MeritKapital UK Limited

Regulated by the Financial Conduct Authority ***(No.720609)***

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2018

April 2019

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2018 has been prepared MeritKapital UK Ltd as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission.

MeritKapital UK Ltd states that any information that was not included in this report was either not applicable on the Company's business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.

*MeritKapital UK Ltd is regulated by the Financial Conduct Authority under License number **720609.***

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The Board of Directors is ultimately responsible for the risk management framework of the Company. The Risk Management framework is the sum of systems, policies, processes and people within the Company that identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company's operations.

The Board of Directors approves in full the adequacy of Risk Management arrangements of the institution providing assurance that the risk management systems in place are adequate with regards to the institution's profile and strategy.

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1. Overview

1.1. Regulatory framework overview

The purpose of this document is to outline the Pillar 3 disclosures for **MeritKapital UK Ltd** (the 'Firm' or 'MKUK') for the period up to 30 September 2018 required by the Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), specifically BIPRU 11. These rules implement in the United Kingdom the Capital Adequacy Directive ("CAD") and Capital Resources Regulation (CRR), which represents the European Union's application of the Basel Capital Accord.

The Regulatory framework consists of a three "Pillar" approach:

- **Pillar I** establish minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating RWA.

- **Pillar II** requires firms and supervisors to take a view on whether a firm should hold additional capital against risks considered under Pillar I that are not fully captured by the Pillar I process (e.g. credit concentration risk); those risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk); and factors external to the firm (e.g. business cycle effects). Pillar II connects the regulatory capital requirements to the Firm's internal capital adequacy assessment process ("ICAAP") and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and institutions on a continuous basis and to evaluate how well the institutions are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

- **Pillar III** - Market Discipline requires the disclosure of information regarding the risk management policies of the Firm, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds.

1.2. Scope of application

The Firm was incorporated in the United Kingdom as an Investment Firm on 23 June 2016 that is given permission to provide regulated products and services with reference number 720609 and Firm no 09779913.

The Firm is authorised by the FCA and is subject to the Capital Requirements Directive ("CRD"). As such, in respect of the MiFID business that the Firm has permission to conduct, the Firm is prudentially categorised as a BIPRU Full license firm with minimum/initial capital of EUR 730,000. Furthermore, MKUK operates on a matched principle basis by providing fixed income brokerage of securities.

During 2018, the Company's licence was extended to include the investment services of "Dealing on Own Account", "Investment Advice", "Custody and Safekeeping" (CASS Small firm) and "Prime Brokerage". Consequently, the Company became an IFPRU €730K investment Firm (Non-significant IFPRU Firm).

Under the new license, the Firm engaged in deals with respective eligible counterparties and professional clients as per its permissions to conduct investment activity as a full scope IFPRU investment Firm. The Company is now offering a variety of Services and generate income from different business streams. This is done through brokerage fees, fees charged on prime-brokerage deals, the assets under management for custody services, charging ticketing fees per transaction or instruction for clearing services and generate further income by making their own investments unto the Company's books.

Regarding proprietary trading, the Company is expanding its operations over the primary and secondary market by participating in IPOs and new issue placements but also by investing into short tenure investments of sovereign or corporate debt securities of emerging market countries.

Furthermore, the Company is acting as intermediary in REPO agreements and is forwarding its clients requests for such agreements for a particular financial instrument to collaborating banks with which the Company has Global Master Repurchase Agreements ("GMRA"). Moreover, under the brokerage service the Company is now providing equities and fixed income trading activities to its clients by providing them with access to various regulated and non-regulated markets via its established collaborating brokers via Bloomberg EMSX platform, Bloomberg chats, email, recorded phone and fax.

Additionally, under the new licence, the Company is performing clearing and settlement transactions through collaborations it forms with third-party custodians. Such custody services are also available for institutional brokerage clients that approach the Company merely for custody services, mainly as they wish to capitalize on such a custody platform that is otherwise not available to smaller clients. In addition, under the investment advice service the Company has entailed the provision of advisory services to a client, either upon request, or upon the initiative of the Company, in relation to one or more transactions concerning financial instruments investments opportunities present mainly in the Eurobonds market.

The Firm is publishing the disclosures on an individual (solo) basis. The Firm is regulated as a standalone entity in the UK and is not part of a UK consolidation group and this disclosure has been prepared in relation to the Firm only.

Overall the Firm offers a range of corporate credit investment strategies that seek to meet the performance, risk control, liquidity and transparency requirements for Professional Clients and Eligible Counterparties (as defined in the FCA Handbook).

