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Pillar III Disclosures

For the year ended December 31st, 2019

JUNE 2020

Authorised by the UK Financial Conduct Authority (Reference No. 793714)

Contents

1. Introduction

1. About Capital Com (UK) Ltd

Capital Com (UK) limited company registered in England and Wales under number 10506220. It is authorised and regulated by the FCA (regulated number 793714) as a BIPRU 125K Firm and is wholly-owned subsidiary of Capital Com SV Investment Ltd which is a Cyprus based Investment Firm (CIF) and regulated and authorised by the Cyprus Securities and Exchange Commission (CySEC).

2019 was the Company's first year in operations. The Company offers financial Contracts for Differences (CFDs) in Forex pairs, Indices, Commodities, Stocks and Cryptocurrencies. The Company is an execution Only firm that operates on a matched-principle basis. It is permitted to deal with Retail and Professional Clients.

2. Regulatory Framework

In 2007, the European Union Capital Requirements Directive ('CRD') introduced consistent capital adequacy standards and an associated supervisory framework based on the Basel II Accord within the European Union. The CRD was implemented in the United Kingdom (the "UK") by the UK Financial Services Authority (the "FSA") now the Financial Conduct Authority (the "FCA") Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). It comprises three elements:

Pillar 1: the minimum capital requirements of firms to cover credit, market and operational risk;
Pillar 2: the requirements for firms and regulators to assess the need to hold additional capital to cover risks not covered under Pillar 1. Pillar 2 is also known as the Internal Capital Adequacy Assessment Process ("ICAAP"); and
Pillar 3: a set of disclosure requirements which enable market participants to assess information on firms' risk management controls and capital position.

The information set out herein represents Capital Com (UK) Ltd's (the 'Company', which is authorised and regulated by the FCA) Pillar 3 disclosure. Its aim is to encourage market discipline by allowing market participants to assess key pieces of information on the Company's capital, risk exposures and risk assessment processes. Future disclosures will be issued on an annual basis and published as soon as practicable after the publication of the Annual Report and Accounts.

Should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements, the frequency of disclosure will be reviewed.

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board of Directors (BoD) for approval. This includes approval by the Chief Executive Officer (CEO), the Head of Risk Management and the Chief Financial Officer (CFO). The Risk and Finance operations of the Company are performed on a Group Level and namely by the Chief Financial Officer and the Head of Risk Management of the parent company, Capital Com SV Investments Ltd.

The Company's Pillar III disclosures have been reviewed and approved by the BoD. The Company reports on a Solo basis and the reporting currency is GBP. This report is published on the Company's website at https://www.capital.com/regulations.

2. Corporate Governance – Board and Committees

3. Board of Directors (BoD)

The BoD has overall responsibility for the business governance and defining the risk appetite. It sets the strategic aims for the business, in line with delegated authority from the shareholder The BoD satisfies itself that financial controls and systems of risk management are robust.

The persons proposed for appointment to the Board should commit the necessary time and effort to fulfill their obligations. Main factors influencing the decision to propose the appointment of potential Directors include:

- Integrity and honesty
- High business acumen and judgement
- Knowledge and experience relevant to financial institutions
- Risk Management experience
- Specialized skills and knowledge in finance, accounting, law, or related subject.

The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss. The process and systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives, and can therefore only provide reasonable and not absolute assurance against material misstatement or loss

In relation to other directorships, members of the BoD do not hold more directorships than is appropriate given the nature, scale and complexity of the Company's business.

On 31st of December 2019, the Board is comprised of 2 executive directors as part of a four-eyes principal in business oversight.

Full name of Director	Position/Capacity
Ivan Gowan	**Executive Director**
Viktor Prokopenya	**Executive Director**

2. Governance Committees

The Company benefits from the governance structure and processes set up by the Parent Company. Formed Committees are responsible for governing operations and managing risk on a group level.

Governance committees have been formed to achieve a level of elaborate governance oversight to adequately monitor its operational effectiveness and its potential risks. With growth in scale and complexity, the Company will form additional governance committees.

Pricing committee takes responsibility for the further development of the product. Members come from across the whole Group, from various positions such as Trading, Risk, Development, Compliance etc.

Risk Management Committee (RMC) advices the BoD on the overall current and future risk appetite and strategy.

Additional levels of assurance are provided by control functions, which are independent of the business operations – namely Finance, Risk, Compliance and Legal. The control functions provide periodic reporting to the Board and Executive Committees as appropriate.

