Spot Holding CY Group

PILLAR III DISCLOSURES

As at 31 December 2019

July 2020

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1. OVERVIEW

1.1 Introduction

This Disclosure & Market Discipline Report ("the Report") has been prepared by the group of Spot Holding CY Ltd ("Spot Group" or "the Group") pursuant to Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the "Regulation" or the "CRR") and the Directive of the Cyprus Securities and Exchange Commission ("the CySEC") DI144-2014-14 & 14A ("the Directive").

The Directive is based on three pillars:

- Pillar 1 has to do with the standards that set out the minimum regulatory capital requirements required for credit, market and operational risk.
- Pillar 2 covers the Supervisory Review Process which assesses the internal capital adequacy processes. Investment Firms have to evaluate and assess their internal capital requirements.
- Pillar 3 covers transparency and relates to the obligation of Investment Firms to publicly disclose information with respect to their risks, their capital and the risk management structures they have in place.

The information that the Group discloses herein relates to the year ended 31 December 2019 and has been prepared on a consolidation basis. The consolidated Report as at the year ended 31 December 2019 comprise Spot Holding CY Ltd ("the Parent Company") and its subsidiary MPS Marketplace Securities Ltd ("MPS" or "the Company" or "the Subsidiary Company" or "the regulated entity"). The Group is not required by the International Financial Reporting Standards and/or Companies Law and/or any other legislation to prepare consolidated audited financial statements.

The Group entities consider to fall under Consolidated Supervision at the date of publication of this document, are the following:

Name of Company	Country of incorporation	Regulation	Principal activity
Spot Holding CY Ltd	Cyprus	Non-regulated entity	Holding Company
MPS Marketplace Securities Ltd	Cyprus	CySEC	Investment Company

1.2 Principal Activities

The Parent Company

The Parent Company Spot Holding CY Ltd was incorporated in Cyprus on 21 April 2016 as a private limited liability company under the Cyprus Companies Law, Cap. 113. Its registered office is at 319 28 Oktovriou street, Kanika Business Center, 8th floor, P.C. 3105, Limassol, Cyprus. The principal activities of the Parent Company are those of an investment and financing Company.

The Subsidiary Company

The principal activities of the Subsidiary Company as from 2018 till June 2019 was the structuring of a new financial product namely "digital shares". Moreover, MPS provided risk management and liquidity solutions. As from 24th September 2019, the Subsidiary Company's license to operate under the Cyprus Securities and Exchange Commission ("CySEC") has been suspended due to the reason that its own funds have fallen below the minimum threshold of Euro 730K.

On 30th of May 2012, MPS received authorization from CySEC to operate as a Cyprus Investment Firm under license number 170/12. This license includes the following investment and ancillary services:

Investment Services

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients
- Dealing on own account

Ancillary Services

- Safekeeping and administration of financial instruments, including custodianship and related services

- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- Foreign exchange services where these are connected to the provision of investment services

1.3 Preparation and availability

This Report contains information in relation to the risks that Spot Group faces and the strategies the Group and/or the regulated entity have in place to manage and mitigate those risks, the own funds and the capital adequacy. The Pillar III Disclosures Report content, relates to information referred to in Part Eight of Regulation (EU) No. 575/2013.

This Report is prepared annually and a hard copy of this Report is available upon request. Furthermore, this Report has been approved by the Board of Directors of the Parent and the Subsidiary Company.

2. RISK MANAGEMENT & GOVERNANCE

2.1 Board of Directors

. The Board of Directors of the regulated entity ensures that financial controls and systems of risk management are robust. The Board of Directors of the regulated entity comprises of two Executive Directors and two Independent Non-Executive Directors. The Board of Directors is responsible for overlooking the operations of the regulated entity. With respect to the management of risk, it has overall responsibility for the establishment and oversight of the Subsidiary Company's risk management framework.

Regarding the Risk Governance of MPS, the Board of Directors of the regulated entity:

- Is responsible to approve and periodically review the strategies and risk management policy (as well as any updates or amendments of the risk management policy) for taking up, managing, monitoring and mitigating the risks the Company is or might be exposed to, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle;

- Reviews and approves the annual risk management report;
- Devotes sufficient time to consideration of risk issues, ensuring that adequate resources are allocated to the management of all material risks addressed in Directive DI144-2014-14 in paragraphs 9 to 17, (e.g. Credit and Counterparty Risk, Market Risk, Operational Risk, Liquidity Risk, Concentration Risk and other risks - if applicable); and
- Approves the appointment of a Risk Manager.

