Prior Capital CY Ltd (Former PriorFX Ltd)
CySEC License 221/13. Company Reg. HE 321360
Address: 196 Arch. Makariou III Ave., Ariel Corner, 3030, Limassol, Cyprus
Tel. +357 25 258220
info@priorcapital.eu; support@priorcapital.eu
www.priorcapital.eu

PRIOR CAPITAL CY LTD

Regulated by the Cyprus Securities and Exchange Commission
License № CIF 221/13

PILLAR III DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2018

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Mr. Konstantin Yasnov, Executive Director

May 2019

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General

This report has been prepared in accordance with the requirements of the Directive DI144-2007-05 ("Directive") of CySEC for the Capital requirements of Investment Firms ("the Directive"). The Directive implements the European Union's Capital Requirements Directive ("CRD"). The said Directive is based on three pillars:

1. Pillar I has to do with the standards that set out the minimum regulatory capital requirements
2. Pillar II covers the Supervisory Review Process which assesses the internal capital adequacy processes.
3. Pillar III 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, policies and procedures they have in place.

Prior Capital CY Ltd. (herewith the 'Company') has an obligation to publicly disclose information relating to the risk management objectives and policies as well as information regarding the capital adequacy requirements. Figures included in this document, are in accordance with the audited financial results of 2018. The information is disclosed only for the purpose of complying with the directive requirements and not for any other reason or use.

The Company makes this report available publicly on its website annually. This report relates to the year ended 31/12/2018 (The "Reporting reference date"), and to the Pillar III of the said Directive.

Any information not contained in this report was either not applicable based on the Company's business and activities, or such information is considered as proprietary to the Company. Sharing such information with the public would possibly undermine the Company's competitive position. The Directive provides that the Company may omit one or more of the disclosures if it believes that the information is immaterial. Where the Company has considered a disclosure to be immaterial, this was not included in this document.

Prior Capital CY Ltd. (former PriorFX Limited) is regulated by the Cyprus Securities and Exchange Commission (hereafter "CySEC") and permitted since December 2013 to operate as a Cyprus Investment Firm under the license number 221/13. This license authorized the Company to provide investment services of" Execution of orders on behalf of clients". It was activated in February 2014 when the Company started to act as STP Broker, and extended in August 2014 to "Portfolio Management" (activated in November 2014). In particular, the investment and ancillary services that the Company is authorized to provide are the following:

Investment Services:

- Execution of orders on behalf of clients.
- Portfolio Management.

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.
- Investment research and financial analysis or other forms (extension of license from July 2016).

As from February 2018 the Company has permission from CySEC to operate in:

- Services regarding trading on virtual currencies/cryptocurrencies.

The Company also applied for extension of its license to include financial services of Reception/Transmission of Client's Orders, Dealing on Own Account and Investment Advice, although these services were not activated in 2018.

Policies and Objectives

Risk and internal capital management are fundamental to the business of Prior Capital CY Ltd., representing an essential element of its operations. One of its major goals is the achievement of the Company's growth constantly through monitoring the related risks and improving stability of its operations by identifying and reacting to all types of risks on a timely basis. The purpose of managing risks is the prompt identification of any potential problems before they occur.

Prior Capital CY Ltd. considers maintaining of adequate capital levels as a key factor helping to counter the potential risks and not only as its legislative obligation. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital.

Risk Management Framework

The Company is exposed to a variety of risks referred to below in this present report. The Company actively manages the risks it is exposed with the involvement of a series of functions within, so as to protect both investor and company interests.

From the level of Board of Directors & Senior Management, and their relevant Risk Management Committee, to the independent Internal Audit function, and down to the additional defense line of the Risk Management function, the Company identifies, assesses, manages and monitors risks taking into account the nature, scale and complexity of the activities undertaken in the course of business.

Board of Directors is ultimately responsible for overlooking and directing the operations of the Company and approve objectives and strategic directions, as detailed in the Company's approved Internal Operations Manual (the "IOM"), as well as it is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles, identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Risk Management Committee is composed as required by members of the Company's control functions, Senior Management and Board of Directors, to oversee the overall risk management system in place and direct key risk management related decisions, as detailed in the Company's IOM.

The Risk Management Committee is formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general. It has assisted the Company to adopt and maintain risk management policies, which identify the risks relating to the Company's activities, processes and systems and set the risk tolerance levels of the Company. The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of such risk management policies and procedures that are in place, the level of compliance by the Company and its personnel with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's personnel to comply with those policies and procedures.

The Risk Management Committee meets regularly, at least quarterly, unless the circumstances require extraordinary meetings or consultations. The decisions of the Risk Management Committee with respect to any of its responsibilities were presented to the relevant employees of the Company orally or in writing. The Risk Management Committee and the Risk Manager are reporting directly to the Senior Management and the Board of Directors.