3. Information flow to Regulator and the Board of Directors (BoD)

Information of risk matters to the BoD is done through meetings with the heads of control functions and the following reports:

Report	Owner	Recipient	Frequency
Compliance Report	Compliance Officer	BoD	Annual
AML Report	Compliance Officer	BoD	Annual
Pillar III Disclosures	Head of Risk Management of Group	BoD, Published	Annual
ICAAP Report	Head of Risk Management of Group	BoD, FCA	Annual
Capital Adequacy Reports	Head of Risk Management of Group	Senior Management, FCA	Quarterly
Audited Financial Statements	Chief Financial Officer of Group	BoD, FCA	Annual

3. Risk Management Objectives and Policies

The Company's aim is to embed explicit and robust risk management practices across its entire business operations, in order to ensure that the level of risk it faces is consistent with its corporate objectives and its level of risk tolerance. This is achieved through the implementation of a comprehensive risk management framework for the identification, assessment, monitoring and control of all relevant risks.

The framework also enables the Company to continually align its business objectives against a background of changing risks and uncertainty.

The risk management framework:

- Enables the Company to proactively manage its risks in a systematic manner
- Ensures that appropriate measures are in place to mitigate risks
- Creates a culture of risk awareness within the Company and
- Ensures that risk management is an integral part of the Company's decision-making process.

3.1 Risk Management Governance

The BoD is ultimately responsible for the risk management framework of the Company. The risk management framework is the totality of systems, structures, policies, processes and people within the Company that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the Company's operations.

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to mitigate rather than mitigate the risks of not achieving business objectives, and, as such, offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The RMC plays a central role in ensuring compliance with the Company's risk management strategy and policies. The ability of the RMC to carry out its responsibilities effectively and in an unbiased manner rests on its independence. Structurally, risk management is a separate unit independent of the business, with the RMC reporting directly to the BoD.

Risk is an inherent part of Capital Com's business. Capital Group's objective is not to eliminate risk but to manage risk to an acceptable level. Effective risk management assists the delivery of strategic objectives, management of potential threats and aid capital planning. A core objective of Capital Com's risk management framework is the continuous identification, assessment, mitigation, monitoring and reporting of risk. The framework is based on three lines of defence:

- Risk Management and Control, including the identification, control, monitoring and mitigation of risk
- Risk Oversight and Governance; and
- Independent Assurance.

2. Risk Appetite

Risk Appetite limits the risks which the business can accept in pursuit of its strategic objectives. It is formally reviewed annually and is monitored on an ongoing basis for adherence. Risk Appetite is formally formulated in the Company's business plan. The Company's strategic, capital and liquidity plans are set with reference to Risk Appetite.

The Board approves the Risk Appetite, which defines the level of risk that the Company is prepared to accept to achieve its strategic objectives and is translated into specific risk measures that are tracked, monitored and reported to the Board. The Risk Appetite framework has been designed to create clear links to the strategic long-term plan, capital planning, stress testing and the Company's risk management framework. The review and approval processes are undertaken at least annually. The Company's Risk Appetite covers three core areas, financial risk, reputational risk and operational risk.

3. Stress Testing

This is an important risk management tool used by the Risk Management function to test the Company's response in various scenarios. Stress tests are used for both internal as well as regulatory purposes and assist in developing the risk profile of the Company. Also, stress testing allows the BoD and Senior Management to determine if the Company's exposure is within the accepted risk limits.

The Company is required to prepare and make available upon request periodic Internal Capital Adequacy Assessment Process (ICAAP) reports which set out future plans, their impact on capital availability and requirements and the risks to capital adequacy under potential stress scenarios.

4. Principal Business Risks

1. Credit Risk

Credit risk is the risk associated with a financial loss or potential financial loss from counterparties failing to fulfil their financial obligations. Generally, credit risk can be derived from the following areas:

1. Cash deposits
2. Other Assets

The Company's objective in managing credit risk exposures is to maintain them within parameters that reflect the strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Company has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Company performs Due Diligence in addition to using available ratings assigned by external rating agencies. General market reputation is also taken into account.

Table with credit exposure per class as at 31/12/2019 in GBP:

Exposure Class	CY	UK	Total Exposure	Total Risk Weighted Assets
Institutions	99,279	380,450	479,729	95,946
Corporates	0	20,506	20,506	20,506
Other	0	28,803	28,803	28,803
Total	**99,279**	**429,759**	**529,038**	**145,255**

2. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. In general, operational risk can be derived from the following areas:

- Internal Procedures & Controls
- Business Disruption and System Failure due to acts of God, External or Internal causes
- Legal Risk from fraud (internal/external) or other criminal activity
- Employee error or omission
- Regulatory changes
- Conflicts of interest

The Company's exposure to operational risk is limited to the extent of its current scale and complexity. The Company has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk. Overall planning, coordination, and monitoring is centralized however, most operational risks are managed within the departments in which they arise.

