

Disclosure and Market Discipline Report

Made in accordance with the Cyprus Securities and Exchange
Commission Directive DI144-2014-14 and Regulation (EU) 575/2013
issued by the European Commission
As at 31 December 2018

Disclaimer:

The Pillar 3 disclosures report has been prepared purely to comply with the Capital Requirements Directive, in seeking to explain the basis on which the Company has prepared and disclosed certain capital requirements and to provide information about the management of certain risks. They do not constitute any form of Financial Statement and must not be relied upon in making any judgment on the Company.

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A. Introduction

A1. Pillar III Regulatory Framework and Scope of Application

Pillar III disclosure is a requirement of the European Union's Capital Requirements Regulation 575/2013 and Directive 2013/36/EU, as implemented by CySEC Directives 144-2014-14 and 144-2014-15 (where applicable). Pillar III aims to encourage market discipline by developing a set of disclosure information, which gives access to market participants, regarding to the Company's capital adequacy and to each material category of risk it faces. Additionally, it aims to provide information regarding the risk assessment and the risk mitigation process which was followed by the Company during 2018.

According to Basel III regulations, there are three pillars, which are designed to promote market discipline through the disclosure of important financial information regarding the risk exposures of the Company and of the risk management process followed.

The current regulatory framework consists of three pillars:

Pillar I: Sets out the minimum capital requirements for the Company to be able to cover the credit risk, market risk and operation risk.

Pillar II: Sets out the supervisory review which requires the regulators to undertake a qualitative review of the Company's capital allocation techniques (ICAAP) and compliance with the relevant standards.

Pillar III: Sets out the required disclosures to allow market participant to gain access and better understand the risk profile of the Company, to assess/review important information of the capital structure, risk exposures, the risk management process followed and most important the capital adequacy of the Company.

The Board of Directors and Senior Management are responsible for establishing and maintaining an effective internal control structure over the disclosure of financial information, including Pillar 3 disclosures.

The Pillar III Disclosures report was approved by the Board of Directors on 24 April 2019.

Definitions:

- TopFX Ltd: the “Company”,
- Cyprus Securities and Exchange Commission: “CySEC”
- Directive DI144-2007-05, DI144-2014-14 and DI144-2014-15 of the Cyprus Securities and Exchange Commission and Regulation 575/2013 and Directive 2013/36/EU of European Commission for the Prudential Supervision and Capital Requirements of Investment Firms: the “Directives”.
- Frequency: The Company will be making these disclosures annually.
- Media and Location: The disclosure will be published on our website: <http://www.topfx.com>
- Scope of report: The disclosures are in accordance to the audited financial statements of the Company for the year ended 31 December 2018. The information contained in the Pillar III Market Discipline and Disclosure report is verified by the Firm’s external auditors.

A2. Business Background

The Company was incorporated in Cyprus on 24.09.2010 as a limited liability company under the Cyprus Companies Law, Cap. 113. TopFx Ltd is a licensed Cyprus Investment Firm regulated by the Cyprus Securities & Exchange Commission (CySEC) with license number 138/11. The Company activated the license at 1 of March 2012.

A2.1 Group Structure:

The Company does not belong in any kind of group and it operates on a solo basis.

A2.2 Services offered by the Company:

TopFx Ltd obtained an Investment Firm authorization from the Cyprus Securities and Exchange Commission (CySec) to offer:

Investment Services:

1. Reception and transmission of orders in relation to one or more financial instruments,
2. Execution of Orders on Behalf of Clients,
3. Dealing on Own Account and
4. Portfolio Management.