In 2018 The Company continued to have in-house Risk Manager - Mr. Konstantin Yasnov, Executive Director. This decision was made taking into account the scope and complexity of the Company operations.

According to the Company's IOM the Risk Manager must ensure that all the different types of risks taken by the Company are in compliance with the Law and the obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place. The Risk Manager examines the financial results of the Company and analyses the market trends from a risk management perspective; monitors the capital adequacy and the exposures of the Company; define acceptable maximum risk assumption limits per class of risk; sets and reviews Client and counterparty limits (all limits are reviewed on a regular basis and are effective in respect of investment activities). Compliance Function is covered by the necessary expertise and follows the required processes as detailed in the Company's IOM. The Accounting Department is responsible for the day-to-day recording of all financial information, control of all receipts and payments, internal management reporting and external financial reporting. The Accounting Department is also responsible for the management accounts which are feeding into the Capital Adequacy requirements monitoring.

Risk management processes are audited by the Internal Audit function, which examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors. The Company has designed its risk management structure to be proportionate to the scale, nature and complexity of the business.

Risk Management Declaration

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.

DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BODY

In 2018, the members of the Management body of the Company, given their industry experience, have been taking seats in other company boards. In line with this, the following table indicates the number of positions that each member holds in other company boards:

Name	**Position in the CIF**	**Directorships (Executive)**	**Directorships (Non-Executive)**
Vladimir Zalogin	Executive Director/UBO	1	-
Ekaterina Zalogina	Executive Director	1	-
Konstantin Yasnov	Executive Director	1	2
Chrisostomos Michael Adamides	Non-executive Director	-	1 + 5 (within one group, none is CIF)
Constantinos Hadjimiltis	Non-executive Director	1	2

RECRUITMENT POLICY OF THE BOARD OF DIRECTORS

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

Factors considered in the review of potential candidates include:

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subject
- Knowledge of and experience with financial institutions ("fit-and-proper")
- Integrity, honesty and the ability to generate public confidence
- Knowledge of financial matters including understanding financial statements and financial ratios
- Demonstrated sound business judgment
- Risk management experience

The Company is in the process of establishing a dedicated recruitment policy in relation to the BoD.

DIVERSITY OF THE BOARD OF DIRECTORS

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how we do business and imperative to commercial success.

The Company recognizes the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practices in the Corporate Governance Code of many EU countries. The Company recognizes the benefits of having a diverse Board which includes and makes use of differences in the skills, experience, background, race and gender between directors.

A balance of these differences will be considered when determining the optimum composition of the Board. The Company is in the process of establishing a dedicated diversity policy in relation to the Board.

Risk Management Committee

The Risk Management Committee ("RMC") is formed with the view to ensure the efficient management of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general and is deemed responsible for this.

Towards this direction, the Company adopts and maintains risk management policies, which identify the risks relating to the Company's activities, processes and systems and sets the level of risk tolerated by the Company. Also, the RMC bears the responsibility to monitor the adequacy and effectiveness of the risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

The RMC consists of one Executive Director of the BoD (the Risk Manager), the Compliance/AML Officer and the Head of Execution Department. Committee members discharge their duties solely in the joint interest of the Clients and the Company, and exercise the care, skill, prudence and diligence that a prudent man, acting in a like capacity would use in the conduct of a similar enterprise.

The RMC meets at least on a quarterly basis. All committee decisions must be unanimous. A quorum constitutes three (3) persons present either physically or through conference calls. Quorum must be achieved before meetings can be considered open. All meetings of the Committee are minutes and maintained in file. All decisions of the Committee are communicated in writing to all relevant departments in a timely manner as the importance/urgency of the decision dictates.

The RMC is dedicated primarily to managing the credit, market and operational risks of the Company, resulting from the Company's operations, and as part of its responsibilities it must set out, approve and regularly update the policies, arrangements and procedures, which form the risk strategy, as well as to monitor all risks on an ongoing basis. In carrying out its duties the RMC provides the BoD with status updates, and recommendations on risk management policies and guidelines.

<u>Risk Management Committee Procedures and Controls</u>

1. Meets at least on a quarterly basis to discuss changes in risk factors that affect the Company operations.

2. Approves the exposure levels for all counterparties where the Company or its Clients are exposed to credit risk. For each counterparty to be approved the Risk Manager must submit to the RMC his or her recommendation which are based on the creditworthiness of the counterparty and its reputation.

3. All counterparty accounts opening requests must be reviewed by the Compliance Function Department and signed by two members of the RMC prior to the definition of the counterparty by the Back Office.