Annual Reports and Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act 2006. The financial statements are presented in Sterling and all values are rounded to the nearest pound (£) except when otherwise stated.

1.3. Scope of Business

The Firm specialises in fixed income brokerage of securities within the global fixed income marketplace. Although the firm is not restricted to high yield and emerging markets bonds, it prides itself on its niche in this sphere. Relationships with large buy side funds that span from the western capital markets to the emerging markets are a testament to this specific market expertise. The firm's other institutional relationships utilise its efficient platform for treasury book rebalancing, capital preservation strategies and allocation requests for the primary market amongst other service offerings. All clearing services for the firm are provided by Raffeisen Bank International AG, Midclear and Global Prime Partners.

Emerging Markets

The firm provides speedy and efficient execution for its client pool across a range of fixed income instruments by capitalising on a diverse and established institutional network.

It has a focus within the emerging markets (Sovereigns, Corporates, High yield, distressed) space of Latin America, and MENA but particularly within that of Russia and the CIS. The firm leverages off its relationships in the countries in which it operates to facilitate price competitive sourcing of respective paper but also to gain local respective insight. Simultaneously it maintains and continues to grow its network of buy side holders in the western capital markets space. This specific approach allows the team of the firm to maintain a level of anonymity when transacting and to, simultaneously, secure good pricing.

Primary Market Bonds

Utilising its large network of liquidity providers which includes lead managers and brokers alike, the firm accepts orders for placement of new issues in the bond market to target the requested allocations of its end clients. The team is able to take on either outright or hedged orders and specific information on upcoming deals is distributed daily via clients preferred communication medium.

Cross Currency Bonds

Trading of cross currency bonds that are denominated in emerging market currencies but settle in a cross-currency denomination. This is particularly interesting for onshore investors who wish to gain FX exposure of the emerging market currencies amid an environment of varying central bank monetary policies between the emerging markets and the developed ones.

This may be offered through the provision of our front-end platform or orders may be received through third party platforms such as Bloomberg. OTC orders may also be facilitated where the underlying shares are rather illiquid, and a transaction may be better executed in bulk.

Following the license extension, the Company is authorised to perform the following investment activities and type of investments to eligible counterparties and professional clients:

<table>
<tr><th>Investment Activity</th><th>Investment type</th></tr>
<tr><td>Advising on investments (except on Pension Transfers and Pension Opt Outs)</td><td rowspan="6">• Debenture
• Government and public security
• Rights to or interests in investments (Security)

• Share</td></tr>
<tr><td>Arranging (bringing about) deals in investments</td></tr>
<tr><td>Dealing in investments as agent</td></tr>
<tr><td>Dealing in investments as principal</td></tr>
<tr><td>Making arrangements with a view to transactions in investments</td></tr>
<tr><td>Safeguarding and administration of assets (without arranging)</td></tr>
</table>

1.4. Disclosure Policy

Firm MeritKapital UK Limited has a formal policy which details its approach in complying fully with the disclosure requirements laid out in Chapter 11 of the BIPRU. The following sets out the Firm's Disclosure Policy as applied to Pillar III Disclosures, according to BIPRU 11 requirements.

Materiality of Disclosures

The rules in BIPRU 11 provide that the Firm may omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions.
If a Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement. However, MKUK has made no omissions on the grounds that information is immaterial.

Disclosures and Proprietary or Confidential Information

The Firm is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information, if it were shared, would undermine the Firm's competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable.

Furthermore, the Firm must regard information as confidential if there are obligations to clients or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed. We have made no omissions on the grounds that it is proprietary or confidential.

1.5. Frequency

The firm's policy is to publish the disclosures is required on an annual basis. The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements as per the provisions of BIPRU 11.3.9R.

1.6. Medium and Location of publication

Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements. In this respect, the firm's Pillar III disclosures are published on www.meritkapital.co.uk.

1.7. Verification

The Firm's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. The Firm's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures have been reviewed by the Risk Management Committee. The information contained in this disclosure has not been audited by our firm's external auditors and does not constitute any form of financial statement.

1.8. Risk Management objectives and policies

The firm's compliance monitoring procedures are designed around risks considered to be relevant to the firm. These will be updated annually through a process taking input from senior management and from the board. The compliance monitoring process also highlights the processes in place which are designed to mitigate any identified risks.

1.9. Risk Management Framework

Managing risk effectively in a continuously changing risk environment requires a strong risk management culture. As a result, the Firm has established an effective risk oversight structure and the necessary internal organisational controls to ensure that the Firm undertakes the following:

- The adequate risk identification and management
- The establishment of the necessary policies and procedures
- The setting and monitoring of the relevant limits and
- Compliance with the applicable legislation

The Board meets on a regular basis and receives updates on risk and regulatory capital matters from management. The Board reviews regularly (at least annually) written reports concerning compliance, risk management and internal audit policies, procedures and work as well as the Firm's risk management policies and procedures as implemented by Management.

