

CONCORDE INVESTMENTS (CYPRUS) LTD

DISCLOSURE & MARKET DISCIPLINE REPORT

YEAR ENDED 31 DECEMBER 2017

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General Notes

- The following disclosures are based on the audited Financial Statements of Concorde Investments (Cyprus) Ltd (hereafter referred to as “the Company”) as at 31 December 2017. The information has been prepared for the purposes of explaining how risks are managed by the Company and to disclose the capital requirements corresponding to these risks, in line with the requirements of the Cyprus Securities and Exchange Commission.
- The disclosures have been reviewed by the Company’s Board of Directors and Senior Management.
- The disclosures have been verified by the Company’s External Auditors.
- The Company does not undertake any securitisations.
- The Company does not have any equity exposures in the non-trading book.
- All figures are presented in Euros. Figures are rounded to the nearest thousands, except where otherwise stated.

Background

Concorde Investments (Cyprus) Ltd was incorporated in Cyprus on 1 February 2012 as a Limited Liability Company under the Companies Law, Cap. 113. Concorde Investments (Cyprus) Ltd (hereafter the “Company”) is regulated by the Cyprus Securities and Exchange Commission (hereafter “CySEC”) and authorised to operate as a Cypriot Investment Firm since 22 January 2013, under the licence number 189/13.

The Company has prepared this Disclosure and Market Discipline Report (hereafter the “Report”) to fulfil its obligations regarding the public disclosure of information laid down in Directive DI144-2007-05 for the Capital Requirements of Investment Firms (hereafter the “Directive”), issued by CySEC.

The Company is licensed to provide the following investment services:

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

The Company is also licensed to provide the ancillary services of safekeeping and administration of financial instruments, including custodianship and related services and Foreign exchange services where these are connected to the provision of investment services.

The Company aims to provide the above-mentioned investment and ancillary services in accordance with the principles of good faith and fair business conduct. The Company takes all suitable measures in order to ensure the best possible protection of its clients’ interests, as well as adherence to the principles of sound corporate governance, product governance and proper business practices.

Scope of the Report

This Report together with our External Auditor's verification has been submitted to CySEC. The Report is prepared annually and is available on our website (<https://www.concordeinvestments.com>).

The Directive is based on the "three Pillar concept" as follows:

- **Pillar 1 – Minimum Capital Requirements:** the calculation of the total minimum capital requirements for credit, market and operational risk is presented, in addition to the calculation of the minimum ratio of capital to risk weighted-assets which is set to 8%. The Company adopted the Standardised approach for Credit and Market risk and the Fixed Overhead approach for Operational risk.
- **Pillar 2 – Supervisory Review Process:** the key principles of supervisory review, transparency and risk management are discussed, with emphasis to be given to the development of an internal capital adequacy assessment process for ensuring compliance with regulatory requirements regarding capital adequacy.
- **Pillar 3 – Market Discipline:** the introduction of disclosure requirements and recommendations enhances comparability through the dissemination of information to the market that enables better assessment of the financial strength of investment firms.

Under Pillar 3, the Company is required to publicly disclose information about the capital it holds and each material category of risk it faces, including the strategies and processes it has in place in order to manage and monitor these risks. Disclosures are made regarding the risks referred to under points 1 to 14 of Part 2, Annex XII, Part C of the Directive and in case that these are not applicable, no reference is made. The aforesaid disclosures aim to strengthen market discipline and encourage transparency.

1 Introduction

1.1 Governing Law

The Senior Management of the Company has prepared the Disclosures and Market Discipline Report of the Company in accordance with Part Eight of European Regulation (EU) 575/2013 as adopted by Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms (hereafter the "Capital Requirements Directive").

1.2 Scope of Application

These disclosures apply to the Company on a solo basis. The Company does not have any subsidiaries and thus does not need to produce any consolidated results.

1.3 Frequency of Disclosure

The Disclosures must be published at least once a year in light of the relevant characteristics of the business, such as scale of operations, range of activities, etc. With these considerations in mind, the Directors have decided that the disclosures will be published on an annual basis on the Company's website (www.concordeinvestments.com).

2 Risk Management

The Company has a strong risk management culture which is embedded in all levels of the organization and aims to minimise the potential adverse effects of the constantly changing risk environment, on the Company's financial performance. In light of this, the Company has established an effective risk oversight structure and all the necessary internal controls have been implemented in order to ensure that the Company identifies and manages its risks adequately and effectively.

2.1 Roles and Responsibilities

The Risk Management function prepares policies and procedures which are consistent with the Company's corporate strategy and risk appetite, monitors that these policies and procedures are functioning as directed, and that the necessary steps are taken in order to foster a culture of risk awareness throughout the organization.