4. Approves margin levels for customer accounts and communicates such levels to the DR Department and Back Office.

5. Reviews daily the reports which can be accessed on the system and ensures that the Company has the ability to cover its financial needs and capital requirement at any time.

6. Ensures that the Company has in place a functional Business Continuity Plan (Disaster Recovery Plan).

7. Verifies that the Company has in place sufficient redundancy in systems and personnel or can adequately replace in a timely manner such assets so that the Company can continue to operate without interruption.

8. Reviews the Risk Assessment Report prepared by the risk manager, as well as any suggestions by the risk manager, and wherever necessary takes appropriate action to monitor and/or implement procedures for avoiding:

a) non-compliance to current regulation or any of its future changes;

b) failure in operations;

c) conflicts of interest;

d) fraud;

e) anything threatening the viability of the Company.

9. Review the risk management procedures in place (monitor and control the Risk Manager in the performance of his or her duties).

10. Ensure that the Company has clear policy in respect of the assumption, follow up and management of risks duly notified to all interested parties or organizational units of the Company. Specifically, such policy shall ensure that all parties involved in the provision of investment services are aware of:

- the particular features of each investment service, financial instrument, and risk inherent in the provision of the services in respect thereof;
- the interrelation between the volume of the projected returns and the gravity of the risks undertaken by the Company.

11. Consider, to the extent possible, risk factors affecting costs.

12. With respect to liquidity risk and market risk, review the policies of the Risk Management Department on:

- acceptable maximum risk assumption limits per class of risk;
- break down of such risk limits further where necessary, for example, per class of investment service or financial instrument, or Client or market, etc.;
- implementing stop loss-control limits;
- following up unsettled transactions within the approved limits.

13. Prior to expanding its operations to any new financial instruments or investment services, the Risk Management Committee shall see to that the Company shall incorporate such expansion projects into its strategic development plan, locate and accurately assess the inherent risks.

14. Implement relevant risk management procedures, and resolve the legal issues associated with the execution of the relevant transactions as well as the issues relating to their logistic monitoring.

15. Ensure the immediate tracking down and scrutiny of important abrupt changes in the Company’s financial figures, procedures or personnel, as well as the regular control of the volume and causes underlying deviations between projections and corporate end results, as submitted to the Board, so as to enable the assessment of the performance of each of the Company’s separate organizational units by reference to the set targets.

16. Approve Client and counterparty limits.

17. Approve policy description concerning information systems and monitor the information systems in place.

18. Appoint the responsible security user for the provision of access rights to the various database and monitor the security measures in place.

19. Establish policy regarding the amount of information provided to Clients about the nature and risks of financial instruments according to the Client classification.

20. Supervise and approve the Company's Disaster Recovery Plan.

21. Examine the offers obtained from different suppliers for the purchase of equipment and software, before any budgeted expenditure is executed.

The Risk Management Committee shall present its findings in a report to the Board. The latter shall decide upon the risk management policies of the Company, giving regard to the recommendations of the Risk Management Committee.

Capital Adequacy and Capital Management

The adequacy of the Company's capital is monitored by reference to the rules established by the Basel Committee as adopted by the Cyprus Securities and Exchange Commission. Basel II consists of three pillars: (I) minimum capital requirements, (II) supervisory review process and (III) market discipline.

Pillar I – Minimum Capital Requirements

The Company adopted the Standardised approach for Credit and Market risk and Fixes Overheads approach for Operational risk.

According to the Standardised approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, after the consideration of various mitigating factors, according to the exposure class to which they belong. For exposures with institutions, the risk weight also depends on the term of the exposure (more favourable risk weights apply where the exposure is under three months). The categories of exposures the Company is exposed to with regards to credit risk are deposits with banks, other assets and fixed assets.

The Standardised measurement method for the capital requirement for market risk adds together the long and short positions of foreign exchange risk according to predefined models to determine the capital requirement. The main sources of foreign exchange risk for the Company are certain bank and broker accounts balances in foreign currencies and exposures in foreign currencies from fees receivables.

For operational risk, Fixed Overheads are calculated to be used in the risk weighted assets calculation.

Pillar II – The Supervisory Review Process (SRP)

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms 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

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds. In addition, the results and conclusions of ICAAP shall be disclosed. Due to drastic changes in economic environment and planned risk reassessment in 2018 ICAAP was reviewed, presented to the BoD, approved and presented to the CySEC.

Capital Management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The Cyprus Securities and Exchange Commission requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8%. The CySEC may impose additional capital requirements for risks not covered by Pillar I.