The Board accepts that in its pursuit of its strategic and business goals, the Company will be exposed to risk. Some risks will be consciously taken in the pursuit of profit. Other risks will be an indirect consequence of profit taking activities.

Accordingly, it is important that the Company's overall risk-taking activities are undertaken within a set of prescribed limits and tolerances in order that the potential impact of such risks on the earnings and capital ratios of the Company can be managed.

It is accepted that the risk profile of the Company will vary and at times and thus the Company may be exposed to a higher level of risk particularly at times when market or environmental conditions may be volatile.

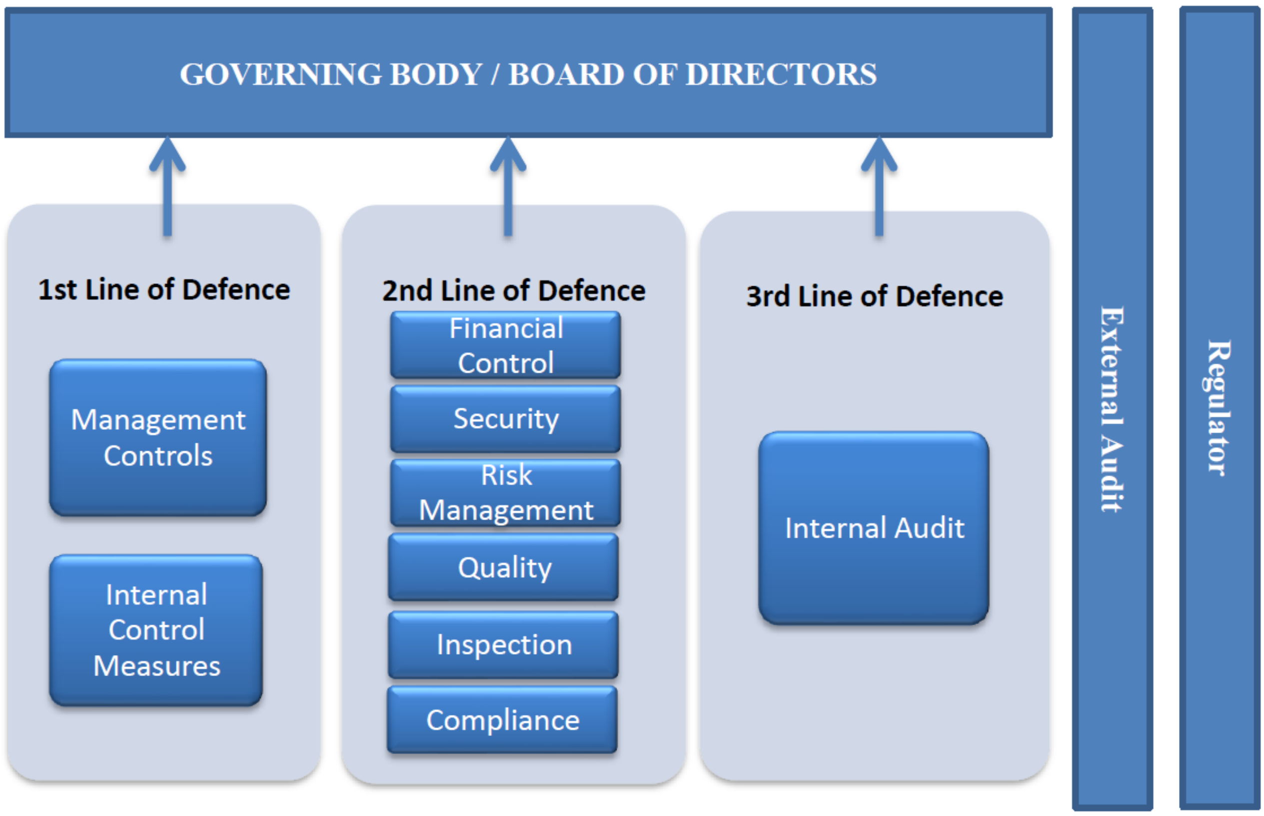
As part of its business activities, the Firm faces a variety of risks, the most significant of which are described further below.

To ensure effective risk management, the Company has adopted the Three Lines of Defence model, with clearly defined roles and responsibilities.

First Line of Defence: Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organisational risk appetite and are fully compliant with Company's policies and where appropriate defined thresholds. First Line of Defence acts as an early warning mechanism for identifying (or remedying) risks or failures.