In particular, the Company's Risk Management function is primarily responsible to control and monitor:

- (i) the adequacy and effectiveness of the Company's risk management policies and procedures;
- (ii) the level of compliance by the Company and its employees with the arrangements, processes and mechanisms adopted, and
- (iii) the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons of the Company to comply or follow such policies and procedures.

Furthermore, the responsibilities of the Board of Directors, Senior Management, Internal Auditor, as well as of the Risk Management function, in relation to the management of the Company's risks include the following:

- the Board of Directors and Senior Management review and discuss the written reports prepared by the Risk Management function, which identify the risks faced by the Company and the mitigating actions to be taken;
- the Internal Auditor evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures with respect to risk management;
- the Risk Management function ensures efficient management of the risks arising from the provision of investment and ancillary services to clients, as well as the operation of the Company in general. In addition, the Risk Management function is responsible for making recommendations and indicating whether the appropriate remedial measures have been taken in instances where deficiencies have been identified.

The Company's risk management is focused on the key areas of Credit Risk, Market Risk and Operational Risk. These risks are analysed individually in greater detail in the sections which follow.

2.2 The Investment Firm's approach in assessing internal capital

During the year under review the Company did not have in place the Internal Capital Adequacy process. This was due to a fact that the Company DID NOT have enough substantive business to create a meaningful data base upon to build and undertake the preparation of ICAAP. The Company deems it prudent to have some meaningful data prior to commencing the necessary work required in preparing a useful and meaningful ICAAP.

3 Capital Base

The Company's capital base comprises of Original Own Funds (Tier 1 capital). Tier 1 capital is divided into share capital, shareholders' advances for future increase of share capital and audited loss for the current year. In order to arrive at the Tier 1 capital, the value of intangible assets, after the application of amortisation charges, is deducted.

A detailed breakdown of the Company's Total Eligible Own Funds, as at 31 December 2017, is presented in the table below:

	31 DECEMBER 2017 €000's
ORIGINAL OWN FUNDS	
SHARE CAPITAL	200
SHAREHOLDERS NON-REFUNDABLE ADVANCES	2,575
ACCUMULATED LOSSES	(2,552)
DEDUCTION: INTANGIBLE ASSETS	(11)
DEDUCTIONS: INVESTORS COMPENSATION FUND	(44)
TOTAL ORIGINAL OWN FUNDS (TIER 1)	168
TOTAL ELIGIBLE OWN FUNDS	168

4 Capital Adequacy Ratio

In accordance with the Capital Requirements Directive, the Company must maintain a minimum capital adequacy ratio of 8%. However, the Company always aims to maintain a capital adequacy ratio well above the required minimum. The company under Article 95(2) is excluded from CRD IV definition therefore the capital requirements are based on Fixed Overheads, Credit & Market risk are measured using the Standardized approach.

The Company calculates the capital adequacy ratio on a quarterly basis and monitors its direction in order to ensure its compliance with externally imposed capital requirements.

As at 31 December 2017, the Company's Risk Weighted Exposures with respect to the three risk categories were as follows:

<u>RISK Weighted Exposures</u>	31 DECEMBER 2017 €000's
Total Own Funds	168

Credit Risk	85
Foreign Exchange Risk	12
Additional Risk Weighted Exposure due to Fixed Overheads	1,589
Total Risk Exposure	1,686
Capital Adequacy Ratio	9.94%

5 Credit Risk and Counterparty Credit Risk

5.1 Definition

Credit Risk is the risk of loss that the Company would incur if the counterparty in a transaction failed to perform its contractual obligations. The management of the Company's Credit Risk also encompasses Counterparty Credit Risk, as well as concentration risk and wrong-way risk.

5.2 Mitigation and Measurement

The following processes and measurement techniques are followed by the Company as follow:

- Accepts as counterparty, for the purposes of depositing clients' funds, only financial institutions (including banking institutions) that the Firm internally assesses as financially stable; in order to diversify its exposure;
- All client funds are held in segregated accounts, separated from company funds, meaning that once received clients' funds are deposited by the Firm on the clients' behalf. It should be noted that the above mentioned accounts are held by the Company in a fiduciary capacity and are not represented in the Firm's financial statements as assets or liabilities;
- Assesses the credit quality of its counterparty taking into account its financial position, past experience and other related factors (if there is no independent credit rating by a rating agency).
- Ensures that clients fund their accounts prior to the commencement of trading in financial instruments

With regards to banks and financial institutions, only parties which Management has internally assessed as financially healthy and stable are accepted. If there is no independent credit rating available then Management, in cooperation with the Risk Management function, assesses the credit quality of the counterparty, taking into account amongst others its financial position and past experience.