During 2018 the Company had fully complied with all externally imposed capital requirements as shown in the table below:

Reporting reference date: 31/12/2018 (based on audited data as submitted to CySEC)

REGULATORY OWN FUNDS AND CAPITAL ADEQUACY RATIO

ID	**Label**	**Amount in thousands**
1	**OWN FUNDS**	
1.1	COMMON EQUITY TIER 1 CAPITAL	2,412
1.2	ADDITIONAL TIER 1 CAPITAL	0
1.3	TIER 1 CAPITAL	2,412
1.4	TIER 2 CAPITAL	0
1.5	**TOTAL OWN FUNDS**	**2,412**
1.6	**TOTAL ELIGIBLE CAPITAL (Notes 1 & 2)**	**2,412**
2	**RISK WEIGHTED EXPOSURES**	
2.1	RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	2,929
2.2	TOTAL RISK EXPOSURE AMOUNT FOR SETTLEMENT/DELIVERY	0
2.3	TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	1,812
2.4	TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	0
2.5	ADDITIONAL RISK EXPOSURE AMOUNT DUE TO FIXED OVERHEADS	6,412
2.6	TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	0
2.7	TOTAL RISK EXPOSURE AMOUNT RELATED TO LARGE EXPOSURES IN THE TRADING BOOK	0

2.8	OTHER RISK EXPOSURE AMOUNTS	0
2.9	**TOTAL RISK EXPOSURE AMOUNT**	11,153
3.1	**CET1 Capital ratio**	**21.63%**
3.2	**T1 Capital ratio**	**21.63%**
3.3	**Total capital ratio**	**21.63%**

Under the Directive, Own Funds consist mainly of paid up share capital, retained earnings less any proposed dividends, translation differences and audited year profits and losses.

Leverage

The Regulation requires the disclosure of the Company's leverage position. In line with Article 429 of the Regulation, as well as the transitional provisions of Article 499, the leverage ratio is defined as the capital measure divided by the total exposure measure, expressed as a percentage. The Company calculates its Leverage rate at the end of the quarterly period. The regulatory minimum ratio of 3% currently assessed.

Description of the processes used to manage the risk excessive leverage

The Company monitors the leverage ratio quarterly and additionally on ad-hog basis and assess the risk of excessive leverage in order to ensure that is within the risk strategy and risk appetite indicators of the Company. In cases where the leverage ratio falls outside the prescribed limits, the Risk Management Committee reviews the available options, including decrease in the risk weighted exposures, to reduce leverage within the acceptable levels. The Company established internal threshold of minimally acceptable CAD ratio set at 9% after which internal monitoring procedures are automatically becoming more intensive.

Description of the factors that had an impact on the Leverage Ratio during the period to which the disclosed Leverage Ratio refers

In 2018 the Company maintained healthy Leverage ratio of 71.82% well above the minimum ratio of 3%. The main factors that had impact on the leverage ratio were attributed to the increased amount of exposure for Retails.

Leverage Ratio Analysis as at 31 of December 2018	Leverage Ratio Exposure
Total On-Balance Sheet Exposures	**EUR ('000)**
Total assets as per audited Financial Statements	3,450
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	N/A
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	N/A
Adjustments for derivative financial instruments	N/A
Adjustment for securities financing transactions (i.e. repos and similar secured lending)	N/A
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	N/A
Adjustment of qualifying holdings outside the financial sector	(35)
Other adjustments (circular 162)	(57)
Leverage Total Exposure Measure	3,358
Tier 1 (fully phased-in)	2,412
Leverage Ratio (using a fully phased-in definition of Tier 1)	**71,82%**

Reporting and Control

In line with the requirements set out in the Cyprus Investment Firms Law and subsequent Directives, the Company has been able to maintain a good information flow to the management body, as it can be seen below:

Report Name	Report Description	Owner	Recipient	Frequency	Due Date
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, CySEC	Annual	30/04/2019
Annual Internal Audit Report	To inform the Senior Management & the BoD of the Company regarding the Internal Auditor during the year	Internal Auditor	BoD, CySEC	Annual	30/04/2019
Annual Risk Management Report	Represents the work & activities undertaken by the Risk Manager during the year	Risk Manager	BoD, CySEC	Annual	30/04/2019
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, CySEC, Public	Annual	30/04/2019
Financial Reporting	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual	30/04/2019
Risk Based Supervision Framework	Summary data represents the revision of clientele database and transactions	Risk Manager / AMLCO / Funding/ Accounting	Senior Management, CySEC	Annual	07/07/2019

	splitted by risk level				
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, CySEC	Quarterly	11/05/2018 11/08/2018 11/11/2018 11/02/2019
Quarterly Risk Statistics	The Company is required to disclose information regarding client's balances, profit & loss, open positions, entities that holding clients' assets, financial position of the company	Risk Manager / AMLCO / Funding/ Accounting	Senior Management, CySEC	Quarterly	30/04/2018 31/07/2018 31/10/2018 31/01/2019
Complaints Form	Monthly report about status of open /closed complaints	Risk Manager/ Complaints Officer / Compliance	Senior Management, CySEC	Monthly	5th of the following month

Risk Management Priorities

The risk management objectives and policies for each separate category of risks are described below. The Company's risk management and internal control system addresses the following key risks, which are considered to be the most material:

- Credit risk
- Market risk
- Operational risk

- Other risks

The Company's policies and procedures are designed to identify and analyze those and other risks, to prescribe appropriate risk limitations and to monitor the level and incidence of such risks on an on-going basis.