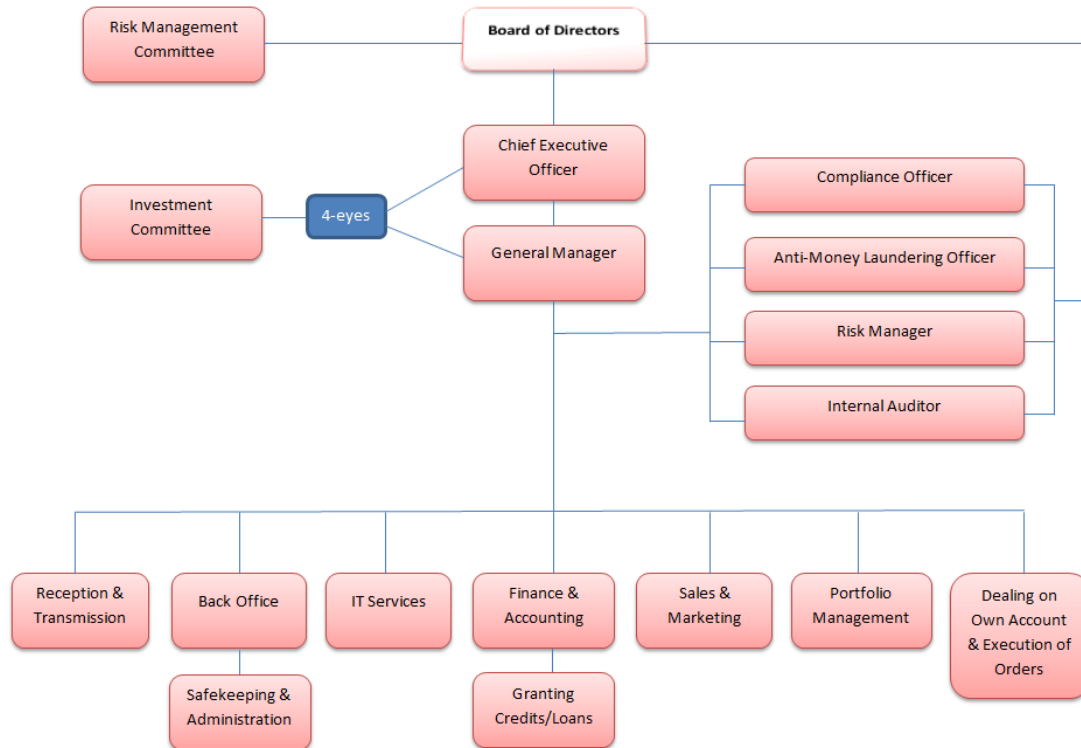
Ancillary Services:

1. Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
2. Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
3. Foreign exchange services where these are connected to the provision of investment services.

B. Corporate Governance of the Company

B1. Corporate Governance

Diagram of Organizational Structure



Board of Directors:

The Board assesses and periodically reviews the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law, and to take appropriate measures to address any deficiencies, set the strategy of the Company. The Board is responsible for the monitoring of the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and the prevention of any unlawful transactions, the identification of risks, and the timely and adequately flow of information.

All the supervisory functions (i.e. Compliance, AML Compliance, Risk Management and Internal Audit) of the Company have an open line of communication with the Board in order to communicate any findings and/or deficiencies they identify in a timely manner and ensure that those will be resolved through the guidance of the management body. In addition, the Risk Management and Investment Committees are communicating their suggestions and findings to the Board, as and if necessary.

- 1. Risk Management Function:** The Risk Manager ensures that all the different types of risks taken by the Company are in compliance with the Law and the obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place. The Risk Manager shall report to the Senior Management of the Company.

As an addition to the above, the Company is operating a Risk Management Committee, which is responsible for monitoring and controlling the Risk Manager in the performance of his duties. Also is formed with the view to ensure the efficient management of the risks inherent in the provision of the investment services to Clients as well as the risks underlying the operation of the Company.

- 2. Compliance Function:** The Compliance Officer of the Company has the required knowledge and expertise in order to perform his duties effectively. Moreover, the duties of the Compliance Officer is to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, and put in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively.
- 3. Internal Audit Function:** The Internal Auditors review and evaluate the adequacy and effectiveness of the Company's systems of internal controls and the quality of operating performance when compared with established standards on an ongoing basis. The recommendations that the Internal Auditor makes to the Senior Management and the Board regarding the internal controls and the management of the various risks that are associated with the operations, aim to secure a controlled environment in the Company.