Concorde Investments (Cyprus) Limited has no significant concentration of credit risk. The Company has policies in place to ensure that services are provided to Clients with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. All the custodians of the Company have been assessed in accordance with the provisions of the Company's Internal Operations Manual and CySEC's Directive DI144-2007-01. Furthermore, all counterparties and financial institutions are regulated entities within the European Union.

5.3 Exposure Classes and Minimum Capital Requirements

Asset Class	Exposure Value	Risk Weighted Exposure	Minimum Capital Requirements
	€000's	€000's	€000's
Institutions	121	24	3
Corporate	-	-	-
Retails	-	-	-
Other Items	61	61	7
Grand Total	182	85	10

5.4 Breakdown of Total Exposures by Risk Weights

Risk Weight	Exposure Value
	€000's
= 0%	-
> 0 and ≤ 12%	-
> 12 and ≤ 20%	121
> 20 and ≤ 50%	-
> 50 and ≤ 75%	-
> 75 and ≤ 100%	61
> 100 and ≤ 425%	-
> 425 and ≤ 1250%	-
Grand Total	182

5.5 Exposures by significant counterparty type

Asset Class	Counterparty (Banks)	Counterparty (Other Financial Institutions)	Counterparty (Other)	Total
	€000's	€000's	€000's	€000's
Institutions	121	-	-	121
Corporate	-	-	-	-
Retails	-	-	-	-
Other Items	-	-	61	61
Grand Total	121	-	61	182

5.6 Exposures by residual maturity

Asset Class	Residual Maturity ≤ 3 months	Residual Maturity > 3 months	Total
	€000's	€000's	€000's

Institutions	121	-	121
Public Sector Entity	-	-	-
Corporate	-	-	-
Retails	-	-	-
Other Items	15	46	61
Grand Total	136	46	182

5.7 Nominated External Credit Assessment Institutions for the application of the Standardised Approach

The External Credit Assessment Institution (“ECAI”) used by the Company for the application of the Standardised Approach is Moody's Investors Service, Inc.

Nevertheless, due to the fact that original maturity of exposures to financial institutions is less than 3 months, they were assigned a risk weight of 20%.

5.8 Counterparty Credit Risk

For the management of Counterparty Credit Risk the Company uses the Mark-to-Market (“MTM”) method. The MTM method is described in the steps below:

- Step (a): by attaching current market values to contracts, the current replacement cost of all contracts with positive values is obtained.
- Step (b): to obtain a figure for the potential future credit exposure, the notional principal amounts or underlying values are multiplied by the percentages presented under Part C, Annex III, Part 3, table 1 of the Capital Requirements Directive.
- Step (c): the sum of the current replacement cost and the potential future credit exposure is the exposure value.

5.9 Past due and Impaired

In accordance with IFRS 7 Appendix A, “a financial asset is past due when a counterparty has failed to make a payment when contractually due”. It is noted that during the year the Company did not have any past due exposures.

The Company recognises impairment losses in the Statement of Comprehensive Income when incurred as a result of one or more “loss events” that occur after the initial recognition of the financial asset and which have an impact on the amount or timing of the expected future cash flows.

The criteria which the Company uses to determine whether there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;

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- the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Company would not otherwise consider;
 - it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - the disappearance of an active market for that financial asset because of financial difficulties; or
 - observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

6 Market Risk

6.1 Definition

Market Risk is defined as the risk of financial loss resulting from changes in market factors which reduce the Market Value of the financial instruments trading portfolio, as well as the risk of financial loss due to foreign currency movements.

6.2 Measurement

The following processes and measurement techniques are followed by the Company as follow:

- Applies a *mark to market* valuation, for accounting purposes.
- Sets the maximum loss that may be incurred, due to a client's trading activity at a certain level whereupon full hedging procedures should commence.
- Employs, on a full time basis, a Risk Manager.
- Records, through its trading platform(s) and real time reporting tool, the clients' trading activity including but not limited to the transactions that are executed; this gives the option to constantly monitor the Firm's exposure and take appropriate action, if required.
- It is the responsibility of the Head of the Execution Department, or the supervisor of the Execution Department in his/ her absence, and the Risk Manager to ensure that the Company maintains, at all times, sufficient funds in its multiple hedging accounts to offset, if required, any exposure. The Head of the Execution Department, or the supervisor of the Execution Department, shall inform the *Board of Directors*, accordingly.
- In case of an extraordinary event the Head of the Execution, or the supervisor of the Execution Department in his/ her absence, is responsible for taking all required measures to ensure the safeguard of the best interests of the Company and its clients. The Head of

the Execution, or the supervisor of the Execution Department in his/ her absence, shall oversee the implementation of a business continuity plan, if required.