Second Line of Defence: The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company's risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. The Risk Management Function will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them. Integral to the mission of Second Line of Defence is identifying risk areas, detecting situations/activities, in need of monitoring and developing policies to formalise risk assessment, mitigation and monitoring.

Third Line of Defence: Comprises by the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of design and operational effectiveness of the systems of internal controls. Internal Audit undertakes on-site inspections/visits to ensure that the responsibilities of each Function are discharged properly (i.e. soundly, honestly and professionally) as well as reviews the Company's relevant policies and procedures. Internal Audit works closely with both the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.

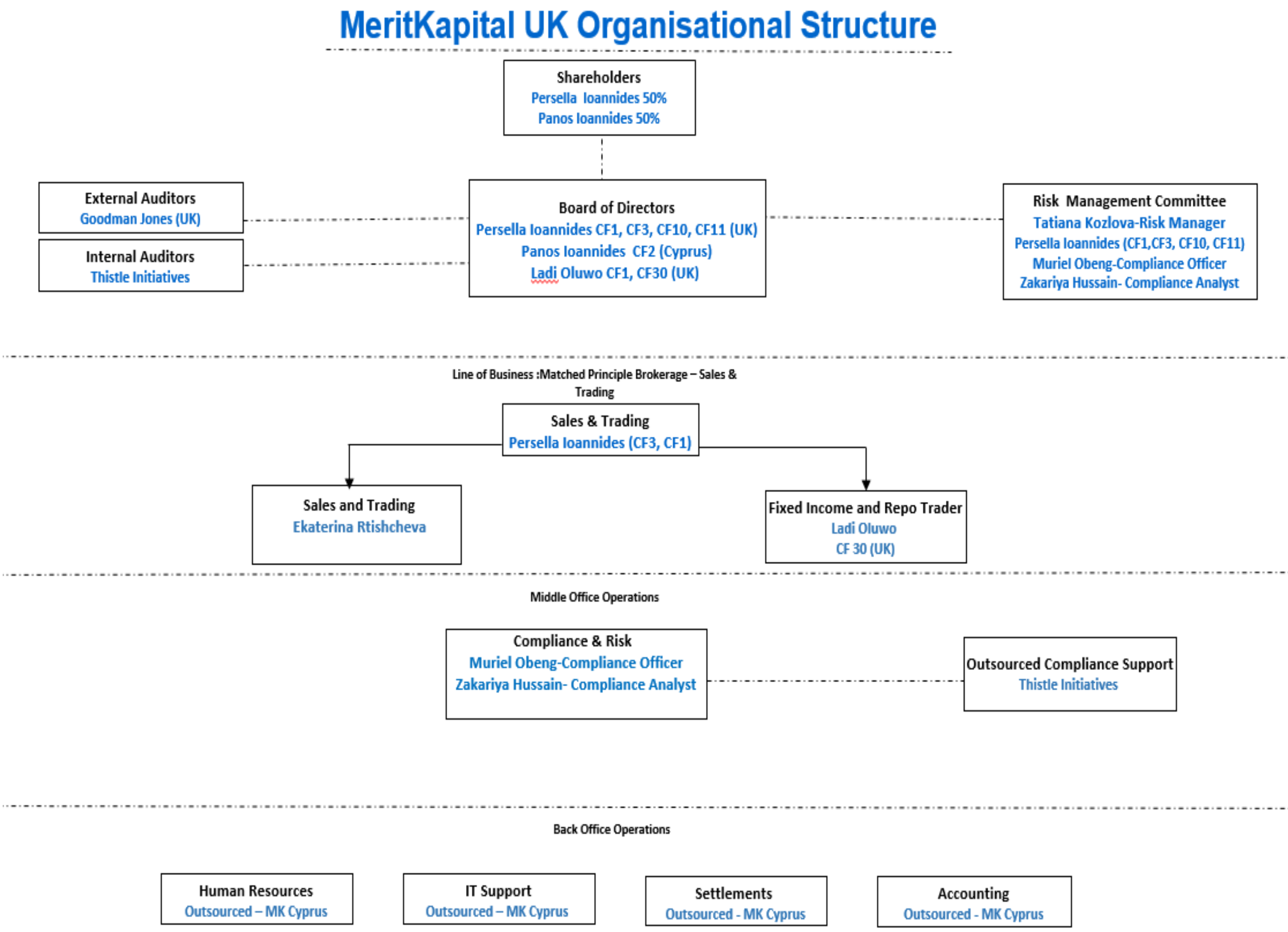


2. Corporate Governance and Risk Management

The firm's systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness.