4. Anti-Money Laundering Compliance Officer

Anti-Money Laundering Officer reports directly to the Board of Directors and is responsible for:

- Ensuring implementation of the procedures described in the Company's AML Procedures Manual
- Ensuring that Company employees attend training sessions on anti-money laundering and terrorist financing procedures
- Ensuring that all clients' accounts must be opened only after the relevant pre-account opening due diligence and identification measures and procedures have been conducted, according to the principles and procedures set in the AML Manual
- Compliance with high standards of anti-money laundering (AML) practice in all markets and jurisdictions in which the Company operates
 - Ensuring the implementation of the "know your client" procedures of the Company

- Gathering information with regards to the new customers of the Company
- Analysing the customers' transactions
- Continuous improvement of the existing control procedures
- Providing a written annual report to the Board of Directors on the matters of own responsibility, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.

The corporate governance of the Company regarding risk management is considered adequate through the establishment of an effective risk oversight structure. The internal organisational controls are in place to safeguard that the Company accelerate the ability to identify, assess and mitigate the relevant risks. Also the aim of the Company and in general the risk management function is to quickly recognize potential adverse events, be more proactive and forward looking and establish the appropriate risk responses were deemed necessary and at all times to comply with the relevant legislation

B2. Recruitment Policy

The Board members shall at all times be of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board of Directors shall reflect an adequately broad range of experiences. Members of the Board of Directors shall fulfil the requirements set out in subsections (4) to (10) of the Law. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the Board.

B3. Number of Directorships held by members of the Board

As per Article 12(5) of the Law, the numbers of directorships which may be held by a member of the Board of Directors at the same time shall take into account individual circumstances and the nature, scale and complexity of the CIF's activities. Unless representing the Republic, members of the Board of Directors 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

The Company's Board of Directors is consisted from two (2) Executive Directors and three (3) Non-Executive Directors, with the one (1) being dependent and the other two (2) independent.

Name of Directors	Executive Director/Independent Non-Executive Director in Top FX Ltd	Number of Executive Directorships in other Entities	Number of Non-Executive Directorships in other Entities
Prokopios Katsaros (appointed on the 21 st of November 2018)	Executive Director/General Manager	0	0
Alexandros Katsaros	Executive Director/CEO	1	0
Prodromos Anastasiou	Non-Executive & Independent	0	0
Nicholas Anastasiades	Non-Executive & Independent	0	0
Andrey Pavlov	Non – Exec & Dependent	1	0
Ioannis Anastasiou (resigned on the 5 th of November 2018)	Executive Director/General Manager	0	0

B4. Diversity Policy

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how we do business and imperative to commercial success. The Company recognizes the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future.

The Company recognizes the benefits of having a diverse Board of Directors which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences will be considered when determining the optimum composition of the Board of Directors.

B4. Risk Management Committee

The Company, due to its size, scale and complexity has established a Risk Management Committee in order to better handle the risks that arise from its operations.

The Risk Management Committee is a committee appointed by the Board of Directors to review the Company's system of risk management. The Risk Management Committee is formed with the purpose of ensuring the efficient management of the risks inherent in the provision of the investment services to Clients as well as the risks underlying the operation of the Company.

The Risk Management Committee, which reports directly to the Board of Directors, consists of 6 participants and during 2018 held 2 meetings.

The role of the Risk Management Committee is essential to:

- i. ensure the efficient management of the risks inherent in the provision of the investment services to clients;
- ii. monitor the risks underlying the operation of the Company;
- iii. be responsible for monitoring and controlling the associated risks;
- iv. identifying additional risks that the Company is/may exposed to;
- v. sets and monitors risk limits and other mitigation measures;
- vi. evaluates the adequacy and effectiveness of controls in place for managing the risks;
- vii. adopts necessary actions;

The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of risk management policies and procedures that are 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 that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

B5. Reporting and Information Flow

The Company has established a risk-related informational flow to the Board of Directors to be in line with the requirements set out in the Law and subsequent Directives. Details of the major reports submitted to the Board are presented in the table below:

Report Name	Report Description	Owner	Recipient	Frequency
Risk Management Report	Annual Risk Management Report	Risk Manager	BoD, CySEC	Annual
Compliance Report	Annual Compliance Review	Compliance Officer	BoD, CySEC	Annual
Internal Audit Report	Annual Internal Audit Review	Internal Auditor	BoD, CySEC	Annual
Financial Statements	Audited financial statements of the Company	External Auditor	BoD, CySEC	Annual
Pillar III Report	Disclosures regarding risk management, capital adequacy and risk exposures of the Company	Risk Manager	BoD, CySEC, Public	Annual
ICAAP Report	Internal Capital Adequacy Assessment Process	Risk Manager, Compliance Officer, Head of Accounting	BoD, CySEC	Annual
Capital Adequacy Reports	Capital requirement calculation	Senior Management, Head of Accounting	Senior Management, CySEC	Quarterly

C. Risk Management

C1. Risk Management

Risk Management is "the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analyzing, assessing, treating, monitoring and communicating".

It is an iterative process that, with each cycle, can contribute progressively to organizational improvement by providing management with a greater insight into risks and their impact.

C1.1.1 Risk Management Process

The Company adopted and implemented its risk management process in order to create a robust and standardized procedure to manage each identified risk. The risk management process is an on-going and cyclical process which enables the Risk Management function to set the risk tolerance levels and also how the risks will be identified, assessed, controlled and managed.

The risk management cyclical process of the Company contains six steps which every one of them has its significance. All the steps need to be considered, in order to apply an appropriate and effective risk management process for each risk exposure.

Continuous Risk Management Process



Step 1 – Set Strategy/Objectives

At the board level, strategic risk management is a necessary core competency. The Company should set, approve and establish risk management strategy/objectives regarding its risk appetite/tolerance levels in order to proceed with the appropriate action for each identified risk exposure. The Senior Management and the Board of Directors should take a proactive approach in order to achieve the Company’s goal to further develop the risk management capabilities. By establishing appropriate strategies and objectives regarding risk exposures, the Company will avoid unpleasant events which may harm its operations.

Step 2 – Risk Identification

Without clear objectives it is impossible to identify events that might give rise to risks that could impede the accomplishment of a particular strategy or objective. Risk identification is the most important process in the risk management planning. Risk identification determines which risks might affect the operations of the Company. While each risk captured, it is important for senior management and the Board of Directors to focus and prioritized on the key risks. This prioritization is accomplished by performing the risk assessment. The risk identification process is performed on an-ongoing basis in order to safeguard the operations of the Company to upcoming disrupting events. There are some techniques for identifying risk such as the brainstorming, SWOT analysis, scenario analysis, facilitated workshops etc. The risks that may be identified, include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk.

Step 3 – Risk Assessment

The first activity within the risk assessment process is to develop a common set of assessment criteria to be deployed across business units and corporate functions. Assessing risks consists of assigning values to all the identified risk exposures of the Company. Thus, the risk assessment is performed by considering the probability of a risk occurrence and the impact of this risk on the achievement on the set objectives.

However, risks do not exist in isolation. Often there are risk interactions, which at the beginning a risk exposure may can be seen as insignificant, but as they interact with other events and conditions, they may cause great damage to the Company's operation.

Step 4 – Risk Response

The results of the risk assessment process then serve as the primary input to risk responses whereby response options are examined according to the risk appetite of the Company. The main objective of the Company is to mitigate the risk exposures affecting its operations, whatever their risk category. For example, if the impact of a risk is considered as high, then an immediate action should be taken. For each risk category, there is an appropriate response. Each risk and related response should be assigned to the manager who is responsible for the area affected by the risk. The action taken to respond to a risk exposure should be determined and documented which is an essential part of the risk response process.

Step 5 – Risk Control

Having identified the risk exposures of the Company, assessed them and the appropriate response has been determined, then the Risk Manager has to review the existing controls and all hazards must be managed before harm the operations of the Company. The management of risks in the Company requires mitigating risks so far as reasonably practicable. All risk exposures that have been assessed should be dealt with, in order of priority. The most effective control options should be selected to mitigate risks. The hierarchy of controls is determined by the category of each risk exposure according to the Risk Matrix of the Company (see Table 3). This should be used to determine the most effective controls.

An essential component of the risk assessment is to first set a benchmark for the Company's Risk Appetite. The Company's risk appetite is governed firstly by the regulatory requirements imposing the Company to have at least an 8% Capital Adequacy ratio, and in all cases to have own funds more or equal to the sum of its capital requirements, and more than the Company's initial capital.

