



Safecap Investments Limited

Pillar III Disclosures 2021

May 2022

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1 Introduction, Scope and Purpose of this Document

Safecap Investments Limited (“Safecap” or the “Company”) is an investment firm, incorporated in Cyprus as a private limited liability Company under the provisions of the Cyprus Companies Law, Cap. 113. The Company is authorized and regulated by the Cyprus Securities and Exchange Commission (hereinafter “CySEC”) under license number 092/08, and which has a LEI Code of 549300IIDRNKSFWCQ054 for the conduct of designated investment business in the Republic of Cyprus and other jurisdictions and by the Financial Services Board (“FSB”) in South Africa as a foreign Financial Services Provider under license number 43906.

In accordance with the operating license granted by CySEC, the Company is permitted to undertake regulated investment services of reception and transmission of orders in relation to one or more financial instruments, the dealing on own account, the execution of orders on behalf of clients and portfolio management. The Company is also authorised to provide the ancillary services of safekeeping and administration of financial instruments, credit granting and foreign exchange services in relation to the investment services provided, as well as investment research and financial analysis.

The Company is an online financial services provider and acts as the principal and market maker to its customers in Contracts for Differences (CFDs) on a range of financial instruments including Foreign Exchange, Commodities, Indices, Shares and Exchange Traded Funds. Furthermore, it is noted that the Company does not hold any real crypto assets. Specifically, the Company offers through its online platform trading in a number of CFDs with crypto as their underlying instrument which are less than 3% of the total volume of CFDs of the Company in terms of notional value.

Revenue is mainly generated from trading fees and dealing spreads (bid/ask spread) charged on client trades and to a lesser extend from net gain/losses on trading activity. The level of revenue in any period is driven by the number of active clients and the level of client activity.

We note that the Company is not considered significant as defined by the current definitions by the CySEC in the financial year covered by these Disclosures.

1.1 Regulatory context

The capital adequacy and overall risk management requirements that applied until recently to the Company under the EU Capital Requirements Directive 2013/36/EU (“CRDIV”) and EU Regulation No. 575/2013 (the “Regulation” or the “CRR”), have been replaced by amended prudential rules. In particular, the EU Regulation 2019/2033 (the “Investment Firm Regulation” or “IFR”) and EU Directive 2019/2034 (the “Investment Firm Directive” or “IFD”), where the latter has been harmonized into Cyprus legislation through the issuance of the Cyprus Law on the Prudential Supervision of CIFs of 2021 (165(I)/2021).

The new rules introduce several changes to the methodologies that investment firms are required to apply for quantifying their exposure to risk and deriving their Capital Adequacy ratio, as well as to their required level of initial capital, their Internal Capital Adequacy Assessment Process (“ICAAP”) which is replaced by the Internal Capital Adequacy & Risk Assessment (“ICARA”) Process, and a newly introduced Liquidity Requirement according to which they are required to maintain liquidity levels equal to at least one third of their Fixed Overhead Requirement, among others.

The Company is a Class 2 CIF and is required to hold €750K (\$849K) as at 31st of December 2021 of initial capital, set in accordance with Article 14 of the IFR and Article 9 of the IFD.

The IFR/IFD framework consists of three (3) Pillars that are used to regulate, supervise and improve the risk management of firms in the financial services industry. The three (3) Pillars and their applicability to the Company, are summarised below:

- Pillar I - Minimum Capital Requirements - ensures that the Company maintains at all times a sufficient amount of capital above the minimum requirement in relation to certain key risks, as calculated using prescribed methods.
- Pillar II - ICARA and Supervisory Review and Evaluation Process ("SREP") - ensures that the Company and its supervisor, CySEC, actively assess, control and mitigate the various risks that the Company faces.
- Pillar III - Market Discipline - ensures the promotion of market discipline through the disclosure of the Company's regulatory requirements, risk management and risk governance policies and procedures, allowing market participants to view and compare meaningful information relating to the Company and its peers.

The Company's Pillar III disclosures have been prepared in compliance with Part Six of the IFR and relate to the financial year ending on 31st of December 2021. The disclosures included in this Report are made on a solo basis and are published annually. This Report should be read in conjunction with the audited financial statements of the Company for the year ended 31st of December 2021. Further, the Company has commissioned its External Auditors to verify its Pillar III Disclosures. Where "reference date" is mentioned, this refers to 31st of December 2021.

The Company's Pillar III disclosures are published on an annual basis on the Company's website (www.markets.com).

Unless stated otherwise, all amounts are in thousands of United States Dollars ("US\$" or "USD").

1.2 Implications of COVID-19

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain, and in many jurisdictions, now delay, the spread of the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and "locking-down" cities/regions or even entire countries. The Company has taken all available and necessary measures in order to ensure the smooth continuity of its operations and there has been no operational impact or disruption to its business during this time. Due to the nature of its business which is online, the Board of Directors do not expect a negative impact on the Company's operations or financial results due to the pandemic.

1.3 Implication of Russian Invasion to Ukraine

Safecap continuously monitors with all relevant restrictive measures imposed by the Council of the European Union (EU) and other sanctions against Russia in response to the crisis in Ukraine and ensure full compliance with the Law and relevant CySEC's Circulars. The Company assessed the risks and does not bear any significant risk due to the targeted restrictive measures.