The Company follows the Standardised Approach for Market Risk.

6.3 Exposure to Market Risk

The Company Market Risk arises from exposures to price, currency and interest rate risk.

I. Price Risk

The Company is exposed to market price risk from fluctuations in foreign currencies, commodities and equity securities due to the open positions which are held by the Company as counterparty to its customers and other third parties. However, all net client exposures are hedged with our Liquidity Providers MeritKapital Ltd, Argus Stockbrokers Ltd, Brokercreditservices (Cyprus) Limited.

II. Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency other than the Company's functional currency (the Euro). The Company's Management, as well as the Risk Management function, monitor exchange rate fluctuations on a continuous basis.

III. Cash flow and fair value interest rate risk

The Company's cash flow interest rate risk arises from its trading activities (both assets and liabilities) that remain open overnight. In addition, cash flow interest rate risk arises on the cash and cash equivalents held at variable interest rates. Other financial assets and liabilities held at fixed interest rates expose the Company to fair value interest rate risk, however this risk is insignificant to the Company as these assets/ liabilities are not material.

7 Fixed Overheads

7.1 The Fixed Overhead Requirement

In relation to the recent changes in the capital requirements regulation and the introduction of Regulation (EU) No. 575/2013, all investment firms have been reclassified according to the services offered and the risks imposed to retail clients, the financial system and themselves. In line with this, it has been indicated by CySEC, that the Company is a limited scope investment firm and thus it falls under Article 95 (1) which requires a different approach in calculating risk exposures for capital adequacy purposes.

The Company is now obliged to calculate its market and credit risk and compare this against its fixed overhead requirements. The higher of the two is then used as a measure of capital requirements for the Company at the specified period.

For the calculation of Operational Risk, in relation to the capital adequacy returns, the Company uses the Fixed Overhead approach. Under the fixed overhead requirement, the Company is required to hold eligible capital of at least one quarter of the fixed overheads of the previous year.

8 Remuneration Disclosures

8.1 Scope and Applicability

The Policy applies to those categories of staff whose professional activities have a material impact on the risk profile of the Company, i.e. the Senior Management, the members of the Board of Directors, the Control functions, the Heads of the departments (i.e. key management personnel). Moreover, the Policy also applies to persons who can have a material impact on the service provided and/or corporate behaviour of the Company, including persons who are in the provision of investment and/or ancillary services.

The policy aims to provide transparency in the procedure for payment of additional remuneration, to motivate staff and provide for sufficient incentives so as for the key personnel of the Company to achieve the business targets, to increase productivity and competitiveness, to deliver an appropriate link between reward and performance whilst at the same time consisting of a comprehensive, consistent and effective risk management tool that prevents excessive risk taking and/or mis-selling practices in light of financial incentives schemes, which could lead to compliance risks for the Company in the long-run.

The policy is aligned with effective conflict of interest management duties and conduct of business management duties so to ensure that clients' interests are not impaired by the Company's remuneration policies and practices.

8.2 Procedures and Controls

The applicability of the Company's Policy is reviewed regularly, at least annually, by the Board of Directors, in the context of an internal review for compliance with the relevant legislation as well as to confirm applicability, viability and alignment with the industry's remuneration standards. The Board of Directors shall also review the Policy in the context of the business and conflicts of interest requirements of the Law 144(I)/2007.

The Company's remuneration system inevitably takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff. Thus, the Company considers remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long term success; whilst simultaneously ensuring that Clients' interests will not be impaired by the remuneration policies and practices adopted by the Company in the short, medium and long term.

8.3 Remuneration

A. Fixed Remuneration

The employees' total remuneration currently consists of a fixed component while variable components may also occur (see Section (B) below).

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.

The Policy is also set in comparison with standard market practices employed by the other market participants/competitors. The Company's policy is to provide an attractive fixed remuneration to its employees so to ensure good and stable performance.

The Company's fixed remuneration is approved by the Board of Directors for all the relevant employees. Benefits provided to the Company's employees, such as medical, indemnity & insurance protection, card and rent allowances are not employee performance-related and are considered part of the Fixed Remuneration.

B. Variable Remuneration

The Company does not guarantee any variable remuneration. Nevertheless, the Company is dedicated to recognize the contribution of the employees to its success by payment of bonuses whenever it is financially appropriate and depending on the performance of the Company as a whole. Moreover, the variable remuneration is also allocated to employees based on the individual performances. The current portion of the variable remuneration does not exceed the half of the annual fixed remuneration of any employee.