2.2 Risk Management Committee

The regulated entity of the Group has established a Risk Management Committee, to assist the Board of Directors of the regulated entity in its oversight of the Company's risk management framework, risk appetite and the performance of the Risk Manager.

During 2019, the Risk Management Committee consisted of one Non-Executive Director and two Executive Directors. The Risk Management Committee reported directly to the Board of Directors of the regulated entity.

The members of the Risk Committee shall have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Company, have adequate access to information on the risk situation of the Company and, if necessary and appropriate, to the risk management function and to external expert advice.

2.3 Recruitment Policy for the selection of the Board of Directors

This policy is established and maintained by the regulated entity of the Group, as required by the relevant regulatory framework.

Members of the Board of Directors of the regulated entity shall at all times be of good repute and possess sufficient knowledge, skills and experience to perform their duties.

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework. The Board shall collectively possess adequate knowledge, skills and experience to be able to understand the Company's activities, including its principal risks. The Company strives to achieve a broad set of qualities and competences when recruiting members for the Board and for that purpose the Company promotes diversity (i.e. the overall composition of the Board must reflect an adequately broad range in terms of experiences, skills, qualifications and even race and gender, where possible). Reference is made to the most recent Board skills review to establish the specific experience and skills needed to ensure the optimum blend of individual and aggregate capability, considering the Company's long-term strategic plan.

Board recruitment is subject to the approval of the CEO and the CySEC in terms of regulatory approval.

2.4 Diversity Policy

This policy is established and maintained by the regulated entity of the Group, as required by the relevant regulatory framework.

The Company recognizes and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between Directors. These differences are considered in determining the optimum composition of the Board and when possible are balanced appropriately. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

2.5 Declaration of the Board on Risk Management

The Board of Directors of the regulated entity is responsible for reviewing the effectiveness of the Company's Risk Management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and – as such - offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board considers that it has in place adequate systems and controls with regards to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

2.6 Risk Appetite Statement

Through the policies and procedures including the on-going review of the Risk Manager and Internal Auditor, the regulated entity wishes to minimize risk and transfer any remaining risk possible to third parties.

2.7 Internal Capital Adequacy Assessment Process

Capital adequacy of the regulated entity is monitored by the Finance Department with quarterly reporting provided to the Senior Management.

The capital plan takes into consideration the maximum amount for credit risk, the annual operational risk amount and the maximum available capital for market risk. Credit Risk and Market Risk maximum exposures are calculated based on this capital plan.

The Company aims to operate at all times over and above the required CySEC own funds minimum amount and to maintain a capital adequacy ratio over and above the minimum requirement set by CySEC.

The Company's most recent ICAAP report was prepared with reference date 30 September 2017. The ICAAP of the Company is updated with reference date September 30th each year. In 2018 the Company changed its business model and it changed it again in 2019, before the license was suspended. Without clear picture as to the new business model the risk manager is unable to properly assess the risks of the Company, therefore it was considered inappropriate to update the ICAAP during this period.

2.8 Number of directorships held by members of the Board of the regulated entity [1]

The table below provides the number of directorships a member of the management body of the Subsidiary Company holds at the same time in other entities as at 31 December 2019.
Directorships in organisations which do not pursue predominately commercial objectives, such as non-for-profit or charitable organisations are not taken into account.

Name of Director	Position within MPS Marketplace Securities Ltd	Executive Directorships in other companies	Non-Executive Directorships in other companies
Ran Lagil [2]	Executive Director	-	-
Maria Michaelidou	Executive Director	-	-
Reuven Peterkazishvili [3]	Non – Executive Director	-	-
Alkis Aloneftis [4]	Non – Executive Director - Independent	-	5

[1]*Note: The information in this table is based only on representations made by the directors of the Company.*

[2]*Note: Mr Ran Lagil was appointed as executive director on 15 April 2019 replacing Mr Udi Algrassi who resigned on 8 March 2019.*

[3]*Note: Mr Reuven Peterkazishivilli is also a Director of the Parent Company*

[4]*Note: Mr Alkis Aloneftis was appointed as non-executive director on 15 April 2019.*

2.9 Risk Management Function

A Risk Management Function is established by the regulated entity of the Group.