The risk management and internal control systems are embedded in the operations of the Firm and are capable of responding quickly to evolving business risks, whether they arise from factors within the firm or from changes in the business environment.

The Company's organisational structure during the year ended 30 September 2018 is presented below:



2.1. The Board of Directors

The Board has the overall responsibility for the establishment and oversight of the firm's Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust. The Board comprises of two executive directors and one independent non-executive director.

The members of the Board possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board reflects an adequately broad range of experiences to be able to understand the Firm's activities, including the main risks to ensure the sound and prudent management of the Firm as well as sufficient knowledge, of the legal framework governing the operations a UK BIPRU Firm.

The Firm has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff of the Firm.

The Firm implements and maintains adequate risk management policies and procedures which identify the risks relating to the Firm's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Firm. The Firm adopts effective arrangements, processes and systems, considering that level of risk tolerance, where applicable.

2.2. Governance Committees

Risk Management Committee

In order to support effective governance and management of the wide range of responsibilities the Board has established the Risk Management Committee. The role of the Risk Management Committee is to provide oversight, review and challenge of the material risks both current and future affecting the business whilst ensuring that there is effective management and control of all key risks and issues facing the Firm.

The Risk Management Committee, inter alia, scrutinises, and decides on various risks inherent with the operation of the Firm with the view to formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Firm. Moreover, the Risk Management Committee reviews the risk management procedures in place.

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

The Risk Manager and the Compliance Department meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by either party. Conclusively, the Risk Manager during the year under review was responsible to:

- Establish, implement and maintain adequate risk management procedures for the Company's Risk Management Framework
- Monitor the adequacy and effectiveness of the Company's Office risk management policy and the level of compliance with which the risk management policy is adhered to.
- Manage the risks associated with the outsourced Function and Operations.
- Manage the risks associated with the Company's Office Functions and Operations.

2.3. Information flow on risk to the Management Body

Risk information flows up to the Board directly from the business departments and control functions. The Board ensures that it receives on a frequent basis, at least annually written reports regarding Internal Audit, Compliance, Money Laundering and Terrorist Financing and Risk Management issues and approves the Company's ICAAP report as shown in the table below:

Report Name	Report Description	Owner	Recipient	Frequency
Annual Compliance Report	To inform the Senior Management & the BoD of the Company regarding the Performance of Compliance function during the year	Compliance Officer	BoD, FCA	Annual
Annual Internal Audit Report	To inform the Senior Management & the BoD of the Company regarding the Internal Auditor during the year	Internal Auditor	BoD, FCA	Annual

Annual Risk Management Report	Represents the work & activities undertaken by the Risk Manager during the year	Risk Manager	BoD, FCA	Annual
Pillar III Disclosures (Market Discipline and Disclosure	The Company is required to disclose information regarding its risk management, capital structure, capital adequacy and risk exposures	Risk Manager	BoD, FCA, Public	Annual
Financial Reporting	It is a formal record of the financial activities of the CIF	External Auditor	BoD, FCA	Annual
Capital Adequacy Reporting	A measure of the CIF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world	Risk Manager / Accounting	Senior Management, FCA	Quarterly

Capital Resources

Capital resources (also referred to as own funds) is the type and level of regulatory capital that must be held to enable the Firm to absorb losses. The Firm is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

MKUK is a €730K BIPRU (MiFID activity restriction) Full License firm and as such its capital requirements are the greater of:

The base capital requirement of €730,000 or
The sum of its market, credit, and operational risk requirements

The Directors constantly monitor the performance of the Firm and capital adequacy is regularly assessed by them. The Firm will also monitor risks throughout the year and decide if additional capital should be held against them. Additional risks that supplement the pillar 1 requirements are detailed below but the Directors have accessed that meeting the pillar 1 capital requirement is adequate to cover risks relevant to the business and no pillar 2 add-on is needed.

Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information relating to their own funds. Furthermore, institutions shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution. In this respect, the Firm's total capital is comprised of Common Equity Tier 1 and Tier 2 capital.

At 30th September 2018, the Total Capital ratio of the Company was 436.39% with total risk-weighted assets of GBP 3,032,952.