2 Governance and Risk Management Objectives and Policies

2.1 The Board of Directors

The Company's Board of Directors (the "Board") is required to assess and review the effectiveness of the policies, arrangements and procedures put in place for the Company to comply with its obligations under the Investment Services and Activities and Regulated Markets Law of 2017 (the "Law"), as subsequently amended or replaced, as well as the relevant CySEC Directives and the IFR, and to take appropriate measures to address any deficiencies. In particular, when managing and/or assessing risks, the responsibilities of the Board of Directors and Senior Management may be summarized as follows:

- Approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks that Safecap is or might be exposed to, including those posed by the macroeconomic environment in which it operates.
- Ensure that all the Risk Management regulatory requirements are applied, and that appropriate systems and controls are introduced.
- Be actively involved in and ensure that adequate resources are allocated to the management of all material risks, the valuation of assets and the use of external credit ratings and internal models that relate to those risks.
- Review and approve the Annual Risk Management Report and take all action as deemed appropriate under the circumstances to remedy any weaknesses and/or deficiencies identified therein.

At 31 December 2021, the Board of Directors of the Company comprised of two (2) Executive Directors and three (3) Non-Executive Directors.

2.2 Diversity in the Selection of Members of the Management Body

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy and developing talent at every level within the organization.

2.3 Number of Directorships held by Board Members

The table below provides the number of directorships each member of the management body of the holds at the same time in other entities (excluding the directorship in Safecap) as at 31st of December 2021. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below. Executive or non-executive directorships held within the same group, are considered as a single directorship.

Table 1: Number of directorships held by the Company's Board members excluding position in Safecap

Name ¹	Position	Number of Executive Directorships	Number of Non-Executive Directorships
Matan Shvili ²	Executive Director	-	-
Stavros Anastasiou ³	Executive Director	-	-
Damien Francis	Non - Executive Director	-	1
Athos Demetriou	Non - Executive Director	1	2
Stelios Prodromitis	Non - Executive Director	1	1

¹ The information presented in this table is based only on representations made by the Company.

² Joseph Rundle resigned as an ED and Matan Shvili appointed at that position on 27th of December 2021.

³ Evagoras Kountouris resigned as an ED and Stavros Anastasiou appointed at that position on 28th of June 2021.

Oren Danziger resigned as a NED on 15th of May 2021.

2.4 Risk Management Policy

Risk is inherent to the Company's business and activities. The Company's ability to identify, monitor and manage each type of risk to which it is exposed is an important factor in its financial stability and performance and for the achievement of its strategic objectives.

The Risk Management Policy is included in the Company's Internal Procedures Manual (hereafter "IPM"). The IPM aims to set out those policies and procedures and to ensure compliance with legislative requirements and with departmental and general procedures.

The Risk Management Policy forms part of the Company's internal control and corporate governance arrangements. It explains the Company's underlying procedures with respect to risk management and documents the roles and responsibilities of the Risk & Compliance Committee, the Risk Manager and other key parties. It also outlines key aspects of the risk management process and identifies the main reporting procedures. In addition, it describes the process followed by the Risk & Compliance Committee to evaluate the effectiveness of the Company's internal control procedures.

Processes and mechanisms are in place to manage the risks, with special consideration to risks arising from the operations of the Dealing Room and the Own Account Trading departments in the process of the reception and transmission of client orders, execution of clients' orders and trading on the Company's behalf.

2.5 Nomination Committee

The main objective of the Nomination Committee is to review the structure, size and composition of the Board and its committees and to make recommendations with regards to any changes considered necessary in the identification and nomination of new Directors, the removal of Directors, the reappointment of existing Directors and the appointment and removal of members of the Board's committees. The Nomination Committee has a responsibility to assess the roles of the existing Directors in office to ensure that balance is maintained in the Board in terms of skills, knowledge, experience and diversity.

As at year end, the Nomination Committee was composed of three (3) independent Non-Executive Directors. During 2021, the Nomination Committee formally met one (1) time.

2.6 Risk & Compliance Committee

The Board has established a Risk & Compliance Committee to oversee on behalf of the Board all matters relating to risk management and regulatory compliance. The Risk & Compliance Committee's arrangements put in place are proportionate to the size, complexity and risk profile of the Company. The Committee acts independently from the management of the Company.

As at 31st of December 2021 the Risk & Compliance Committee comprised of three (3) independent non-executive directors. All members of the Committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy, risk appetite, risk management policies and risk management practices of the Company. During 2021 the Risk & Compliance Committee convened four (4) times.

The main objectives of the Risk & Compliance Committee are as follows:

- To ensure that the Company has implemented a risk management framework based on the three (3) pillars of (i) risk strategy and appetite (ii) risk governance and organization and (iii) risk management process.
- To review and assess the integrity and adequacy of the Company's Risk Management framework, including processes, policies, organizational structure and arrangements on an ongoing basis.
- To promote a consistent risk management oversight at Company level.
- To provide an overview of the Company's risk and compliance management arrangements. The Risk & Compliance Committee is required to make suitable arrangements in order to identify any risk management and compliance deficiencies and approves policies that need to be implemented by the relevant departments within the Company.
- To oversee the implementation of risk limits across the different kinds of risks (including credit, market and liquidity risk) and consider/approve any limit excesses based on this risk limit structure and authorities to be in place at the Company.
- To work with the Remuneration Committee to establish a remuneration culture, policy and framework that balance commercial objectives with risk and compliance factors and requirements and support capital and liquidity preservation.
- To review the annual and other reports prepared by the Risk and Compliance functions (including ICARA and Pilar III disclosures) and make recommendations for remedial and other actions.

2.7 Risk Management Function

The Company operates a dedicated Risk Management function under which the Risk Manager is responsible for implementing the Risk Management Policy, as this is set by the Board of Directors and the Risk & Compliance Committee and ensuring that this is properly followed under the supervision and control of the said Committee.

The Risk Management function is tasked with the following duties and responsibilities:

- Implementing policies on risk management and internal control.
- Identifying and evaluating the fundamental risks faced by the Company for consideration by the Risk & Compliance Committee.
- Providing adequate information in a timely manner to the Risk & Compliance Committee on the status of risks and controls.
- Providing reports to the Risk & Compliance Committee and the CEO, with details of the Company's total exposure across all instruments. These reports include information about clients' positions and the positions opened by the Company as part of its hedging activity.
- Undertaking reviews on the effectiveness of the system of internal control and providing a report to the Risk & Compliance Committee.