The Company accepts risks rated A and B while risks having a score C and D are interpreted as material and are considered to fall outside the Company's Risk Appetite. In such cases, further analysis is undertaken, on whether additional capital or controls are more appropriate to be added, so as for the risk to be mitigated and returned into the Company's risk appetite.

Step 6 – Communicate and Monitor

Risk identification, risk assessment, risk response and control are an on-going process. Therefore, regularly review the effectiveness of Company's risk assessment and control measures is an essential part of the risk management function. The Risk Manager has to ensure that the significant risks remain within the acceptable risk levels that emerging risks and gaps are identified and that risk response and control activities are adequate and appropriate. Indicators that fall outside of acceptable risk levels should be escalated with appropriate action plans to bring the risk back within established risk levels. Those risks that still remain above acceptable risk levels should be considered by the Board for their approval of any necessary resolution strategies. This activity will form the basis for reporting to the Board and on-going monitoring by management.

The monitoring process is an essential part of the risk management activities, which creates a "safety net" on the operations of the Company. Thus, the Risk Management Committee and the Internal Audit of the Company play an important oversight role in confirming that management is monitoring and managing risks in accordance with established levels. The Risk Manager shall communicate to the senior management and the Board of Directors, the findings of each committee regarding the risk exposures in order to mitigate them which is the main objective of the Company.

The level of risk is analyzed by combining estimates of likelihood (table 1) and consequences (table 2), to determine the priority level of the risk (table 3).

The Risk Register is discussed and finalized during a Risk Management Committee's meeting whereby the Senior Management has the opportunity to elaborate on the identified risks and comment on their materiality, as well as the overall methodology of the risk assessment. The Risk Register will be reviewed at least annually by the Risk Management Committee and the Senior Management.

The Company undertakes Sensitivity Analyses and performs Stress Tests on the most significant (i.e. material) risks identified; thus, it obtains a forward looking view of the potential adverse results the risks may potentially have on the Company's Balance Sheet and Income Statement.

The Company has adopted a robust internal governance framework on the basis of which the Company's processes and procedures are governed on a daily basis, and which, combined with additional capital, where deemed necessary, ensures the mitigation of risks within the Company.

Table 1: Probability of Risk Occurring

Score Level	Description	Frequency
6	Certain to occur	Occurs Monthly
5	Expected/likely to occur	At the once Quarterly
4	Frequent	Quarterly to Annually
3	Occasionally	Every 1-5 years
2	Unlikely	Every 5-20 years
1	Rare	Every 20 years or more

Table 2: Financial Impact of Risk

Score Level	Risk Scale	Financial Impact (yearly in USD)
1	Minor/Low/Insignificant	0-10.000
2	Moderate/Medium	10.001-50.000
3	High	50.001-100.000
4	Major	100.001-150.000
5	Critical	150.001-200.000
6	Catastrophic	>200.001

Table 3: Probability/ Impact Matrix

Probability of Risk	Impact of Risk						
		1	2	3	4	5	6
6	B	C2	C3	D1	D2	D3	
5	B	C1	C2	C3	D1	D2	
4	B	B	C1	C2	C3	D1	
3	B	B	B	C1	C2	C3	
2	A	B	B	B	C1	C2	
1	A	A	B	B	B	B	

D. Regulatory Pillar 1 Risk Management

D1. Credit Risk

Definition and Risk Identification:

Credit Risk arises when counterparties fail to discharge their obligations towards the Company, thus reducing the amount of future cash inflows from the financial assets at hand on the Company's balance sheet. In particular, the Company has specific credit risks arising from its current banking and/or brokerage accounts with credit and other financial institutions, as well as other credit risks stemming from financial (i.e. corporate) assets and assets held under the Investor Compensation fund.

Counterparty credit risk arises from credit exposures arising from open trading positions and is the principle driver of the total credit risk exposure.