The composition of the capital requirements and capital surplus/deficit of the firm is shown in the following table:

Table 1- Capital Requirements

	Sept 30, 2018
CAR Ratio	436.39%
CAR Ratio surplus	428.39%
Capital Adequacy (CET1) ratio	436.39%
CET1 Capital	1,226,311
Tier 1 Capital	1,226,311
Tier 2 Capital	-
Total Own Funds	1,226,311
Total Own Funds surplus	406,271
Total Credit Risk Exposure	45,442
Total Market Risk Exposure	22,715
Total Operational Risk Exposure	212,850
Total Risk Weighted Assets	281,007

Table 2: Regulatory Capital

	Sept 30, 2018
Common Equity Tier 1 (CET 1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	1,762,082.00
Retained earnings	(162,510)
Accumulated other comprehensive income (loss), net of tax	(373,261)
Other	0
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	1,226,311
Common Equity Tier 1 (CET 1) capital: regulatory adjustments	
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	0
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities where the conditions in Art. 38 (3) CRR are met) (negative amount)	0
Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 15 % threshold and net of eligible short positions) (negative amount)	0
Other regulatory adjustments	0
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	0
Common Equity Tier 1 (CET 1) capital	1,226,311
Additional Tier 1 Capital	
Tier 1 Capital	1,226,311
Tier 2 Capital	0
Total Capital	1,226,311
Total risk-weighted assets	281,007
Surplus(+)/Deficit(-) of total capital*	1,203,830
Capital Ratios	
Common Equity Tier 1 (CET 1) capital ratio	436.39%
Tier 1 Capital ratio	436.39%
Total Capital ratio	436.39%

** The Company's Srplus(+)/Deficit(-) of otal capial was alculated using the rate as at 30/09/2019*

2.4. Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

In order to meet the requirements for disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, the firm discloses the capital instruments' main features as outlined below:

Table 3 - Main features of capital instruments

Capital Instruments Main Feature	CET1
Issuer	MeritKapital UK Limited
Regulatory Treatment	
Eligible at Solo/(sub-)consolidated/solo	Solo
Instrument type	Common Equity
Amount recognized in regulatory capital	£1,762k
Nominal amount of instrument	£1,762k
Issue Price	US $1
Accounting classification	Shareholders' Equity
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	N/A
Coupons / dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	N/A

The Firm's capital resources consist of CET1 Capital. No additional Tier 1 available.

2.5. Compliance with the Regulation and the overall Pillar II Rule (BIPRU 11.5.4R)

The Firm has established its ICAAP as required under Pillar 2. The process essentially formalised the Firm's risk appetite/management framework and aligned it with the financial processes and procedures. As a consequence, potential risks are identified, assessed, evaluated, managed and quantified – where appropriate.

The Firm has adequate resources over the next three years to meet its strategic objectives and future increases in capital requirements will be satisfied by retention of future profit reserves. Senior Management of MKUK has a low risk appetite that is governed firstly by the regulatory requirements imposing the Company to have in all cases own funds more or equal to the sum of its capital requirements, and more than the Company's initial capital.
Management considers the ICAAP to be comprehensive, relevant and proportional to the business of MKUK.

The Company reviews and updates its ICAAP at least annually. The quality and quantity of the Firm's capital resources are monitored on an ongoing basis.

3. Pillar I Capital Requirements

The following sections show the overall Pillar I minimum capital requirement and risk weighted assets for the Firm under the Standardised Approach to Credit Risk, Market Risk and the Fixed Overheads requirements.

3.1. Credit Risk

Credit risk corresponds to the risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments.

The Company's credit risk mainly arises:

- By the Company's deposits in credit and financial institutions
- By assets mainly held from debtors or prepayments made

The Company follows the Standardized Approach under Pillar I for calculating its Credit Risk Capital Requirements, as specified in CRR. It categorizes the assets in respect to their exposure class and uses the Credit Step methodology to determine its respective Risk Weights (RW).

The Company follows both regulatory and compliance-oriented credit risk mitigation ("CRM") strategies in order to minimize the possibility of occurrence of this risk, such as:

- All Client funds are held in segregated accounts, separated from Company's funds.
- The Company maintains regular credit review of counterparties, identifying the key risks faced and reports them to the Board of Directors, which then determines the firm's risk appetite and ensures that an appropriate amount of capital is maintained.
- In order to maintain its Credit risk to the minimum, the Company uses EU credit institutions for safekeeping of funds and always ensures that the banks it cooperates with have high ratings based on reputable credit rating agencies (Moody's, S&P or Fitch). The Company also frequently monitors their compliance with the EU regulatory framework and diversifies the funds over several credit institutions, thus mitigating the risk exposure efficiently.

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 (EU) No. 575/2013.

Concentration Risk

Concentrations are measured using a standardised model and individual concentration limits are defined for large exposures. Any concentration limit breach is managed over time by reducing exposures.

3.1.1. Quantitative Information (Credit Risk)

The credit exposures in this section are measured using the standardized approach. Exposures are broken down by sectors and obligor ratings.