A Risk Manager is appointed by the Board of the regulated entity who leads the Risk Management Function and is responsible to establish reporting lines to the Board that cover all material risks and risk management policies and changes thereof. The Company's Risk Management Function is performed by the Risk Manager with the support and overview of the Risk Committee (of which the Risk Manager is by default a member).

A Risk Management report is prepared on an annual basis regarding the status of MPS' risk management policies and procedures and any remedial measures taken to tackle any deficiencies. The Risk Management report is presented to the Board of the regulated entity for approval and subsequently submitted to CySEC.

2.10 Anti-Money Laundering Compliance Function

The regulated entity retains a person to the position of the Anti-Money Laundering Compliance Officer (hereinafter the "AMLCO") to whom the Company's employees should report their knowledge or suspicion of transactions involving money laundering and terrorist financing.

2.11 Compliance Function

The regulated entity has formed a Compliance function.

The Compliance Function is responsible for coordinating, supporting, and promoting an effective systemwide compliance programme, as well as providing assurance to the Management Body that systems and controls are in place to prevent, detect and mitigate compliance risk. The compliance function establishes a monitoring program that takes into consideration all areas of the investment services and activities and any ancillary services or other business provided by the Investment Firm, ensuring that compliance risk is comprehensively monitored.

The Compliance Function bases the program on a framework that includes elements that help to prevent, detect and deter potential compliance risks across the Company's operations.

2.12 Internal Audit Function

The regulated entity has formed an Internal Audit Function as per the regulatory requirements the entity operates in.

The Internal Audit Function examines and evaluates the adequacy and effectiveness of MPS' policies, procedures and internal control mechanisms in relation to its regulatory obligations. On-site inspections are carried out at the Company's headquarters, recommendation reports are issued and compliance with regulatory requirements is verified. An Internal Audit report is prepared on an annual basis and presented to Senior Management and the Board of the regulated entity. The approved report is then submitted to CySEC.

2.13 Information flow on Risk to the Board of Directors

All risks relating to the Company's operations are communicated to the management body through the following reports which are prepared annually reviewed and approved by the Board of the regulated entity:

- Annual Risk Management report
- Annual Internal Audit report
- Annual AML Compliance Officer report
- Annual Compliance Officer report
- Suitability Report

2.14 Credit Risk Management

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL), favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and contract assets.

2.15 Market Risk Management

Market Risk is the risk of losses when the value of investments may decline over a given time period as a result of economic changes or events that impact a large portion of the market. Market Risk can be divided in the following categories:

- **Position Risk:** It refers to the probability of loss associated with a particular trading (long or short) position due to price changes.
- **Interest Rate Risk:** The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- **Commodities/ Equity 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/ equities. 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 Group. The foreign exchange risk in the Group 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.

Due to the fact that the regulated entity's activities were limited within the year 2019, there was no significant market risk exposure for the Group.

During 2019, the Group managed currency risk by monitoring the exchange rate fluctuations on a continuous basis.

2.16 Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Direct or indirect losses could arise from a wide variety of causes associated with the processes, personnel, technology and infrastructure.

Operational Risk Mitigation within the regulated entity

- The Risk Manager should at all times be aware of the various activities of the Company and be able to identify any operational risk arising from the various operations;
- The Risk Manager should ensure that the procedures have been audited by the Internal Auditor and reviewed by the Compliance Officer;
- The Internal Auditor should ensure both annually but also randomly that the above procedure is followed and report the compliance to the procedure to the Risk Manager;
- The Risk Manager is responsible to update the Operational Risk Register in order to allocate adequate capital for operational risk (during the ICAAP process).

In the day-to-day operations there are three lines of defense to ensure accountability and define the roles and responsibilities for operational risk management:

1. The individual units, who own the risks in their operations. It is the responsibility of unit managers to ensure that operational risks are identified, communicated and understood, that appropriate actions are taken to mitigate losses and that incidents are reported to the Risk Manager.