Supervisory Review Process

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms 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. In 2018 the Company's ICAAP was presented to CySEC for evaluation. No additional requirements were imposed.

Market Discipline

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

OWN FUNDS AS AT 31/12/2018 (in EUR '000):	**2,412**
Paid up capital instruments	2,725
Previous years retained earnings	-220
(-) Other intangible assets	-1
(-) Qualifying holdings outside the financial sector	-35
(-) Additional deductions of CET1 Capital due to Article 3 CRR	-57

ICAAP

ICAAP and ICAAP Report are essential tools to predict and timely mitigate all risk which the Company is facing. Final version of ICAAP was approved by the BoD in 2018. Certain provisions of the forthcoming legislation were already taken into consideration, although it is necessary to continue evaluation of impact of changing regulatory framework on the Company’s plans.

Credit Risk

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises in particular when a failure by counterparties to discharge their obligations. The major concern here is represented by the banks and payables from the clients. To minimize potential risks the Company was holding its cash balances with reliable financial institutions (Swissquote Bank SA, Switzerland; Deutsche Handelsbank AG, Germany; JSC Hellenic Bank, Cyprus) and the Company has policies to diversify risks and to limit the amount of credit exposure to any particular financial institution in general compliance with the requirements of the CySEC Directive DI144-2007-06. The Company is allowed to keep in one institution not more than 100% of its own funds, and this limit was never crossed.

The Company did not have any own financial instruments/positions. Maximum exposure to overall credit risk (risk weighted exposure amount) at the end of 2018 was EUR 2,929 thousand.

The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

As at the Reporting reference date:

CREDIT RISK ON 31/12/2018

TYPE OF EXPOSURE	INITIAL AMOUT OF EXPOSURE, EUR ‘000	RISK WAIGHTED AMOUNT, EUR ‘000	CAPITAL RQUIRENMENT, EUR ‘000
Institutions	66	66	5
Corporate	1,400	1,400	112

Retail	1,717	1,288	103
Others	175	175	14
TOTAL	**3,358**	**2,929**	**234**

TOTAL AMOUNT OF EXPOSURES AS AT 31/12/2018 initial exposure amounts

TYPE	Institutions	Corporate	Retail	Others	TOTAL, EUR '000
Cash at bank	66	-	-	-	**66**
Trade Receivables	-	1,400	1,717	-	**3,117**
Other Receivables	-	-	-	85	**85**
PPE	-	-	-	90	**90**
TOTAL	**66**	**1,400**	**1,717**	**175**	**3,358**

GEOGRAPHIC DISTRIBUTION OF EXPOSURES AS AT 31/12/2018

COUNTRY	Institutions	Corporate	Retail	Others	TOTAL, EUR '000
Australia,AU	-	-	4	-	**4**
Austria,AT	-	-	637	-	**637**
Belgium,BE	-	-	2	-	**2**
China,CN	-	-	64	-	**64**
Cyprus,CY	54	-	42	175	**271**
Denmark,DK	-	-	34	-	**34**
Germany,DE	7	-	13	-	**20**
Ireland,IE	-	-	165	-	**165**
Luxembourg,LU	-	-	2	-	**2**
Moldova,MD	-	-	3	-	**3**
Russian Federation,RU	-	-	312	-	**312**
Seychelles,SC	-	-	38	-	**38**
Switzerland,CH	5	-	241	-	**246**
United Arab Emirates,AE	-	1,400	116	-	**1,516**
United Kingdom,GB	-	-	9	-	**9**
British Virgin Islands,VG	-	-	35	-	**35**
Total	**66**	**1,400**	**1,717**	**175**	**3,358**

DISTRIBUTION OF EXPOSURES BY RESIDUAL MATURITY AS AT 31/12/2018

COUNTRY	Institutions	Corporate	Retail	Others	TOTAL, EUR '000
<3 months	57	-	1,717	90	**1,864**
>3 months	9	1,400	-	-	**1,409**
Indefinite maturity	-	-	-	85	**85**
Total	**66**	**1,400**	**1,717**	**175**	**3,358**