At 30th September 2018, the Company's capital requirements for credit risk amounted to GBP 3,635 (GBP 45,442 total risk-weighted credit risk exposure).

3.2. Market Risk

Market risk corresponds to the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets.

As mentioned above, in the context of Pillar I, market risk mainly arises as:

Position Risk**:** It refers to the probability of loss associated with a particular trading/security (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**:** It refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. These commodities may be oil, metals, gas, electricity etc.

Foreign Exchange Risk**:** It is a financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the company. The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

3.2.1. Quantitative Information (Market Risk)

The company was slightly exposed to Market Risk as at 30 September 2018. The overall Market Risk exposure was GBP 22,715, and the capital requirements for credit risk amounted to GBP 1,817.

3.3. Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Firm's income and operating cash flows are substantially independent of changes in market interest rates. Other than cash at bank, which attracts interest at normal commercial rates, the Firm has no other significant interest-bearing financial assets or liabilities. Interest Rate risk regarding Firm funds on deposit and any impact on the firm is limited and is regarded as negligible.

The Firm's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

3.4. Operational Risk

Operational risks (including accounting and environmental risks) correspond to the risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss. This section describes the monitoring of the Company's operational risk, in addition to providing an analysis of the Company's operational risk profile and regulatory capital requirements.

The Company has developed processes, management tools and a control infrastructure to enhance the Company-wide control and management of the operational risks that are inherent in its various activities. These include, inter alia, general and specific procedures, permanent supervision, business continuity plans and functions dedicated to the oversight and management of specific types of operational risks, such as fraud, risks related to external service providers, legal risks, information system security risks and compliance risks.

In order to control the exposure to operational risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of operational risk is highly dependent on the 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, control and monitoring.

The Company implements the below Operational Risk Mitigation Strategies in order to minimize its Operational Risk Exposure:

- The development of operational risk awareness and culture.
- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities.
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives.
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.

- Established a "four-eye" structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management. The Board further reviews any decisions made by the Management while monitoring their activities;
- Detection methods are in place in order to detect fraudulent activities;
- Comprehensive business contingency and disaster recovery plan.

The Senior Management employs specialized tools and methodologies to identify, assess, mitigate and monitor operational risk. These specialized tools and methodologies assist operational risk management to address any control gaps. To this effect, the following are implemented:

- Incident collection
- Key Risk Indicators
- Business Continuity Management
- Training and awareness

4. Pillar 2 Risks

4.1. Business Risk

Business Risk includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts are conducted with a view to minimize the Firm's exposure to business risk. These are analyzed and taken into consideration when implementing the Firm's strategy.

4.2. Capital Risk Management

Capital Risk is the risk that the Firm will not comply with capital adequacy requirements. The Firm's objectives when managing capital are to safeguard the Firm's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Firm has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Firm is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Firm.

The Firm is further required to report on its capital adequacy quarterly and has to maintain at all times the minimum capital resources requirements. The management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of management accounts to monitor the financial and capital position of the Firm.

4.3. Liquidity Risk

Liquidity risk corresponds to the risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.

The Company's primary objective is to ensure the funding of its activities in the most cost-effective way by managing liquidity risk and adhering to regulatory constraints. The liquidity system aims at providing a balance sheet framework with assets and liabilities target structure that is consistent with the risk appetite defined by the Board of Directors:

- The assets structure should allow the businesses to develop their activities in a way that is liquidity-efficient and compatible with the target liabilities structure.
- The liabilities structure is based on the ability of the businesses to collect financial resources from customers and the ability of the Company to sustainably raise financial resources on the markets, in accordance with its risk appetite

The principles and standards applicable to the management of liquidity risks are defined by the Company's governing bodies, whose duties in the area of liquidity are listed below:

- The Company's Board of Directors (i) establishes the level of liquidity risk tolerance as part of the Risk Appetite exercise, (ii) meets regularly to examine the Company's liquidity risk situation, on a quarterly basis
- The Senior Management (i) sets budget targets in terms of liquidity (ii) allocates liquidity to the pillars

To minimize its exposure to liquidity risk, the CIF implements the below Liquidity Risk Mitigation Strategies:

- Regular analysis & reporting to the Board of Directors on the funding needs of the Company
- Monitoring of the Company's exposures and diversification to avoid rise of concentration risk as per the internal policies
- Cash Management

The Company has undertaken a specific review of its liquidity risks and believes that it is able to meet its upcoming maturities. As at 31/12/2018, the Company held EUR 805,770 in its bank accounts.