2.8 Compliance and Money Laundering Compliance Functions

The Company's Compliance function covers (a) Financial Crime / AML (b) Monitoring and Surveillance (c) Governance, Code of Conduct and Regulatory Compliance and (d) Regulatory Counselling. The Compliance function designs a risk-based annual compliance plan having regard to the areas of material business activity or material business and regulatory risk, with the overall aim of ensuring consistent regulatory compliance at all times.

The Chief Compliance Officer ("CCO") and the Money Laundering Reporting Officer ("MLRO") have direct access to the Board of Directors.

2.9 Internal Audit Function

The role of the Internal Audit function is the provision of ongoing review and evaluation of the operations and activities of the Company in all respects, as well as the provision of recommendations and advice to ensure that the Company operates at the highest standards and in accordance with best practices while remaining in line with the applicable legal and regulatory framework. The Internal Auditor is an independent and autonomous function with direct reporting line to the Board of Directors.

The key responsibilities of the Internal Audit function include:

- Providing an objective and independent appraisal of all Company activities (financial, operational and others).
- Giving assurance to the Board on all control arrangements, including management and corporate governance.
- Assisting the Board by evaluating and reporting the effectiveness of the controls for which the Board is responsible and issuing recommendations and suggestions.
- Keeping records and books with regards to the internal audit work performed.
- Establishing, implementing and maintaining an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements.
- Submitting the Annual Internal Auditor's report to the Board of Directors over the activities performed by the Internal Auditors.

2.10 Risk Management Strategies and Capital Management

The Company deploys several risk management strategies in order to control its risks, which include maximum overall exposure levels and value at risk indicators. Safecap manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the regulatory environment. The Capital Management framework of Safecap is designed to manage its capital needs on an ongoing basis. The Company has in place internal guidance in order to ensure that the capital adequacy ratio remains well above the regulatory minimum.

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

2.11 Internal Capital and Risk Assessment Process Report

The new framework introduces the concept of the Internal Capital and Risk Assessment (“ICARA”) process, which is similar in some respects to the current Internal Capital Adequacy Assessment Process (“ICAAP”), with some key differences, to determine the Pillar II capital requirements.

Further to the above, the Company needs to keep additional capital to cover its Pillar II risks. The amount of this capital is determined internally by the Company through the performance of the new ICARA, and upon CySEC’s request, the ICARA is collected by the CySEC and undergoes the Supervisory Review and Evaluation Process (“SREP”). Following the SREP, the final Pillar II capital deemed as necessary by the CySEC is communicated to the Company and considered as an additional requirement affecting the minimum required Capital Adequacy Ratio.

The Company is in the process of updating its existing ICAAP in order to prepare its first ICARA process, through which it will ensure full alignment with the IFR & IFD framework and the Cyprus Law 165(I)/2021 on the Prudential Supervision of CIFs.

On a yearly basis, the Company undertakes an ICAAP which, as mentioned, is now replaced by the ICARA process. Through the ICARA, the Company assesses its Pillar II capital requirements, via the application of a series of stress-testing scenarios, to its base financial projections. Additionally, the ICARA Report covers the Company’s business background, financial performance and governance arrangements pertaining to Risk Management, and places emphasis on the impact of regulatory developments on business performance, compliance, and reputational risks.

Part of the ICARA process is to identify the risks associated with the activities of the company on a forward-looking basis. For each of the identified risks, the company assesses if the risk is sufficiently covered by Pillar I or additional Pillar II requirements need to apply. The CRO is responsible for the preparation of the annual ICARA report which is being submitted to the BoD for approval and subsequently to CySEC upon request. The Company incorporates a stress-testing framework in the ICARA Report. The Pillar II capital requirements are calculated taking into consideration the results from the stress testing and capital allocation exercises of the ICARA.

2.12 Board Risk Appetite Statement

The Risk Appetite Statement defines the level of risk the Board is willing to take in pursuit of its business objectives and strategic goals. It defines the parameters within which the Company can operate and the relevant risks it can assume, both on an individual as well as on an aggregated basis.

The Risk Appetite Statement includes some high-level principles and key risk indicators to alert Management and the Board of Directors of any risk concerns and triggering appropriate responsive actions. Specific limits are in place, which are embedded in the risk monitoring systems and reporting, to cap the amount of risk the Company will take.

The Board of Directors has identified several categories of principal risk and established policies and procedures that seek to manage them:

- Regulatory Risk
- Operational Risk
- Liquidity Risk
- Credit and counterparty risk
- Market Risk

- AML Risk
- Capital Risk

The Board periodically revises the Risk Appetite Statement and its management framework, analyzing the impact of unlikely but plausible tension scenarios and adopting the pertinent measures to ensure the policies set are met.

2.13 Levels of Defense

The Board has adopted a three (3) level defence model to ensure responsibility is allocated for the identification, management, control and oversight of the principal risks related to the Group's business. The model designates the roles, responsibilities and accountabilities for the risk management of the Company.

- First level: Functions that own and manage risks – the Business Management and Operational Functions.
- Second level: Functions that oversee risks – primarily the Risk Management and Compliance Functions.
- Third level: Functions that provide independent assurance – primarily the Internal and External Audit Functions.

3 Principal Risks

The Company aims to follow a continuous, active, and systematic Risk Management process of well-defined steps in order to understand, manage and communicate risks from a firm-wide perspective. This is achieved through the effective identification, assessment, treatment and reporting of internal and external risks.