Counterparties Risk

All custodians and third-party providers of financial services of Prior Capital CY Ltd. have been assessed. The Risk Management has established limits for counter-party risk and there has been no violation of established limits. No significant risk exposure raising concerns has been identified except for the situation with Fortress, where maximum exposure level is also not exceeded. As a result of performed analysis of relations with Fortress certain measures were applied by Board of Directors and Management in order to prevent such situations in future. In particular, diversification of relations with partners and liquidity providers, paying more attention to any delays of fulfillment of obligations on the part of the partner and obtaining more detailed information regarding business reputation and solvency of counter-parties. Limits established for all counterparties are strictly monitored and actively managed according to the decisions of Risk Management Committee. Currently, certain legal and internal measures are applied for localization and removal of consequences of potential non-repayment of funds owed by Fortress. The Company fully covered the exposure in 2018 with its own funds. Prior Capital CY Ltd. is still in litigation process led by international law firm "Horizons @ Co" to recuperate these funds with fair chances for success. The case is under constant monitoring of the Management and the BoD.

Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. The Company manages operational risk through a system of controls and procedures in which processes are documented and transactions are reconciled and monitored. Prior Capital CY Ltd. has sufficiently effective Replacement Policy and Contingency plans consistent with the scope and complexity of the Company's operations. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated. The Company's Management is particularly focused on managing Operational risk. In 2018 the Risk Manager, the Risk Management Committee and the Company Management concentrated their efforts to promote and develop the risk conscious approach among the employees, especially taking into account changes in key personnel. To obtain this goal it was recommended to conduct on-going trainings to all stuff members. Due to high priority given to this issue timely implementation of Replacement policy proved to be sufficiently effective in overcoming potentially negative consequences of the absence of Company's personnel. Redistribution of functions did not result in any noticeable interruptions of the normal business activities. Strict implementation of the "Four Eyes Principle" also proved to be affective risk mitigating factor, diminishing the risk of human error and its adverse consequences. Revising the effectiveness of measures and policies addressing the issues of business continuity, backups and information safety the RM Committee approved arrangements with the current IT services providers. The Company is assessing Operational Risk probability and potential impact as average and would continue to monitor it. The Company falls under Article 95 and 96 of Capital Requirements Regulation. It means that the Operational Risk is calculated on the basis of the level of fixed overheads for the last audited period (i.e. 2018) where the Company is obliged to have sufficient own funds to cover similar expenses in future. The Fixed Overheads Requirement as at 31/12/2018 was EUR 892 thousand per quarter according to the following calculations:

As at 31/12/2018	**EUR '000**
Fixed Overheads	3,569
Fixed Overheads Requirement (25% * Fixed Overheads)	892
Fixed Overheads risk exposure amount	11,153
Total risk exposure amount	4,741

Based on audited Financial Statement for the year ended 2018 the Additional risk exposure amount due to fixed overheads is 6,412 thousand which is calculated as the difference between "Fixed Overheads risk exposure amount" and "Total risk exposure amount".

Market Risk

Market 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. These are analyzed and taken into consideration when implementing the Company's strategy. Although the overall impact of certain risks beyond Company's control which took place in 2018 (combination of deterioration of regulatory environment, politically infused instability on financial markets and growing costs of complying with new legislative requirements) did not permit to realize to the full extend all expansion plans and reach planned profit targets, precautionary measures taken by its Management permitted the Company to remain profitable. As the result of unfavorable market conditions, the Company had to decrease the pace of some of its development plans for 2018 (speedier promotion of non-forex instruments and crypto currencies) requiring considerable additional investments and increased operational costs. At the same time introduction of new European legislative requirements and limitations imposed by particular countries considered as potential markets could lead to further deterioration of market conditions in general. Prior Capital CY Ltd. looks fitter prepared for such challenges than many of similar companies of same size. This could create additional competitive advantage partly compensating negative effects of the above-mentioned factors. Considering the importance of Portfolio Management and in particular development of in-house algorithmic trading strategies it's needed to consider trading strategy risk arising when the strategies that are developed by strategy developers do not earn the required or expected rate of return on the investments performed, thus putting the Client capital at risk and not realizing a sufficient return on the trading risks taken. In light of this, the Company has requested from all strategy developers to further diversify into their strategies the use of wider range of instruments. The task is to decrease reliance on leveraged CFDs to realize investment returns and balance out any likely volatility from the strategies and ensure stable returns, hence mitigating the risk of performing poorly on Client accounts. Activation of new financial services for which the Company applied in 2018 should also serve as diversification of profit generating dimensions and would potentially enhance Company's stability.

All this permit to consider the overall potential impact from business risk as average to high.