2. The Risk Manager, who is responsible for the Company's-wide monitoring and reporting on events and potential actual losses to the Senior Management and the Board.
3. The Internal Audit, which provides an independent evaluation of the controls, risk management and governance processes.

2.17 Liquidity Risk Management

Liquidity risk is the risk that the Group may be unable to meet its financial obligations as they fall due.

The regulated entity implemented a few measures for minimising its exposure to liquidity risk, such as maintaining sufficient cash and having other highly liquid current assets.

2.18 Compliance risk

The Compliance risk is applicable for the regulated entity of the Group.

Compliance risk as defined in CySEC Guidelines GD-IF-06 as the risk that an Investment Firm fails to comply with its obligations under the Law and the Directive issued pursuant to the Law. In other words, compliance risk is associated with the risk of legal or regulatory sanctions, material financial loss, or loss to reputation due to failure to comply with laws, rules and standards.

The Company duly appoints a Compliance Officer and establishes specific policies and procedures to abide by the Law and CySEC Directives issued pursuant to the Law. The Compliance Officer, based on a Compliance Monitoring Program, is responsible to continuously monitor the regulatory framework and advise the Senior Management and the Company's personnel for any deficiencies spotted in the Companies procedures as well as any regulatory developments.

3. OWN FUNDS

The primary objective of the Group's capital management is to ensure that the Group complies with externally imposed capital requirements and that it maintains healthy capital ratios in order to support its business.

The CySEC requires each investment firm to maintain a minimum ratio of Own Funds to Risk Weighted Assets ("RWAs") of 8% for Pillar I risks, plus the relevant capital buffers, as applicable. In addition, the CySEC may impose additional capital requirements for risks not covered by Pillar I (pillar II capital requirements). For 2019, the Group was subject to a minimum Pillar I capital adequacy ratio of 8%, plus a capital conservation buffer of 2,5%, according to the relevant transitional implementation provisions, resulting to an overall minimum of 10,5%. The capital conservation buffer has to be met entirely out of Common Equity Tier 1 capital. The Group has been exempted from obligation of maintaining countercyclical capital buffer as CySEC announces on its exemption list.

The Own Funds of the Group as at 31 December 2019 consisted entirely of Tier 1 capital and amounted to €253 thousand. An analysis is provided in the table below:

Table: Capital Base	**31 December 2019 EUR 000**
Original Own Funds (Tier 1)	
Share Capital	1
Share Premium	998
Retained Earnings	(1.205)
Other Reserves	1.527
Audited Income / (Loss) for the year	(1.011)
Total Tier 1 Capital	**310**
Additional Own Funds (Tier 2)	
Subordinated Loan Capital	-
Total Tier 2 Capital	**-**
Deduction	
Intangible assets	-
Investors Compensation Fund (ICF)	(57)
Total Deductions	**(57)**
Total Own Funds	**253**

Capital Adequacy Ratio

The Group's Capital Adequacy Ratio as at 31 December 2019 was 21,48%.

4. CAPITAL REQUIREMENTS & CAPITAL ADEQUACY

The Group follows the Standardized Approach for the calculation of its Pillar 1 capital requirements for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital requirement calculated for each category of risk as at 31 December 2019 is shown in the table below:

Table: Min Capital Requirement per Risk Type	31 December 2019 EUR 000
Risk Category	
Credit Risk	6
of which Counterparty Credit Risk	-
Market FX Risk	-
Market Equity Risk	-
Market Commodity Risk	-
Market TDI	-
Operational Risk	89
Total	**94**

4.1 Credit Risk

The Group calculates its minimum capital requirements for Credit Risk using the Standardized Approach. Based on this approach, the exposure value and capital requirement for 31 December 2019, broken down by asset class, were as follows:

Table: Exposure Classes and Minimum Capital Requirements				31 December 2019 EUR 000
Exposure Class	**Exposure amount before CRM**	**Exposure amount after CRM**	**RWA**	**Minimum Capital Requirements**
Corporates	-	-	-	-
Institutions	266	266	53	4
Other Items	18	18	18	2
High Risk	-	-	-	-
Total	**284**	**284**	**71**	**6**

The following table shows the average credit risk exposure for 2019, analysed by asset class:

Table: Average Exposure for 2019	31 December 2019 EUR 000
Exposure Class	**Average Exposure Value**
Corporates	7
Institutions	389
Other Items	40
High Risk	12
Total	**448**

The following table presents the exposures of the Group per CQS of Counterparty.