3.1 Risk to Client

Risk to Client ("RtC") reflects the risk covering the business areas of investment firms from which harm to clients can conceivably be generated in case of problems. The K-factors through aspects of RtC are being captured and measured are the following:

- **K-AUM (Assets Under Management)**

K-AUM captures the risk of harm to clients from an incorrect discretionary management of client portfolios or poor execution and provides reassurance and client benefits in terms of the continuity of service of ongoing portfolio management and investment advice. Although the Company is licensed to provide the investment service of "Portfolio management", it did not exercise its license during the year ending 31st of December 2021. To this extent, this K-factor is not applicable for the Company for the reference period.

- **K-CMH (Client Money Held)**

K-CMH captures the risk of potential for harm where an investment firm holds the money of its clients, taking into account whether they are on its own balance sheet or in third-party accounts and arrangements under applicable national law provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. K-CMH excludes client money that is deposited on a (custodian) bank account in the name of the client itself, where the investment firm has access to the client money via a third-party mandate. Based on the reference year, as part of its business, the Company receives from its customers, cash deposits to enable them to perform transactions in financial instruments and to this end, it is subject to the risk captured by this K-factor.

- **K-ASA (Assets Safeguarded and Administered)**

K-ASA captures the risk of safeguarding and administering client assets, and ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on its own balance sheet or in third-party accounts. During the year under review, the Company offered safeguarding services only in relation to the CFD positions of its clients, which is captured under K-CMH in consideration of the nature of CFD products. Therefore, the Company was not subject to the risk relating to this K-factor.

- **K-COH (Client Orders Handled)**

K-COH captures the potential risk to clients of an investment firm which executes orders (in the name of the client, and not in the name of the investment firm itself), for example as part of execution-only services to clients or when an investment firm is part of a chain for client orders. The Company executes its clients' orders by acting as principal to their trades, therefore the risk reflected by this K-factor does not apply.

3.1.1 K-CMH

The Company is subject to CMH that captures the risk of potential for harm where an investment firm holds the money of its clients and provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. This risk from a capital point of view covers the Company's off-balance sheet items.

With respect to the off-balance sheet (non-direct) credit risk exposure of clients' money, the BoD and the Risk Committee have set a minimum rating of BB for credit institutions in which at least 75% of clients' funds are maintained with. The remaining amount of clients' funds may be kept with credit institutions with minimum external credit rating of C. The Company's efforts are to engage with and maintain funds with highly rated Banks. Currently the Company uses both Barclays Plc and JP Morgan to hold its client funds (approximately equal proportion held in each Institution). Its JP Morgan account that is used to hold the its client funds was set up during the beginning of 2022, to reduce its concentration risk.

The Company monitors and assesses its CMH on a daily basis and accordingly allocates capital for this risk. In particular, capital requirements for RtC and specifically CMH), are calculated and monitored on an ongoing basis via its internal SAS tool, by the Dealing and Risk Department. Capital adequacy reports that monitor in detail CMH under RtC is being reported by the Risk Department to the Group CFO and some Senior Management members on a weekly basis and on a quarterly basis to the CySEC. The Board of Directors and the Risk and Committee members are also informed about the Capital adequacy and the equivalent capital requirements under RtC on a quarterly basis, in which the Risk department shares with all members end of month results.

3.2 Risk to Market

Risk to Market ("RtM") is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, foreign exchange rates and commodity prices. Market risk arises from the Company's exposures to financial instruments and to changes in the market prices of these financial instruments. Market risk comprises of equity risk, interest rate risk, foreign exchange risk and commodity risk. There are two K-factors that capture the principal risks under RtM:

- **K-NPR (Net Position Risk)**

This k-factor is based on the rules for Market Risk for positions in equities, interest rate financial instruments, foreign exchange and commodities in accordance with CRR. Therefore, K-NPR captures the Market Risk, which is defined as the risk that the Company's income or the value of its holdings of financial instruments will change due to the change in market risk factors (market prices, non-trading book interest rates, non-trading book foreign exchange rates). Exposure to market risk at any point in time depends primarily on short term market conditions and the levels of client activity. Based on the reference year, this K-factor is applicable to the Company.

- **K-CMG (Clearing Margin Given)**

This is an alternative to K-NPR to provide for market risk for trades that are subject to clearing or on a portfolio basis, where the whole portfolio is subject to clearing or margining as set out in Article 23 of IFR. CMG means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. Based on the reference year, this K-factor is not applicable to the Company due to the nature of its operations.

3.2.1 K-NPR

The Company deems market risk as one of the highest risk that the Company bears. The Company's exposures to Market risk arise from the trading of the clients on the Company's online platforms as well as from some on balance sheet banking exposures, in which the firm is subject to Market FX risk. The Company's operational model means than not all client exposures are hedged hence the Company may have a residual position in any of the underlying CFDs it offers.

The Company has established market position limits that reflect its risk appetite, for each financial instrument or market in which the Company's clients can trade. These limits are determined based on the trading levels, volatilities and the market liquidity of the underlying financial product or asset class. The Company acts as a market maker in CFDs where the underlying instruments are FX, Commodities, Indices, Exchange Traded Funds, Equities and Bonds. There is a high degree of natural hedging in the trading of clients across instruments and asset classes'. This mitigates significant single instrument concentration risk within the Company's trading portfolio and reduces the Company's net market risk exposure.

The Company has implemented a real-time market position monitoring system. This enables the Company to continually monitor its market exposure against these limits so that relevant action is initiated. This can include hedging the excess exposure using hedging accounts maintained with other broker or limit locks, without any more exposure being accepted. More specifically, Market Risk is monitored on a continuous basis by the Dealing team, which they act accordingly, depending on the internal hedging strategy and limits. Market risk is monitored both for Capital Adequacy ratio purposes and meeting Group Market Risk limits. It is monitored via SAS, the Company's internal online Capital adequacy tool that follows the new IFR/IFD rules as well as the Company's inhouse Risk App, that provides enhanced Market Risk assessment and monitoring for all the Group entities.