The Board of Directors for the payment of any variable remuneration to employees takes into consideration and reviews the current financial position and performance of the Company, the development plans, liquidity, operational and capital risks.

It is noted that, no remuneration is payable under deferral arrangements (with vested or unvested portions), nor there are any severance payments.

Further to this, the Company shall periodically review the Policy, as and when applicable, and thus adjust, it should the need arises for remuneration to include any other possible sources of additional variable components.

In this regard, it is understood that should the Policy incorporates additional variable components in the future, then the fixed and variable components should be appropriately balanced and the fixed component shall always represent a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components (even to allow for zero variable component to be offered).

Further to the above, variable remuneration should be designed to ensure that the total remuneration remains in competitive levels thus rewarding the staff for its performance whilst remaining aligned with the department's and/or the Company's performance and long term targets.

C. Other Factors

Other factors taken into account for the remuneration of the Company's employees are the following:

- The financial viability of the Company
- The general financial situation and the state in which the Company operates
- Each employee's personal objectives (such as personal development, compliance with the Company's systems and controls, compliance with regulatory requirements, commitment and work ethics).

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- Each employee's professional conduct with Clients (such as acting in the best interest of the Client, fair treatment of Clients and inducing Client satisfaction), as applicable.

Further to the above, the Policy of the Company is not designed so as to, inter alia:

- a. Give incentives that might influence the Company's relevant employees to sell one product or category of product, instead of another
- b. Achieve a quota of minimum sales level across a range of products in order to earn any bonus thus might also impair the duty to act in the best interest of Clients
- c. Create disproportionate return for marginal sales, where relevant persons need to achieve a minimum level of sales before bonus payments can be earned, or incentives are increased
- d. Increase the relevant employee's focus on short-term gains rather than the client's best interest

Early Termination Agreement

In the case of an employee's early termination of a contract, the Policy is designed so as to only reflect the performance achieved over time, and thus, not reward failure.

Pension

The Company does not have currently any active pension scheme. The Company shall proceed and establish such arrangements when and if deemed necessary, while taking into consideration the business strategy, objectives, values and long-term interests of the Company.

8.4 Performance Appraisal

The Company implements a performance appraisal method, mainly to foster talent and promote healthy competition amongst personnel (i.e. it is not currently related to any variable remuneration scheme) which is based on a set of Key Performance Indicators, developed for each department.

In general, the performance appraisal is performed in a multiyear framework in order to ensure that the appraisal process is based on longer-term performance and that in the future (i.e. when applicable), the actual payment of performance-based components of remuneration will be spread over a period which will take into account the Company's underlying business cycle.

Additionally, the performance appraisal on medium and short-term is being performed as follows:

- a. The appraisal entails the review of the performance of the individuals against the set personal targets/objectives of the year.
- b. Targets/objectives are defining what the Company's functions, departments and individuals are expected to achieve over an upcoming period of time.
- c. There are also mid-term procedures that allow, if necessary, to amend any targets/objectives and incorporate any changes that might happen during the year.

- d. Performance checks and feedbacks: managers provide support and feedback to the concerned staff during the time periods decided, during the daily activities or during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies
- e. Performance evaluation takes place annually, usually at the end of each year in order to set the targets for the following year.

8.5 Remuneration Committee

It is noted that the Company has taken into account its size, internal organization and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a Remuneration Committee. The design of the remuneration policies and practices has been approved by the Board of Directors after taking advice from the compliance function. In case the Company shall deem necessary to establish a Remuneration Committee in the future, then this section shall be updated as applicable.

8.6 Documentation and Disclosures

The Senior Management shall keep records containing information as regards the remuneration of the Company's employees in a separated file/record (e.g. payroll data) at the Company's premises.

The Company, as part of its Disclosure and Market discipline obligations (Pillar 3 Disclosures), discloses in its annual disclosures, information relevant to its Remuneration Policy.

For the year ended 31 December 2017 the Firm identified the persons classified as Code Staff and the disclosure of the aggregate remuneration of the Code Staff can be found below:

	Staff No.	Fixed Remuneration €000's	Variable Remuneration €000's	TOTALS €000's
Executive Directors	2	€ 95	-	€ 95
Other Staff	5	€ 16	-	€ 16
TOTAL	7	€ 111	-	€ 111

The Executive Directors of the Board are being remunerated through their monthly basic salaries. The Non-Executive Directors of the Board are being paid on a monthly basis for their appointment.

FAQs

Questions regarding this Disclosure Report should be addressed to the Compliance Department of the Company at the email, compliance@concordeinvestments.com.