Furthermore, the client assets held in fiduciary capacity (in segregated accounts) were GBP 0 The Company is taking due care in safeguarding these assets and performs the following mitigation strategies:

- These assets are held by the Company in a fiduciary capacity and are not included in the Company's funds nor its financial statements

- The funds are held in client segregated bank accounts

4.4. Compliance, Reputational and Legal Risks

Compliance risk (including legal and tax risks) corresponds to the risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company's activities.

Compliance means acting in accordance with applicable regulatory rules, as well as professional, ethical and internal principles and standards. Fair treatment of customers, with integrity, contributes decisively to the reputation of the Company.

By ensuring that these rules are observed, the Company works to protect its customers and, in general, all of its counterparties, employees, and the various regulatory authorities to which it reports.

Compliance System and Department
Independent compliance structures have been set up within the Company's different business lines around the world to identify and prevent any risks of non-compliance.

The Compliance Officer verifies that all compliance laws, regulations and principles applicable to the Company's services are observed, and that all staff respect codes of good conduct and individual compliance. The Compliance Officer also monitors the prevention of reputational risk and provides expertise for the Company performance controls at the highest level and assists with the day-to-day operations. The Compliance Officer is responsible for:

- The Company's financial security (prevention of money laundering and terrorism financing; know-your-customer obligations; embargoes and financial sanctions)
- Developing and updating consistent standards for the function, promoting a compliance culture, coordinating employee training and managing Company regulatory projects
- Coordinating a compliance control mechanism within the Company (second-level controls), overseeing a normalised Compliance process, oversight of personnel operations and, finally, managing large IT projects for the function
- Preventing and managing conflicts of interest
- Proposing ethical rules to be followed by all Company employees
- Training and advising employees and raise their awareness of compliance issues
- Building and implementing steering and organisational tools for the function: Compliance and Reputational Risk dashboards, forums to share best practices, meetings of functional compliance officers
- Generally monitoring subjects likely to be harmful to the Company's reputation

5. Remuneration policy

The Firm has established a remuneration policy, which its purpose is to set out the remuneration practices of the Firm taking into consideration the salaries and benefits of the staff, in accordance with the provisions of Directive as well as to FCA's Remuneration Code set out in the SYSC Sourcebook of the FCA's Handbook on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Firm's size, internal organisation and the nature, scope and complexity of its activities.
The design of the Policy is approved by the people who effectively direct the business of the Firm, after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance. The people who effectively direct the business should be responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks that remuneration policies and practices can create. The Board discusses remuneration policy matters at least annually.

Furthermore, the Policy should also benefit from the full support of senior management or, where appropriate, the supervisory function, so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures.

Finally, the Policy should also adopt and maintain measures enabling them to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

5.1. Remuneration System

The Firm's remuneration system and policy is concerned with practices of the Firm for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management and members of the Board; the said practices are established to ensure that the rewards for the 'executive management' are linked to the Firm's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Firm uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Firm's short and long term success.

The remuneration mechanisms employed are well known management and human resources tools that take into account the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives.

The Firm's remuneration system takes into account the highly competitive sector in which the Firm operates, and the considerable amount of resources the Firm invests in each member of the staff.

The total remuneration of staff, whose professional activities have a material impact on the risk profile of the Firm currently, consists of a fixed and a variable component. The 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 a staff member to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

During the year under review there was no remuneration payable under deferral arrangements (with vested or unvested portions). Finally, the Firm did not pay any non-cash remuneration for the year under review.

5.2. Performance Based Measurements

MKUK has determined that the following criteria to determine such payments will include but not be limited to (depending on the role undertaken):

- Individual performance against objectives for bringing in and maintaining clients
- Client satisfaction

Where assessments of financial performance are used to calculate variable remuneration components, these will be principally based on profits, where these have been adjusted for current and future risks.

MKUK takes into account the quality of business undertaken and services provided when assessing the performance of relevant employees.

5.3. Remuneration of Senior Management Personnel and Directors

The FCA rules require certain firms to disclose aggregate information on remuneration in respect of its BIPRU Remuneration Code Staff broken down by business area, senior management and other Code Staff, including “risk takers”.

The firm’s activities include Financial Planning (advisory services) and Investment Management. The firm’s Directors, Senior Management or staff members do not fall into the category of “risk takers”. The link between performance and pay is inevitable in a small firm, but the firm’s risk adverse strategy and robust risk management systems mitigate any risks. The total remuneration of the key management personnel of the Firm, including Board, for the year ended 30 September 2018 are presented in the table below:

GBP	No. of staff	Fixed	Variable	Non-cash	Total
Senior Management Members whose actions have a material impact on the risk profile of the institution and other staff	2	136,133	-	-	136,133