3.3 Risk to Firm

Risk to Firm ("RtF") captures an investment firm's exposure to the Risk of Default of its Trading Counterparties (K-TCD), the Concentration Risk arising from its exposures to counterparties and their connected persons (K-CON) and Operational Risks from its Daily Trading Flow of transactions (K-DTF).

- **K-TCD (Trading Counterparty Default)**

K-TCD means the exposures in the trading book of an investment firm in specific instruments and transactions giving rise to the risk of trading counterparty default. This methodology replaces the old Counterparty Credit Risk that used to be applicable under the old framework, CRR. The Company, throughout the year under review, was exposed to TCD due to its over-the-counter ("OTC") derivative transactions (i.e. CFDs).

- **K-DTF (Daily Trading Flow)**

K-DTF means the daily value of transactions that a CIF enters through dealing on own account or the execution of orders on behalf of clients in its own name, excluding the value of orders that a CIF handles for clients through the R&T of client orders and through the execution of orders on behalf of clients which are already considered in the scope of Clients Orders Handled. No similar risk was captured under the old regime, CRR. DTF aims to capture the operational risks from an CIF's daily trading flow. The Company is exposed to DTF due to the fact that it executes its trades on a principal basis (i.e. dealing on own account).

- **K-CON (Concentration Risk)**

K-CON means the exposures in the trading book of an investment firm to a client or a group of connected clients the value of which exceeds the limits specified in IFR. The concentration risk regime applies to all investment firms with exposure limits applicable to all investment firms that deal as principal, even where this is for clients. It is closely based on the CRR's large exposures regime (Large Exposures in the Trading Book Risk), with derogations for non-trading book exposures.

The Company is subject to the above three (3) K-factors which are monitored and controlled on an ongoing basis for all its Trading Book positions. Similarly, to RtC, capital adequacy report monitors in detail RtF and its sub K-factors

which are being reported by the Risk Department to the Group CFO and some Senior Management members on a weekly basis and on a quarterly basis to the CySEC, the Board and the Risk and Compliance Committee.

3.3.1 K-TCD

The Company's key counterparties under the Trading book are its institutional and retail clients as well as its hedging counterparties. With respect to client counterparty risk, also referred as K-TCD, client accounts must be funded before trading takes place (i.e. the clients need to have enough equity in their accounts to maintain their margin requirements).

The Company operates a real-time mark-to-market trading platform with customers' profits and losses being credited and debited automatically to their accounts. If the market moves adversely by more than the customer's maintenance margin, the Company exercises margin calls and stop outs to prevent the account from going into deficit, hence managing credit risk effectively (through the margin acting as a collateral for risk management). In addition, the Company offers negative balance protection, which means that clients cannot suffer losses greater than the initial capital invested.

3.3.2 K-DTF

As previously mentioned, DTF aims to capture the operational risks from an CIF's daily trading flow. Similarly to TCD and CMH previously mentioned, DTF is calculated and monitored on an ongoing basis via the Company's internal SAS tool, by the Dealing and Risk Department, and in case of a limit breach, actions are taken place to rectify the issue immediately.

3.3.3 K-CON

K-CON captures concentration risk in relation to its individual or highly connected counterparties, with whom the Company has exposures above certain thresholds, as defined by the IFR, by imposing a capital add-on in line with IFR for excess exposures above those limits.

In the same way as with the previously mentioned K-factors, K-CON is calculated and monitored on an ongoing basis via the Company's internal SAS tool, by the Dealing and Risk Department, and in case of a limit breach, actions are taken place to rectify the issue immediately.

3.4 Other Risks

3.4.1 Operational Risk (other than daily trading flow)

In general, operational risk is defined as the risk of loss that can result from inadequate internal processes, people, system errors or external events as well as other risks such as fraud, legal or physical and environmental risks. The Company, due to its nature, is primarily exposed to operational risks arising from potential system / trading platform failures or delays, operational risks related to internal practises, as well as legal and compliance risks. The Company is partially dependent on third parties, including its own Group, for the key technological systems, infrastructure suppliers, data providers and data sources. The operational risk assessment is performed through the active participation of all areas and departments of the Company on a regular basis, at least annually. Also, Operational risk is being assessed on a Group basis, via a dedicated Operational risk expert, that was hired during the beginning of 2022, and holds the responsibility of tracking all operational incidents and general events that might have occurred throughout the Group.

In line with the three levels of defence model, the primary responsibility for operational risk lies with each individual business unit of the Company. The Head of each Department is responsible for managing and mitigating operational risks within his/her area of responsibility. Annual Review and Assessment of the Operational Risk per department are performed to assess any new risks and the effectiveness of existing procedures. The Group Operational risk specialist tracks all operational incidents and general events that might have occurred throughout the Group and registers them on to a shared log file. Issues of note are logged in the risk registry, where the event and the action to address it are documented formally. Furthermore, any material operational incident is brought to the attention of the Risk & Compliance committee for review and discussion.

On a capital perspective, the Company, calculates its operational risk using the Fixed overheads approach, defined as Fixed Overheads Requirement (“FOR”) under the IFR framework, and thus maintains adequate capital of at least one quarter of its fixed overheads of the preceding audited year. The Company reports its FOR to the CySEC, BoD and to the Risk and Compliance Committee on a quarterly basis.

3.4.2 Regulatory and Compliance Risk

The Company's revenue depends upon the maintenance of licenses from regulators. Non-compliance with the regulatory framework of jurisdictions in which the Company's trading platform is accessible from, could adversely affect the Company's profitability and may result in the suspension, revocation or amendment of its licenses and/or other enforcement action.