Table: Exposure amount per CQS		31 December 2019 EUR 000
CQS	**Before credit risk mitigation**	**After credit risk mitigation**
Unrated/Not Applicable	284	284
Total	**284**	**284**

Risk Weighted Assets and Credit Quality Steps

Institutions

For the credit ratings of Institutions, the Group made use of the credit ratings of Moody's to rate its exposures, matching the external rating of the counterparty with the corresponding Credit Quality Step ("CQS"). As at year end, all exposures to Institutions, were unrated.

However all exposures where short term (below 3 months), thus a risk weight of 20% was applied due to preferential treatment.

Corporates

As at the year end, the Group had no exposure to Corporate counterparties.

Other Items

The Other Items category did not include any rated items, hence a risk weight of 100% was applied to all exposures in this asset class, apart from petty cash where a 0% risk weight was assigned.

High Risk

As at the year end, the Group had no exposure classified under the High Risk Asset Class.

The following table displays the residual maturity of the Group's exposures, broken down by exposure class, as at 31 December 2019:

Table: Exposure Classes and Residual Maturity			**31 December 2019 EUR 000**
Exposure Class	**Maturity ≤ 3 months**	**Maturity > 3 months or N/A**	**Total**
Corporates	-	-	-
Institutions	266	-	266
Other Items	9	9	18
High Risk	-	-	-
Total	**275**	**9**	**284**

The following table presents the countries to which the Group's exposures are concentrated:

Table: Exposure Classes by Country				**31 December 2019 EUR 000**
Exposure Class	**Cyprus**	**Germany**	**USA**	**Total**
Corporates	-	-	-	**-**
Institutions	88	138	40	**266**
Other Items	18	-	-	**18**
High Risk	-	-	-	**-**
Total	**106**	**138**	**40**	**284**

Below is an analysis of the Group's counterparties by industry:

Table: Breakdown of Exposures into Industry Sectors			31 December 2019 EUR 000
Exposure Class	**Financial**	**Other**	**Total**
Corporates	-	-	-
Institutions	266	-	266
Other Items	-	18	18
High Risk	-		
Total	**266**	**18**	**284**

Impairment of investment in subsidiaries

The Parent Company periodically evaluates the recoverability of investments in subsidiaries whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries may be impaired, the estimated future discounted cash flows associated with these subsidiaries would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The Group recognised an impairment loss of €59.828 in relation to trade receivables.

Counterparty Credit Risk

The counterparty credit risk is the risk that the counterparty to a commercial transaction could default or deteriorate in creditworthiness before the final settlement of a transaction, or project.

The Group as at 31 December 2019 did not have any open derivative position, thus it is not exposed to Counterparty Credit Risk.

4.2 Market Risk

Currency Risk

The minimum capital requirements for Currency Risk are calculated based on the Standardised Approach for Market Risk.

As at 31 December 2019, the Group's capital requirement for Currency Risk was zero.

Commodity Risk

Commodity risk arises from crypto currencies positions of the Group that due to their characteristics are treated as digital commodities.

As at 31 December 2019, the Group's capital requirement for Commodity Risk was zero.

Equity Risk

Equity risk is the risk of loss resulting from fluctuations in the price of stocks or changes that relate to the issuer of a share or the stock market in general. The Group as at year end was not exposed to Equity risk and thus no Capital requirement for Equity Risk.

4.3 Operational Risk

The Group applies the Basic Indicator Approach for calculating the amount of capital required for Operational Risk. This calculation is based on the gross-income average of the last three years.

As at 31 December 2019, the minimum capital requirement for Operational Risk amounted to €89 thousand.

5. REMUNERATION

5.1 Remuneration Policy

This policy is established and maintained by the regulated entity of the Group, as required by the relevant regulatory framework.

The Company set out the principles governing its remuneration systems in such a way that allows the strengthening of client's protections, with a view to ensuring that clients are treated fairly, and their interests are not impaired by the remuneration practices adopted by the Company, in the short, medium or long term.