In addition to its overall framework, in order to mitigate operational risks, the Company has specific processes and systems in place to focus continuously on high priority operational matters such as information security, managing business continuity and combating fraud.

Finally, The Company is dependent on outsourced services to its affiliate companies. The affiliates companies are backed up by the systems and controls in place to supervise the outsourced activities.

3. Market Risk

Market risk is the risk stemming from adverse movements in several drivers which may relate to the Company's trading book and balance sheet positions. Such fluctuating risk drivers resulting in market risk include:

1. Changes in Financial instruments prices
2. Changes in Interest rates
3. Changes in Currency exchange rates

3.1. Financial Instrument Prices

The Company operates under a matched principle business model., effectively hedging back to back exposure with the Parent Company. Therefore, market risk arising from changes in financial instrument prices is transferred to the Parent Company.

3.2. Interest rates

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company's exposure is mainly stemming of own cash deposited in Credit Institutions which bear interest at normal commercial rates.

The Company's Finance Department monitors the interest rate fluctuations on a continuous basis despite the lack of interest rate risk given the deposit only nature of its exposure. Under the current conditions, the Company places greater emphasis on diversifying its exposure to more than one institution (credit risk) than dealing with the potential effects of interest rate fluctuations (market risk).

3.3. Currency exchange rates

The Company is exposed to currency risk, the risk of loss resulting from changes in exchange rates. The Company is exposed to the financial impact arising from changes in the exchange rates of various currencies in two ways. Firstly, the Company may receive income in a currency other than USD, which is the reporting currency of the Company. Secondly, the Company maintains deposit balances in currencies other than USD.

The Company does not undertake any principal trading for its own account. As a result, it is not exposed to any significant market risk which would arise from such activities.

The Company uses the standardized approach for measuring market risk. The table below shows the capital requirements for market risk as at 31/12/2019:

Asset class	Capital Requirement 31/12/2019 GBP	Risk Weighted Assets 31/12/2019 GBP
FX	5,104	63,794

4. Capital Risk

Capital risk is the risk that the Company will not comply with capital adequacy requirements as instructed by FCA rules.

The BoD will safeguard the Company's ability to continue as a going concern and is testing Company's capital against regulatory requirements. The Company is required to keep a minimum capital adequacy ratio and to report on this quarterly. Daily monitoring of the capital adequacy ratio is in effect.

5. Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due or would have to incur excessive costs to do so.

The Company's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions. To achieve this, the Company monitors and manages its liquidity needs on an ongoing basis. The Company also ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

6. Strategic Risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy. A strategy is a long-term plan of action designed to allow the Company to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans
- Improper implementation of strategic plans and
- Unexpected changes to assumptions underlying strategic plans.

Risk considerations are a key element in the strategic decision-making process. The Company assesses the implications of strategic decisions on risk-based return measures and risk-based capital to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

7. Reputational Risk

Reputational risk can arise from direct Company actions or from actions of third parties that it may or may not have a relationship with. Such Company actions may include internal security breaches, employee fraud, client misinformation, mistakes in handling client requests and any other actions that can lead to significant negative public opinion and subsequently loss of business and income. Third party actions can include problems with the provision of the outsourced services that can lead to operational interruptions, database hosting and security, spreading of rumors and unsubstantiated information.

The Company strives to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of the Company, which include integrity and good business practice. The Company centrally manages certain aspects of reputation risk, for example communications, through functions with the appropriate expertise. It also places great emphasis on the information technology security which is one of the main causes of such reputational risk manifestation.

8. Business Risk

Business risk is the risk of financial loss due to business cycles and conditions fluctuations over time. Possible deterioration in business or economic conditions.

Business risk in the brokerage business is particularly significant due to the lack of predictability of financial markets in a reliable manner. The uncertainty surrounding events and factors which affect financial markets is substantial and due to the effect, these have on the behaviour of brokerage clients, it makes business risk particularly significant and unpredictable.

The Company will project forward its financial position taking into account this risk. Adequate margin of safety will be employed at all times in order to address the lack of predictability of business cycles in the brokerage business.