Increased regulatory scrutiny of the industry in which the Company operates could adversely affect the Group's revenue, business and profitability. Changes to the EU regulatory framework, current and proposed EU regulations and directives could restrict the Company's business. The implementation of necessary changes to comply with the increased regulatory framework could potentially result in significantly additional demand on the Company's resources.

To mitigate Regulatory and Compliance Risk, the Compliance and Risk Management Departments keep abreast of regulatory developments, participate in material regulatory consultations, and aim to anticipate regulatory issues by providing advice to the Company's Board and the business on such matters on an ongoing basis. External legal advice is obtained on new regulations affecting the CFDs sector in the jurisdictions in which the Company operates. Relevant actions are then initiated by the Company to ensure comprehensive and consistent compliance at all times.

3.4.3 Money Laundering Risk

Money Laundering risk entails all practices and methods that may be used by the Company's clients, counterparties and/or partners to launder money using the Company's services. The Company has established processes and procedures to identify, assess and understand the money laundering (ML) and terrorist financing (TF) risks that the Company may be exposed to. In identifying potential risks, the Company is using the guidance and recommendations of the FATF and the European Union. This risk is considered high due to the non-face-to-face nature of the Company's business.

The primary responsibility for the assessment of the risks identified lies with the Company's Money Laundering Reporting Officer (MLRO) as well as the Board of Directors and to this end a risk assessment using the inherent and residual risk of each of the identified risks is performed by both parties and the Chief Compliance Officer. The use of a three-party assessment ensures subjectivity is minimised as far as possible allowing the Company to effectively monitor the risks identified.

Any updates to the regulatory framework which affect the Company's AML processes are brought to the attention of the Risk and Compliance Committee as well as the Board on a quarterly basis with any changes in the regulatory framework or the Company's process and suggest relevant improvements. It is noted that the MLRO and Compliance Department, circulate on a yearly basis the risk assessment matrix with identified risks to the Executive directors (4-eyes). The MLRO and the Compliance Officer update the Risk and Compliance Committee as well as the Board on a quarterly basis with any changes in the regulatory framework or the Company's process and suggest relevant improvements.

3.4.4 Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its financial liabilities when due, under both normal circumstances and stressed conditions. In accordance with the CySEC clients' money rules, the Company holds in segregated, clearly designated as clients' money bank accounts, all the funds of its clients. Therefore, the Company considers liquidity risk in relation to all clients' trading activity to be significantly low.

Also, the Company follows the Liquidity requirement set by the new IFR/IFD framework. As at 31st of December 2021 the Company satisfied the Liquidity Requirement.

4 Own Funds

The new prudential framework for investment firms set out in the IFR and the IFD is designed to reflect better the nature, size, and complexity of investment firms' activities compared to the CRR/CRD framework. One key aspect of the new framework is that it provides for simpler and more bespoke capital requirements for investment firms.

As per the new rules set by the IFR, investment firms are required to maintain Own Funds consisting of the sum of their Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, and shall at all times meet all of the following conditions:

- a) Common Equity Tier 1 Capital of at least 56% of Own Funds Requirements.
- b) Common Equity Tier 1 Capital and Additional Tier 1 Capital of at least 75% of Own Funds Requirements.
- c) Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital of at least 100% of Own Funds Requirements.

Table 2 below presents the composition of the Company's Own Funds as at 31st of December 2021, while Table 3 indicates how these Own Funds reconcile with the Company's audited Balance Sheet as of this date, and they have been prepared using the format set out in the Final Report on the Draft Implementing Standards issued by the EBA on reporting and disclosure requirements of investment firms under the IFR (EBA/ITS/2021/02).

As at 31st of December 2021, the Company's Own Funds comprised of Common Equity Tier 1 capital. As shown below, the Company's Own Funds amounted to \$8.527K.

Table 2: Template EU IF CC1.01 - Composition of Regulatory Own Funds

		(a) Amounts (\$'000)	(b) Source based on reference numbers/letters of the balance sheet in the audited financial statements (Cross Reference to EU IF CC2)
Ref.	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	OWN FUNDS	8.527	
2	TIER 1 CAPITAL	8.527	
3	COMMON EQUITY TIER 1 CAPITAL	8.527	
4	Fully paid up capital instruments	2.093	Ref. 1 (Shareholder's Equity)
5	Share premium	17.175	Ref. 2 (Shareholder's Equity)
6	Retained earnings	4.225	Ref. 4 (Shareholders' Equity)
8	Other reserves	398	Ref. 3 (Shareholder's Equity)
7	Adjustments to CET1 due to prudential filters	-9	
10	(-) Losses for the current financial year	-15.090	Ref. 4 (Shareholders' Equity)
19	(-) Other intangible assets	0	
27	CET1: Other capital elements, deductions and adjustments	-265	Ref. 1 & Ref. 4 (Assets)
28	ADDITIONAL TIER 1 CAPITAL	-	
40	TIER 2 CAPITAL	-	

Table 3: Template EU IF CC2: Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements

		(a) Balance sheet as in published/audited financial statements As at 31 Dec 2021 (\$'000)	(c) Cross reference to EU IF CC1
Ref.	Assets - Breakdown by asset classes according to the balance sheet in the published/audited financial statements		
1	Trade and other receivables (Investors Compensation Fund Contribution)	224	Ref. 27
2	Other non-current assets	80	
3	Trade and other receivables (other)	2.561	
4	Cash and cash receivables (Additional Cash Buffer)	41	Ref. 27
5	Cash and cash receivables (Other)	10.703	
6	Tax receivable	763	
	Total Assets	14.372	
Ref.	Liabilities - Breakdown by liability classes according to the balance sheet in the published/audited financial statements		
1	Current liabilities	5.572	
	Total Liabilities	5.572	
Ref.	Shareholders' Equity		
1	Share capital	2.093	Ref. 4
2	Share premium	17.175	Ref. 5
3	Other reserve	398	Ref. 8
4	Accumulated losses/Retained earnings	-10.866	Ref. 6 & Ref. 17
	Total Shareholders' equity	8.800	

5 Minimum Capital Requirements

The new framework (IFR/IFD) introduces a different approach for calculating the Minimum Capital Requirements, which dictates for Class 2 investment firms, that they are derived by taking the highest of the Fixed Overhead Requirement ("FOR"), the Permanent Minimum Capital Requirement ("PMCR") and the K-factors that apply to each investment firm.