The Remuneration Policy and practices implemented in the Company are designed to fulfil the requirement of hiring and maintaining sufficiently professional staff.

The Remuneration policy is designed in a way that it:
a) promotes a sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Company.
b) is in line with the business strategy, objectives, values and long-term interests of the Company and its Clients.
c) discourages conflict of interests in order to prevent employees or associates of the Company to act against the interests of any of the Company's Clients or the Company itself.

Remuneration consists of all forms of payments and/or benefits provided directly or indirectly to employees or to Company's associates. All employees and associates of the Company are covered by the principles of this Policy.

The design of remuneration policies and practices are approved by the Company's Board after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance. The people who effectively direct the business are 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 is responsible for periodical reviews of the general principles of the Policy and overviews its implementation. It also approves the Remuneration Policy and any subsequent amendment or update of the Remuneration Policy. The Senior Management of the Company is responsible to abide by and enforce the implementation of the Remuneration Policy. In addition to being involved in the design process of remuneration policies and practices, the Compliance Officer performs an independent internal review to ensure that the actual remuneration practices followed by the Company comply with the Policy, at least on an annual basis.

5.2 Remuneration Principles and Structure

The Remuneration policy is not based on quantitative commercial criteria and takes fully into account appropriate qualitative criteria reflecting compliance with the applicable regulations, the fair treatment of clients and the quality of services provided to clients.

5.3 Fixed and Variable remuneration

A balance between fixed and variable component of remuneration is maintained at all times, so that the remuneration structure does not favor the interests of the Company or its associates against the interests of its clients. As per the previous policy, the minority of employees had a variable component to their remuneration in addition to their fixed remuneration. Currently the Company does not allow a variable remuneration component based on the updated policy dated May 2019. In order to allow a variable remuneration component this Policy must be updated accordingly and abide by the principles of CySEC Directive DI144-2014-14, paragraph 21.

In addition, persons engaged in control functions (i.e. Compliance, Anti-Money Laundering, Internal Audit and Risk Management functions) should be independent from the business units they oversee, have appropriate authority, and should be compensated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

Furthermore, before launching a new product, the Company should assess whether the remuneration features related to the distribution of that product comply with the firm's remuneration policies and practices and therefore do not pose conduct of business and conflicts of interest risks.

5.4 Remuneration of Persons in Control Functions and Board of Directors

Persons engaged in control functions (i.e. Compliance, Anti-Money Laundering,) should be independent from the business units they oversee, have appropriate authority, and should be compensated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

The remuneration of the Executive Directors ensures the Company's continued ability to attract and retain the most qualified Executive Board members and a good basis for succession planning. The remuneration is based on a fixed monthly fee as per their contract of employment. The amount of the annual remuneration of Executive Directors is a subject of Shareholder's decision. Executive Board members are not covered by any incentive programs.

Non-Executive members of the Board receive a fixed monthly fee. The basic fee is set at a level that reflects the qualifications and contribution required in view of the Company's complexity, the extent of the responsibilities and the number of Board meetings. The remuneration rate is stipulated in Non-Executive director agreements. Non-executives Board members are not covered by any incentive programs and do not receive performance-based remuneration.

5.5 Remuneration of Employees

The total remuneration of employees consists of fixed components. The Board considers such approach as the most practical as it corresponds to the scale and complexity of current Company's operations. Fixed remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role. Fixed remuneration is also set in comparison with standard market practices employed by the other market participants / competitors.

The remuneration that Employees receive for their professional activities at the Company must be specified in their employment contracts. The employment contract and any subsequent amendments must be in written form.

Risk takers for the purposes of this policy are the members of the Board, the Heads of Departments and other staff whose actions have a material impact on the risk profile of the Company.