9. Unforeseeable Risk (COVID-19)

During the end of 2019, the World witnessed a pandemic namely Covid 19. This has resulted a global shut down of economies. This has an unprecedented impact on the financial markets. Capital Com as a group has prepared itself for such a scenario by putting in place business continuity plan so ensure that it continuous to offer its services to its clients. In addition, at a Capital Group and its affiliates acted accordingly along with the BoD to ensure it maintains its strong financial position and ensure continuity of business.

5. Remuneration Policy

The purpose of the Company's Remuneration Policy is to ensure the consistent implementation of the Regulatory conflicts of interest and conduct of business requirements in the area of remuneration.

The remuneration policy and practices of the Company are designed in such a way to avoid exposing the Company into excessive or undue risks. Moreover, they are targeted to avoid creating incentives that may lead relevant persons to favor their own interest, or the firm's interests, to the potential detriment of clients. The Company has set up adequate controls for compliance with the regulatory requirements on the remuneration policy and practices. The controls are implemented throughout the Company and are subject to periodic review. These address all relevant factors such as:

- the role performed by relevant persons
- the type of products offered
- the methods of distribution
- the balance between fixed and variable components of the total remuneration
- appropriate qualitative and quantitative criteria to assess the performance of relevant persons

The Company's annual remuneration to senior management and staff members for 2019 was as follows:

	Fixed Remuneration for 2019	Variable Remuneration for 2019	Total Remuneration for 2019
Senior Management	216, 396	4,948	**221,344**
Other staff members	406,860	2,474	**409,334**
Total Remuneration	**623,256**	**7,422**	**630,678**

6. Leverage Ratio

The leverage ratio is a new monitoring tool which will allow the competent authorities to assess the risk of excessive leverage in their respective institutions. According to the CRR, the investment firms have to report all necessary information on the leverage ratio and its components.

As at 31/12/2019 the Company has a leverage ratio of 78%.

Tier 1 Capital GBP	412,527
Total Leverage Ratio Exposure GBP	529,038
Leverage Ratio	**78%**

7. Capital Base

The company assesses its capital adequacy to support current and future activities in a number of ways. Pillar 1 capital adequacy is monitored daily for compliance with capital requirements and is reviewed formally by the risk committee on a regular basis. The Company assesses internal capital adequacy, as required by Pillar 2, on a quarterly basis.

At 31st of December 2019 the Capital base of the Company was as follows:

	Capital Base GBP
Share Capital	2,199,000
Retained Earnings	(1,786,473)
Common Equity Tier 1 Capital Total	**412,527**
Deductions from CET 1 Capital	**0**
Additional Tier 1 Capital	**0**
Tier 2 Capital	**0**
Total Own Funds	**412,527**

8. Capital Adequacy

Based on the Company's authorization, quarterly Capital Adequacy Reports are prepared and submitted to the FCA. The Capital Adequacy Reports are prepared on a solo basis and the reporting currency is GBP.

The primary objective of the Company's capital management is to ensure that the Company complies with regulatory imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and maximize shareholders' value.

According to the CRR, the Company's minimum capital adequacy ratio is 8% and the minimum initial capital requirement is €125,000. As at 31 December 2019, the Company's total risk exposure amount was 2,747,003 GBP, resulting in a capital adequacy ratio of 15.02%.

The result of ICAAP, lead to a Pillar 2 capital buffer of 149,980 GBP.

	2019 (GBP)
Total Capital (Own Funds)	412,527
Risk weighted exposure amounts for credit risk	145,255
Total risk exposure amount for foreign exchange risk	63,794
Risk Exposure amount due to fixed overheads	2,747,003
TOTAL RISK EXPOSURE AMOUNT	**2,747,003**
CET1 Capital ratio	**15.02%**
T1 Capital ratio	**15.02%**
Total capital ratio	**15.02%**

Accordingly, the Board considers that the Company has sufficient resources to meet foreseeable and unforeseeable probable risks

9. Compliance with Pillar 2 (ICAAP)

The Group undertakes an Internal Capital Adequacy Assessment Process (ICAAP), which is an internal assessment of its capital needs. The Board has considered the impact of an economic downturn on (i) the Company's financial position and on (ii) its business plans. The Company is well-capitalised; its cost base is fairly predictable and is within the Board's control. The Board believes that the Company can cope with the current and unprecedented downturn in economic activity. Should income drop to an extent that significant and/or sustained losses are forecast the Board will take steps to reduce the cost base accordingly or could resolve to stop trading and liquidate the business.

10. Further Information

Questions to this Report should be addressed to the Compliance Department.
Compliance department: compliance-uk@capital.com