5.1 Fixed overheads requirement (FOR)

The Company reports its Fixed Overhead requirements, to the Group CFO and some Senior Management members on a weekly basis and on a quarterly basis to the regulator. The Board of Directors and the Risk and Committee members are also informed about the fixed overhead requirements on a Quarterly basis, in which the Risk department shares with all members end of month results. The Company calculates its FOR by taking the one quarter of the fixed overhead expenses of the preceding year in accordance with the provisions of Article 13 of the IFR. The Fixed Overheads Requirement as at 31 December 2021 amounted to \$3.733K.

5.2 Permanent Minimum Capital Requirement (PMCR)

The Company monitors its Own Funds on a continuous basis and ensures that they remain above the Permanent Minimum Capital Requirement of €750K. However, the Firm's reporting currency is USD so, as at the reference date, this translates to \$849K, which corresponds to the initial capital that applies to the Company in accordance with Article 9 of the IFD.

5.3 "K-factor" Capital Requirement

The Company calculates its overall "K-factor" capital requirement on a continuous basis which is the sum of "K-factor requirements" grouped in three categories: Risk-to-Client (RtC), Risk-to-Market (RtM), Risk-to-Firm (RtF), in accordance with Articles 16 through to 33 of the IFR (and as described in further detail in Section 3). The total K-Factors as at 31st December 2021 amounted to \$4.859K.

Table 4 breaks down the Pillar I minimum capital requirement that the Company was required to hold as of 31st of December 2021.

Table 4: Minimum Capital Requirements

Minimum Capital Requirements		31 Dec 2021 (\$'000)
K-Factor Requirement		
Risk-to-Client (RtC)	K-AUM	-
	K-CMH	126
	K-ASA	-
	K-COH	-
Risk-to-Market (RtM)	K-NPR	1.919
	K-CMG	-
Risk-to-Firm (RtF)	K-TCD	1.993
	K-DTF	247
	K-CON	574
Total K-Factor Requirement		4.859
Fixed Overhead Requirement ('FOR')		3.733
Permanent Minimum Capital Requirement ('PMCR')		849

With the new IFR & IFD requirements, the Company's Own Funds Requirement as at 31st December 2021 should have been at least the Total K-Factor Requirement of \$4.859K.

The Company's Own Funds comprised entirely of Common Equity Tier 1 capital and amounted to \$8.527 which exceeds the Own Funds Requirement of \$4.859K and thus resulting to a capital surplus of \$3.668K.

As indicated in Table 5 below, as at 31st of December 2021 the Capital Adequacy (CAD) ratio of the Company amounted to 175,48% which far exceeded the minimum required threshold of 100%.

Table 5: Capital Excess/Ratio

(USD)	31 Dec 2021 (\$'000)	Reference
Capital		
Common Equity Tier 1	8.527	
Additional Tier 1	-	
Tier 2	-	
Total Own Funds	8.527	<i>a</i>
Own Funds Requirement		
K-factor Requirement	4.859	<i>b</i>
Fixed Overhead Requirement	3.733	<i>c</i>
Permanent Minimum Capital Requirement	849	<i>d</i>
Minimum Own Funds Requirement	4.859	<i>e = (higher of b, c, d)</i>
Capital Excess/Ratio		
Capital Excess	3.668	<i>a-e</i>
Capital Ratio	175,48%	<i>a/e</i>

6 Remuneration Policy

The Company is in the process of updating its existing Remuneration policy, through which it will ensure full alignment with the IFR & IFD framework and the Cyprus Law 165(I)/2021 on the Prudential Supervision of CIFs.

The Remuneration Policy sets out the Company's policy for remuneration practices in compliance with regulations and the corporate objective of balancing risk and performance through hiring and retaining competent and committed executives for the longer term. In addition, it outlines the internal control processes and procedures implemented within the Company and its Branches, with respect to having in place risk-focused remuneration controls and procedures which are consistent with and promote a code of conduct that ensures the avoidance of conflicts of interest that might lead to outcomes detrimental to the Company and its clients.

Internal governance processes provide oversight and control over remuneration policies and risk management to ensure that remuneration decisions are aligned with the risk appetite of the Company and the Group, premised on the mapping of potential conflicts. The internal governance of remuneration is managed primarily by the Board of Directors and the Remuneration Committee of the Board ("REMCO"). REMCO receives input from the respective Business Heads as well as crucially from the Compliance, Risk, Internal Audit, and HR Management functions.

Remuneration Committee

Role and Responsibilities

The main objective of the Remuneration Committee ("REMCO") is to determine and apply a Remuneration Policy on behalf of the Board and to ensure compliance with best practice in the area of remuneration and reward. The REMCO is required to make suitable arrangements in order to achieve prudent recognition of any deficiencies identified in terms of remuneration within the Company and approves remuneration policies that may need to be implemented, from time to time, by the respective relevant departments within the Company.

The role and remit of the REMCO, in conjunction with the Risk & Compliance Committee, focuses on the remuneration practices of Directors, Senior Management, risk takers, Sales executives and all other employees of the Company that receive (or may in the future receive) any form of variable pay. Additionally, the remit of the REMCO includes ensuring that the Company has in place a Remuneration Policy that addresses all regulatory requirements.