5.6 Aggregate Quantitative Remuneration

The table below presents a breakdown of gross annual remuneration for 2019 by business area, for those categories of staff whose professional activities have a material impact on the risk profile of MPS:

Table: Aggregate Remuneration by Business Area				**31 December 2019 (EUR'000)**
Business Area	**No. of Beneficiaries**	**Cash Fixed**	**Cash Variable**	**Total**
Executive & Non-executive Directors	3	106	-	**106**
Control Functions	3	65	-	**65**
Reception & Transmission, Dealing on Own Account	1	105	-	**105**
Total	**7**	**276**	**-**	**276**

The table below shows the gross fixed and variable remuneration paid to those categories of staff whose professional activities have a material impact on the risk profile of the Company, broken down by Senior Management and other staff:

Table: Aggregate Remuneration by Senior Management and Other Staff				**31 December 2019 (EUR'000)**
Position / Role	**No. of Beneficiaries**	**Cash Fixed**	**Cash Variable**	**Total**
Senior Management (Executive & Non-Executive Directors and Heads of Departments with material impact on the Company's risk profile)	4	211	-	**211**
Other Staff whose actions have a material impact on the risk profile of the Company	3	65	-	**65**
Total	**7**	**276**	**-**	**276**

During 2019, no remuneration was paid or was awarded under deferral arrangements (with vested or unvested portions). In addition, the Company did not pay or award any sign-on or severance payments during the year.

6. LEVERAGE RATIO

Leverage ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regards to the leverage ratio.

The Group's leverage ratio as at the reference date was 89,24% the minimum suggested allowable being 3%.

The Table below provides a reconciliation of accounting assets and leverage ratio exposure:

Table: Summary reconciliation of accounting assets and leverage ratio exposures

	Amounts as at 31 December 2019	**Applicable Amounts EUR '000**
1	Total assets as per published financial statements	334
4	Adjustments for derivative financial instruments	-
7	Other adjustments	(50)
8	**Total leverage ratio exposure**	**284**

The following Table provides a breakdown of the exposure measure by exposure type:

Table: Leverage ratio common disclosure

	Amounts as at 31 December 2019	**CRR leverage ratio exposures EUR '000**
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	341
2	(Asset amounts deducted in determining Tier 1 capital)	(57)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**284**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	-
11	**Total derivative exposures**	-
Securities financing transaction exposures		
16	**Total securities financing transaction exposures**	-
Other off-balance sheet exposures		
19	**Other off-balance sheet exposures**	-
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	**Tier 1 capital**	**253**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**284**
Leverage ratio		
22	**Leverage ratio**	**89,24%**

The following Table provides a breakdown of total on-balance sheet exposures by asset class:

Table: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	Amounts as at 31 December 2019	**CRR leverage ratio exposures EUR '000**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**284**
EU-2	**Trading book exposures**	**-**
EU-3	**Banking book exposures, of which:**	**284**
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	-
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
EU-7	Institutions	266
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	-
EU-10	Corporate	-
EU-11	Exposures in default	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	18

Description of the processes used to manage the risk of excessive leverage

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

Factors that had an impact on the Leverage Ratio during the period

The Group's leverage ratio as at 31 December 2019 was 89,24%**.** The Group Leverage Ratio was not calculated for any other reference date during the financial year 2019.

Appendices

Appendix I: Transitional Own Funds Disclosure

At 31 December 2019	Transitional Definition	Full - phased in Definition
	EUR 000	**EUR 000**
Common Equity Tier 1 capital: instruments and reserves	1	1
Capital instruments and the related share premium accounts	998	998
Other reserves	1527	1527
Retained earnings	(2.216)	(2.216)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**310**	**310**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	-	-
Intangible assets (net of related tax liability)	-	-
Investors Compensation Fund (ICF)	(57)	(57)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(57)**	**(57)**
Common Equity Tier 1 (CET1) capital	**253**	**253**
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	**253**	**253**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**253**	**253**
Total risk weighted assets	**1.180**	**1.180**
Capital ratios and buffers		
Common Equity Tier 1	**21,48%**	**21,48%**
Tier 1	**21,48%**	**21,48%**
Total capital	**21,48%**	**21,48%**

Appendix II: Balance Sheet Reconciliation

Balance Sheet Reconciliation	**31 December 2019**
Capital and Reserves	**EUR 000**
Share Capital	1
Share Premium	998
Additional paid in capital	60
Capital Reserve	1.467
Retained Earnings	(1.205)
Audited Income / (Loss) for the year	(1.011)
Investors Compensation Fund (ICF)	(57)
Total Equity as per Audited Financial Statements	**253**
Tier 2 Capital: Subordinated loan	-
Total Own Funds	**253**