Risk Mitigation Policies:

- Ensures that client's and own funds are well diversified;
- Regularly assesses the appropriateness of reallocation of funds where a credit institution fails in quality and there is a lack of belief in its reliability; the company monitors and reviews on systematic basis credit ratings from bond credit rating institutions like Moody's Investors Service;
- Due diligence procedures are followed for all payment service providers with whom the Company maintains merchant accounts and ensures that payment service providers are licensed/regulated by a competent authority of a Member State or a third country;
- Ensures that clients fund their accounts prior to the commencement of trading in financial instruments and that sufficient cash margin has been deposited before a market position is opened. Also it monitors all trading accounts through an automated process that highlights trading accounts approaching or entering into a Margin Call and Stop-out.

Credit Risk Analysis

The Company implements the Standardised Approach to quantify the Credit Requirements, which correspond to the credit risks that it faces.

The below tables summarize the credit exposure of the Company by asset class and by country as at 31 December 2018:

Table 4: Credit Risk Capital Requirements by Asset Class

Asset Class	Exposure amount (€ amount in thousands)
Corporates (100%)	2,748
Institutions (20%-100%)	9,004
Other Assets (100%)	72
Total Credit Risk Exposure (RWE)	4,614

Table 5: Credit Risk Capital Requirements by Country

Country	Exposure amount (€ amount in thousands)
Cyprus	1,362
United Kingdom	10,407
Other (100%)	55
Total Risk weighted assets (RWA)	4,621
Total Risk	11,824

D2. Market risk

Definition and Risk Identification:

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

a) **Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in a foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the company's measurement currency. The main sources of foreign exchange risk for the company are certain bank balances in foreign currencies.

b) **Interest rate risk**

Interest rate risk is the risk that the value of financial assets or liabilities may fluctuate as a result of changes in the market interest rate environment which might include changes in the overall level of interest rates, the volatility of interest rates and the interest rate spreads. This particular risk is considered low due to the operational model of the Company. Other than cash at bank, which attracts interest at normal commercial rates, the Company has no other significant interest bearing financial assets or liabilities.

Risk Mitigation Policies:

- The management and the accounting department of the Company monitor the exchange rate fluctuations on a continuous basis in order to limit the effect of this particular risk.

Market Risk Analysis

The Company adopted the Standardized approach for Market risk. The standardized measurement method for the capital requirement for position risk in equities adds together the long and short positions of equities according to predefined models to determine the capital requirement.

Table 6: Position Risk on Foreign Exchange

Currency	Exposure amount (€ amount in thousands)	Short/Long
Euro (EUR)	1,145	Long
Canadian Dollar (CAD)	42	Long
Pound Sterling (GBP)	28	Long
Yen (JPY)	6	Long
Swiss Franc (CHF)	(4)	Short
US Dollar (USD)	923	Long
Yuan Renminbi (CNY)	4	Long
Other	38	Long
Total Risk weighted assets (RWA)	2,182	

D3. Operational risk

Definition and Risk Identification:

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide range of issues.

Management realizes that is much more difficult to identify, quantify and manage operational risk than credit or market risk. Data on operational risk is not exhaustive.

Some specific risks of Operational nature include:

- Business Continuity/Systems failure Risk - utility disruptions, software failures, hardware failures,
- Control Failure Risk - data entry errors, accounting errors, failed mandatory reporting, negligent loss of Client assets, product defects,

- Internal or external Fraud Risk - misappropriation of assets, account churning, tax evasion, intentional mismarking of positions, bribery, theft of information, hacking damage, third-party theft and forgery fiduciary breaches.
- Insurance Risk,
- Terrorism Risk,
- Policy Violation Risk,
- Third Party dependency Risk (e.g. internet provider),
- Outsourcing Risk,
- Information and Technology Risk,
- Physical Security Risk,
- Personnel issues/loss of key employees Risk,
- Loss of data Risk,
- Systems failure Risk
- External events (e.g. power-cut),

Risk Mitigation Policies:

The Company has implemented an operational risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner consisting of, inter alia, the following components:

- Lower Human Interaction - the majority of actions occurring in the Company's systems are automated and therefore it is less likely that a human error will occur;
- Review of risks and controls as part of the Internal Audit function;
- Regular review and updating of policies;
- Monitoring of the effectiveness of policies, procedures and controls by Internal Audit;
- Maintenance of Risk Registers by following the risk monitoring programme in order to ensure that past failures are not repeated;
- Maintaining a four-eye structure and implementing board oversight over the strategic decisions made by the heads of departments;
- The Company minimizes fraud activities and further enhances AML/KYC procedures by using third-party software system, which provides access to a database. This database's content is derived from a significant number of official sources, including numerous criminal and financial sanctions databases, Politically Exposed Persons data, crime related data and adverse or negative information;
- A Disaster Recovery Plan has been designed in order to be used in the event of a force majeure affecting the Company's internal systems and databases. This plan is structured around teams with each team having a set of specific responsibilities; and
- A Business Continuity Plan has been implemented which helps protect all of the Company's information databases including data, records and facilities.

Operational Risk Analysis

The below table summarize the operational risk capital requirements of the Company by for the year ended 31 December 2018:

Table 7: Operational Risk Capital Requirements

Operational Risk	Exposure amount (€ amount in thousands)
Year 3	(155)
Year 2	482
Year 1	1,004
Capital Requirements (15%*Average year 2 & 1 *12.5)	1,393

E. Other risks not covered in Pillar 1

E1. Compliance risk

Definition and Risk Identification:

Compliance risks arise from violations of, or non-conformance with, the Law, Directives and Circulars issued thereof, regulations, prescribed practices, internal policies, and procedures, or ethical standards. This risk exposes the Company mainly to financial losses due to imposed fines from the Regulators.

Risk policy and management tools:

The objective of the Company is to meet all legal and regulatory requirements imposed by CySEC by establishing the relevant policies and procedures based on the legislation in order to minimize the materiality of this risk. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

E2. Liquidity risk

Definition and Risk Identification:

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. Liquidity risks can also arise either via extreme market conditions and/or failures of designated counterparties that the Company associates with.

Risk policy and management tools:

The company maintains sufficient liquidity to manage known and unanticipated funding needs.

Liquidity is managed in accordance with a framework of policies and controls such as:

- maintaining sufficient cash deposits and highly liquid assets
- performing monthly reconciliations of cash balances.

No maturity table disclosing the undiscounted cash flows of the underlying liabilities has been presented as all outstanding balances are due within 12 months and consequently their carrying amounts are representative of their contractual cash flows and the impact of discounting is not significant. Additionally the Company holds in segregated accounts all the clients' funds and therefore considers that the liquidity risk is significantly low.

E3. Reputation risk***Definition and Risk Identification:***

The risk of loss of reputation arising from the negative publicity relating to the Company's operations (whether true or false) may result in a reduction of its clientele, reduction in revenue and legal cases against the Company.

Risk policy and management tools:

The Company is aware that, operating in a demanding industry, with many competitors, who may also act in unethical ways, could introduce risks of reputational nature.

The possibility of having to deal with serious incidents is limited as the Company exerts its best efforts in providing high quality services to its Clients. In addition, the Company's Board members and Senior Management comprise of experienced professionals who are recognized in the industry for their integrity and ethos, and, as such, add value to the Company.

F. Capital Requirements

The Company's objectives in managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company is required to report on a quarterly basis its capital adequacy and has to maintain at all times a minimum capital adequacy ratio which is at 8%, plus a capital conservation buffer which for 2018 amounted to 1.25%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. The Senior Management and the Accounting Department monitor the reporting obligation and put in place policies and procedures in order to meet the relevant regulatory requirement.

The Company uses the standardized approach for the quantification of credit, market and operational risks.

The total Capital Requirements as at 31 December 2018 are shown in the table below:

Table 8: Capital Adequacy Ratio

Capital Ratio	31 December 2018 (€ amount in thousands)
Risk Weighted Assets Exposure:	
Credit Risk	4,621
Market Risk	2,182
Operational Risk	1,393
Total Risk Exposure amount	8,196
Total Eligible Own Funds	2,249
Capital Adequacy Ratio	27,44%
Minimum Capital Adequacy Ratio	8%

The Capital Adequacy ratio of the company for the year ended 31 December 2018 is **27.46%** much higher than the minimum required 8%, plus a capital conservation buffer which for 2018 amounted to 1.25% (according to the transitional implementation provisions) and had to be met entirely out of CET1 capital, and is generally maintained at high levels as per Board of Directors policy. During the year 2018, the ratio never fell below of what is deemed minimum by CySEC.