Amongst others, the Committee has a crucial role in:

- Reviewing the framework for remuneration for all employees to ensure it remains appropriate and market competitive Through the ICARA Report.
- Determining and agreeing with the Board the remuneration of the Company's Chief Executive, the executive directors, the Company secretary and such other members of the senior management as relevant.
- Ensuring that the Remuneration Policy considers all necessary relevant legal and regulatory requirements for senior employees and risk takers and all other employees.

The REMCO is comprised of three (3) independent Non-Executive members of the Board. The REMCO convened one (1) time during 2021.

The Senior Management makes recommendations to REMCO for any changes in remuneration practices, vesting conditions and levels. Furthermore, it makes recommendations to REMCO for bonus / variable pay pools, taking into consideration the Company's Financial Results, individual Department performance and individual employee performance as well as the feedback from the Company's Compliance and Risk Management functions. The Senior

Management directs and oversees the implementation of remuneration practices by the remuneration policy owners who are the Chief Executive Officer and the Human Resources Manager.

All remuneration decisions are in line with the stated risk appetite (including conduct risk) and framework of the Company as well as the Company's regulatory obligations.

Fixed and Variable Remuneration

Compensation Mix

The REMCO takes into account, when determining remuneration awards, the need to ensure an appropriate ratio between fixed and variable pay so that the Company and the Group are able to operate a fully flexible incentive policy under a hybrid remuneration model. This includes the ability to pay no bonuses or other incentive pay, should performance of the Company, the Group and/or an individual require this.

Fixed Remuneration

Fixed remuneration serves to compensate employees according to their qualifications, experience and skills, as well as the requirements, significance and scope of their work. Specifically, it includes the contractually agreed monthly recurring salary.

The appropriate amount for an employee's fixed remuneration shall be determined based on a market comparison of his/her role, general salary levels within the Company, the labor market situation in the industry and at the respective location and the regulatory requirements for the structures applicable to total remuneration. Competitive fixed remuneration plays an important role in attracting and retaining employees. This guarantees that the Company and the Group have the competencies required to meet their strategic goals. The Company's employees are awarded with a fixed monthly remuneration.

Variable Remuneration

The Company employs two types of variable remuneration:

- Annual discretionary performance-related bonus. All employees are eligible to receive such a bonus following the year under review.
- Commission based on number of conversions granted to specific employee categories.

Qualitative and quantitative criteria are taken into account in the determination of variable remuneration. These criteria reflect the desired conduct of the employees to act in the best interest of the clients and in a manner that has regard to focusing on the long-term sustainable performance of the Company versus short term risk taking or malpractices. Variable remuneration also has the benefit that it can differentiate performance results and promote practices by means of suitable incentive systems, which in turn affect the corporate culture.

The maximum variable remuneration payable to employees is limited to 100% of their fixed remuneration, as per the respective policy of Playtech PLC ("Playtech"). Up to 100% of the total variable and performance related remuneration may be subject to malus and clawback arrangements.

Bonus Pool Determination (including risk adjustment)

The discretionary annual bonus pool for the employee remuneration is suggested by the management to the REMCO for its consideration and evaluation. The REMCO makes final recommendations to the Board of Directors, which has the responsibility for the final sign off. The work of all relevant committees is based on an assessment of the financial performance for each financial year against targets and a quantitative and qualitative assessment of the risks taken during each financial year, as well as matters relating to capital management and regulatory compliance. The Board of Directors reviews the annual bonus pool to ensure (a) that all relevant business risks have been assessed and taken into account and (b) that sufficient amounts are allocated to ensure the Company and the Group are able to maintain a robust capital base.

Performance Management Approach

The Company and the Group operate an annual appraisal process which establishes objectives for all staff covering both financial and non-financial metrics, specific behavioral competencies, including compliance and risk management behaviors with regards to the Company's and the Group's values, Code of Conduct, policies and procedures.

Performance against non-financial metrics has a significant influence on the overall performance rating and poor performance against non-financial metrics will result in a reduction of an employee's annual incentive award. Annual performance ratings are independently reviewed (and challenged where appropriate) and calibrated at a Company and Group-wide level to ensure that ratings have been applied consistently and performance has been effectively differentiated.

Under the remuneration framework, remuneration decisions are made based on a combination of business results, performance against objectives set out in performance scorecards, general individual performance of the role and adherence to the Company's values, Code of Conduct, policies and procedures.

The table below provides the aggregate remuneration of Senior Management and other staff whose activities have a material impact on the risk profile of the Company, broken down by fixed and variable cash remuneration.

Table 6: Quantitative information on remuneration

Name ¹	No. of persons	USD ('000)		
		Fixed all	Variable	Total
Senior Management (Including Executive & Non-Executive Directors)	7	853	227	1.080
Other staff	11	532	48	580
Total	18	1,385	275	1,660

1. One Non-executive director is not remunerated by the Company.

During 2021 the Company did not provide any non-cash benefits. In addition, the Company did not make or award any severance or sign-on payments, or any deferred remuneration.

Appendix: Own Funds

		a
		Common Equity Tier 1 Capital
1	Issuer	Safecap Investments Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Public or private placement	Private
4	Governing law(s) of the instrument	Cyprus Law
5	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	2.092.572
7	Nominal amount of instrument	1.400.000
8	Issue price	EUR 1 each
9	Redemption price	N/A
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	25/10/2006-24/06/2009
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
22	Existence of step up or other incentive to redeem	No
23	Noncumulative or cumulative	Non-cumulative
24	Convertible or non-convertible	Non-convertible
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	No
32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A
34	If write-down, permanent or temporary	N/A
35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the instrument (signposting)	N/A