<u>The Company follows the Standardized Approach for calculating the minimum capital requirements for market risk. The main such risks are detailed below:</u>

Currency Risk

The Company is exposed to currency risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency (Euro). At the year-end the Company had certain receivables and cash balances denominated in foreign currencies. The main currency, whose fluctuations may have an impact on the results of the Company, is the US Dollar. Total Risk exposure amount for foreign currency risk at the end of 2018 was EUR 1,812 thousand with the following breakdown:

CURRENCY	LONG	SHORT	TOTAL
Swiss Franc	213	**-**	**213**
US Dollar	1,599	**-**	**1,599**
TOTAL	**1,812**	-	**1,812**

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 Company does not have any own position in securities meaning that its income and operating cash flows are substantially independent of changes in market interest rates. At 31 December 2018, the Company had no other interest bearing financial assets or liabilities than cash at bank, with interest at normal commercial rates. At 31 December 2018, if interest rates on USD, CHF and Euro-denominated bank balances had been 1% higher/lower with all other variables held constant, post-tax results for the year would not be significantly affected. The Company's Management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Liquidity risk

At 31 December 2018 the Company's main financial liabilities comprise payables to the Clients under Brokerage Agreements. In accordance with legal requirements the equivalent amounts of cash were at the same time in the clients' bank and broker accounts of the Company. Current obligations of the Company itself were also covered by sufficient funding.

In view of the above there was no serious liquidity risk related to mismatch of maturities. Despite the above-mentioned fact the Company plans to reestablish and maintain certain cash buffer fund to cover its on-going current obligations to be held in different banking institutions.

Concentration Risk

This includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc. Due to the nature of operations and specific clientele (majority are physical persons) the Company is not seriously subject to concentration risk due to high share of income generated by a few big Clients. Although Concentration Risk is gradually diminishing in comparison with the situation of 2017 proper warning was given to the Senior Management which was taking extra efforts in order to attract new Clients and dilute potential concentration risk, which is considered as low to average. The Company is also regularly monitoring its large exposures, timely reporting this information to CySEC if required.

No large exposures exceeding maximum permitted proportion of Company's own funds were spotted in 2018.

Reputation Risk

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor customer service, fraud or theft, customer claims and legal action, regulatory fines.

The Company has policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. Only few complaints were received from the Clients (overwhelming majority properly solved) in 2018.

Business Risk

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of changes in economic conditions. Business risk factors were regularly discussed and proper changes to business plans were introduced, as the Company starts putting more emphasis to financial stabilization. Sufficient capital buffer created in the past 2 years helps to mitigate the Company's exposure to business risk and not put to question the Company's high capitalization level and its overall stability. Business Risk continues to be one of the major concerns and should be strictly monitored. Changes of business environment is always in the center of attention of the Management. Permission of increasing the line of financial instruments by CySEC which are allowed to be dealt with was done to diversify the Company's product portfolio and was meant to counter business risks.

Capital Risk Management

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

The Company is further required to report on its capital adequacy quarterly and has to maintain at all times capital adequacy ratio above established minimum which is set at 8% (21.63% as at December 31, 2018). The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. 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 regular basis of accounts to monitor the financial and capital position of the Company. In 2018 the Company maintained healthy Capital Adequacy ratios in access of the legally established minimal levels.

The Company followed recommendation and established internal threshold of minimally acceptable CAD ratio set at 9% after which internal monitoring procedures are automatically becoming more intensive.

Regulatory Risk, Legal and Compliance Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Internal Operations Manual. Prior Capital CY Ltd. maintains effective internal and external control mechanisms represented inter alia by Compliance, AML, Risk Management, Internal and External Audit functions who help to spot any existing and potential deficiencies and timely rectify them to prevent negative consequences. Compliance with these procedures and policies are assessed and reviewed by the Company's Compliance Officer and Internal Auditors and suggestions for improvement are implemented by Management. The Internal Auditors should evaluate and test the effectiveness of the Company's control framework at least annually. In addition, the BoD decided to meet at least annually to discuss such issues and any suggestions to enhance compliance are implemented by Management. Taking into account the drastic changes in the regulatory environment the level of the above-mentioned risk was raised to average.

A risk that has arisen during 2018 is the degradation of legislation by ESMA that could potentially harm the Company is the leverage cap of 1:30 that has been imposed on brokers. The Company has taken steps in partly mitigating this risk by activating its offering of non-forex instruments.

IT Risk

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. The Company's Business Continuity Plan addresses the consequences of IT risk. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

Data Protection Risk

Data protection risk is the risk in which there may be a compromise of Client data in the event of any leak or attack/breach by malicious third parties. The Company invested a lot of time and resources in 2018 to ensure full compliance with the requirements of GDPR, reducing the risk related to such issues to low level. The Company should continue to monitor on an ongoing basis the implementation of GDPR related policies.