TopFX Ltd calculates its regulatory own funds and capital adequacy ratio on an individual basis. The Company's Eligible Own Funds includes only Original Own Funds (Tier 1 Capital). Tier 1 capital is a core measure of a Company's financial strength from a regulator's point of view. It is composed of share capital, share premium and reserves (excluding revaluation reserves) including the profits and losses brought forward as a result of the application of the final profit or loss.

The table below presents the Company's capital base as at 31 December 2018:

Table 9: Eligible own Funds

As at 31 December 2018:	€
Share Capital	14,000
Share Premium	2,988,756
Accumulated losses	(501,549)
Advances from shareholders	38,968
Total Equity	2,540,175
Other Deductions:	
Intangible Assets (100%)	(317,293)
Eligible unrealized losses	113,070
Investors Compensation Fund	(87,007)
Total Deductions	(291,230)
Total Eligible Own Funds	2,248,945

G. Disclosure regarding the remuneration policy and practices of the Company

The Company's Board of Directors is responsible for the adoption, periodic review and implementation of the Company's Remuneration Policy. The Board of Directors has approved, at its meeting which took place on 22nd October 2018, the Remuneration Policy that has been drafted by the Senior Management of the Company based on Part Eight of Regulation (EU) No 575/2013 of the European Parliament.

The Company's Remuneration Policy fulfils the Company's obligation under Part Eight of Regulation (EU) No 575/2013 of the European Parliament. Responsible body for the implementation of the Company's Remuneration Policy shall be the Board of Directors. The responsibility of the Board is to prepare the decisions regarding the Remuneration Policy, including those which have implications for the risk and risk management of the Company and to table the said decisions or proposals for final deliberation. Additionally, the Compliance Officer of the Company is advising the Board regarding remuneration matters in order to ensure that any developments in the regulation will be implemented by updating the remuneration policy of the Company accordingly to comply with the provisions of the relevant legislation.

During the year 2018, the remuneration of staff consisted of a fixed component only with no variable element. The remuneration of each individual varies and depending from position, education, experience, performance, accountability and responsibility. In addition the Company based on the profitability it may give bonuses to the key employees.

The company's information for the year is presented below:

- a) Aggregate quantitative information on remuneration, broken down by business area

Table 10: Remuneration by Business Area

Business Area	No. of Beneficiaries	Fixed Remuneration €	Variable Remuneration €
Control Functions	5	149,047	-
Reception & Transmission	1	51,500	
Total	6	200,547	

- b) Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investing firm, indicating the following:

Table 11: Remuneration by Position/Role

Position/Role	No. of Beneficiaries	Fixed Remuneration €	Variable Remuneration €
Senior Management (Executive and Non-Executive Directors incl. the General Manager, CEO and Department Heads)	5	113,304	-
Other Staff whose actions have a material impact on the risk profile of the institution	-	-	-
Total	5	113,304	-

H. Leverage

The leverage ratio is a newly established monitoring tool which allows competent authorities to assess the risk of excessive leverage in their respective institutions. It is a simple, non-risk-based ratio that has been introduced in the Basel III framework to constrain the build-up of excessive leverage. This new regulatory and supervisory tool has been running since 1st January 2015.

In accordance with part seven, article 429 of Regulation (EU) No 575/2013 of the European Parliament and of the Council, the leverage ratio shall be calculated as an institution's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage. For the purposes of calculations, the capital measure shall be the Tier 1 Capital while the total exposure measure is the sum of the exposure values of all assets and off-balance sheet items not deducted when determining the capital measure.

The table below summarizes the leverage ratio of the Company as at 31 December 2018:

Table 12: Leverage Ratio

Leverage Ratio	31 December 2018 (€ amount in thousands)
Exposures Values	11,818
Tier 1 Capital	2,249
Leverage ratio	19,03%

In order to manage the risk of excessive leverage, the Company ensures that its Leverage ratio is always above the current 3% proposed regulatory limit. Furthermore, the Company monitors its leverage ratio on a quarterly basis.