Tier 1 capital subject to the provision of Part Ten of the Regulation.

Institutions shall calculate the end-of-quarter leverage ratio as per the provisions of the CySEC.

As at 31 December 2019, the leverage ratio of the Company was 91.17% as depicted in the table below, which is above the recommended minimum of 3%.

	31 December 2019
	USD' 000
Total assets as per published financial statements	42,240
Adjustments for derivative financial instruments	10
Intangible assets	(13)
Balances with Investors' Compensation Fund	(94)
Other adjustments	160
Leverage exposure measure	42,303
Tier 1 Capital	38,567
Leverage Ratio	91.17%

Table 16: Summary reconciliation of accounting assets and leverage ratio exposures

	31 December 2019
	USD' 000
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which	42,293
Trading book exposures	12,178
Banking book exposures, of which	30,115
Exposures treated as sovereigns	106
Institutions	21,721
Retail exposures	64
Corporate	7,838
Other exposures	386

Table 17: Split-up of on balance sheet exposures

The CRD oversees, manages and closely monitors leverage along with the exposures to risk and the solvency ratio of the Company to ensure that the risk of excessive leverage is identified and properly managed.

The Company maintains a proactive approach on managing the leverage ratio. The risk of excessive leverage is managed by monitoring the leverage ratio and measuring the distance of the Company's ratio from the regulatory minimum limit. In cases where the leverage ratio deteriorates significantly, the Company reviews the available options, including decrease in the risk weighted exposures, to reduce leverage within the acceptable levels.

Given that the Company's leverage ratio of 91.17% is well above the recommended minimum ratio of 3%, it appears that the leverage exposure is at an appropriate level, safeguarding the resilience of the Company's business model and ongoing operations.

Appendix 1: Main Features of Common Equity Tier 1 Instruments in accordance with Annex II of the EU regulation No 1423/2013

Capital instruments main features template		
1	Issuer	Windsor Brokers Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Cyprus
	<i>Regulatory treatment</i>	Companies Law, Cap.113
4	Transitional CRR rules	N/A
5	Post-transitional CRR rules	N/A
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	USD 1,5 mln
9	Nominal amount of instrument	€1.71 each
9a	Issue price	€1.71 each
9b	Redemption price	N/A
10	Accounting classification	Equity
11	Original date of issuance	2001
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call date, contingent call dates and redemption amount	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	N/A
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in items of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in items of amount)	Fully discretionary
21	Existence of step up or other incentive or redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A

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