Business Continuity Management

The Company is focused on business continuity management. in particular there is a disaster recovery plan for the whole Company. Risk assessment and monitoring of the relevant measures within every corporate department are performed in close cooperation with the relevant heads of departments.

Prior Capital CY Ltd. has in place the business continuity plan which covers the main elements involved if the Company has to ensure continuity and/or recovery of required level of operations under various adverse scenarios.

Remuneration Policy and Practices

Remuneration policies and practices implemented by the Company were intentionally simplified to the basic requirements of recruiting and maintaining high level professional personnel. Currently the remuneration policy is based on fixed salaries. The Board of Directors considers such approach as the most practical at this stage as it corresponds to the scale and complexity of the Company's operations.

It is expected that new remuneration policies will be introduced based on individual and Company's performance once the growth targets set by the Company are met.

The amounts of remuneration for the financial year	EURO	Number of persons
Directors' Remuneration	506,845	6
Staff Remuneration	1,844,226	57
TOTAL	**2,351,071**	**63**

Remuneration Policies Risk Management Framework

The Board of Directors has the responsibility for the overall risk management approach, the identification and control of risks including the risks associated with the implementation of remuneration policies and practices. Specifically, the Managing Director and the Risk Management Officer are responsible for managing and monitoring risks. The remuneration of employees, including those performing the Risk Management function, is directly overseen by the Board of Directors. The remuneration of the Directors of the Company is directly overseen by the Board of Directors. The remuneration of the Executive and Non-Executive Members for the year 2018 of the Board of Directors consists of a fixed remuneration. Remuneration of Directors and other members of key management for the year 2018 was amounted to **506,845** EURO. Taking into account that the Company had not reached its profit targets in 2018 it was decided that the fixed term remuneration of Directors in 2019 would be decreased. The persons who effectively direct the business of the Company follow advice from the Compliance function when developing, approving, implementing and reviewing the Remuneration Policy. The implementation of the remuneration policy is, at least annually, subject to central and independent internal review and/or Compliance Function review for the compliance with policies and procedures for remuneration adopted by the Board of Directors.

The Risk Manager monitors the remuneration levels in other companies within the same industry, the existing remuneration levels in correlation with the financial results of the Company and analyses the market trends from a risk management perspective. Conclusions are reported to the Management and if necessary these are discussed with the Risk Management Committee, which also is responsible for handling the risk of not being competitive in personnel remuneration matters. Remuneration policies and practices implemented by the Company relating to its employees and directors (the Company does not have any tied agents yet) were intentionally simplified to the basic requirements of recruiting and maintaining high level professional personnel.

With reference to the above subject matter and further to the provisions of the Circular C138 and Circular C145 regarding Remuneration policies and practices, the Company‘s remuneration policies and practices looks to be in compliance with the provisions of the aforementioned circulars and the applicable legislative requirements.

When designing or reviewing the remuneration policies and practices, the Company considered the conduct of business and conflicts of interest risks that may arise and take reasonable measures to avoid or manage them appropriately and efficiently. One of the major goals of remuneration policies and practices is to ensure that they are designed not to create incentives that may lead persons to favor their own interests, or the Company’s interests, to the potential detriment of clients.

Risk Management Factors Regarding Remuneration Issues

The risk management factors regarding remuneration issues that are considered to be the most material and for which the Company's risk management and internal control system have been designed to address are the following:

- Risk of falling out of the "golden middle" as far as the existing remuneration levels is concerned;
- Risk of introducing stimulating remuneration practices giving rise to the conflict of interest;
- Operational risk as regards to maintaining key personnel and access to HR pool in case of necessary replacement.

The Company's policies and procedures are designed to identify and analyze those and other risks on an on-going basis through monitoring the related risks and improving stability of its operations. The purpose of managing risks is the prompt identification of any potential problems before they occur.

The remuneration of Executive Directors and Senior Management of the Company comprises of a salary.

The remuneration of the Non-Executive Directors of the Company comprises of a fixed annual fee.

Link between Pay and Performance

The Company has designed its remuneration policy to be proportionate to the scale, nature and complexity of the business taking into account the relatively short time that the Company is in existence and the fact that there is not enough data to establish proper benchmarks in order to measure performance.

Due to the above the Company has decided to follow fixed remuneration scales for all employees including top Management at least currently. More complex stimulating remuneration schemes are expected to be introduced in the future depending on the Company's results and growth.

Communication / Enquiries

For any enquiries regarding this report and its contents of this report, please feel free to contact Prior Capital CY Ltd. at the contact details seen on its website.