Pillar 3 Disclosures

The Pillar 3 disclosure of Finotec Trading UK Limited ("the Firm") is set out below as required by the FCA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU) specifically BIPRU 11.3.3 R (for ICAAP) and BIPRU 11.5.18 R (for remuneration). This follows the introduction of the Capital Requirements Directive ("CRD") which represents the European Union's application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve transparency and thereby to protect consumers.

FINOTEC TRADING UK LIMITED (FTUK): PILLAR 3 DISCLOSURE AND POLICY

1. REGULATORY CONTEXT

This document serves to meet the Pillar 3 disclosures required by the Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") specifically BIPRU 11.3.1R and BIPRU 11.3.3R. These rules implement in the United Kingdom the Capital Adequacy Directive ("CAD") and Capital Resources Regulation (CRR), which represents the European Union's application of the Basel Capital Accord.

The regulatory aim of the disclosures is to improve market discipline.

These requirements have three pillars:

- Pillar 1 deals with minimum capital requirements that must be held;
- Pillar 2 deals with the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the firm in relation to the risks it faces, and;
- Pillar 3 deals with public disclosure of risk management policies, capital resources and capital requirements.

2. IMPORTANT INFORMATION ABOUT THE PREPARATION OF THESE DISCLOSURES

- This document has been prepared for the sole purpose of disclosing how FTUK has documented compliance with certain capital requirements and managed risk and for no other purpose. It is based on historical information.
- This document only concerns FTUK ("the Firm").
- The information contained herein has been subject to internal review by the Firm's Board of Directors, but has not been audited by the Firm's external auditors. It does not constitute any form of financial statement and must not be relied upon in making any judgment on FTUK.
- This disclosure will be updated annually after the audit of the year-end statutory accounts and financial statements, unless there is a material change to the business strategy or scale of operations.
- This disclosure will be published on our public website.

3. BACKGROUND TO THE FIRM

The Firm is incorporated in the UK and is authorised and regulated by the FCA as an Investment Firm. The Firm's activities give it the BIPRU categorization of a "limited license" and a "BIPRU €125K" firm.

4. SUMMARY OF MAIN RISKS

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this statement.

The Firm is mindful of the FCA's comments regarding confidentiality and of the comment that both qualitative and quantitative data must be disclosed.

As such, the Firm's policy is to disclose that information required under the FCA Rules but to treat further information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Firm will regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

The Firm is a limited license scope firm primarily undertaking brokerage services. It acts as agent on behalf of clients and on a matched principal basis.

5. SPECIFIC REQUIRED DISCLOSURES

BIPRU 11.5.1 R - DISCLOSURE ON RISK MANAGEMENT OBJECTIVES AND POLICIES

Our general risk management objective is to create and use adequate systems and controls to mitigate risk and monitor the operation of the business and its environment to ensure that sufficient capital to cover all relevant risk is held at all times.

The Board of Directors is the Governing Body of the Firm and has management and oversight responsibility. It meets semi-annually and is composed of:

- Chief Executive Officer and Director – D Essemini
- Chief Financial Officer and Director – S Mansoor
- Chief Operations Officer and Director – S Vladamirsky

*as at date of publishing

The Board decides the Firm's risk appetite and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure potential impact and to ensure that those risks are actively managed.

The Firm has a conservative attitude to risk and accepts certain risks inherent to the business model.

- These risks are mitigated and managed through tried and tested systems and controls.
- The Firm has identified material risks and has undertaken scenario analysis and stress tests on these risks as detailed in the ICAAP.
- Overall, there is a low level of risk and to ensure tight controls, the Board meets regularly to review and manage its risk levels as set out in the firms ICAAP.

BIPRU 11.5.2 R - DISCLOSURE ON THE SCOPE OF THE APPLICATION OF DIRECTIVE REQUIREMENTS

FTUK submits reports for accounting and prudential purposes to the FCA on an unconsolidated basis.

BIPRU 11.5.3 R - DISCLOSURE ON CAPITAL RESOURCES

Pillar One - credit and counterparty risk

Our capital requirements for credit and counterparty risk under pillar one are calculated in a similar manner for both client exposures and market facing exposures.

We have a number of clients whose money is held on a title transfer basis. Their transactions are placed through house accounts and do expose us to credit risk. Because this risk is militated by the deposit of initial margin, there is inevitably an exposure which gives rise to a pillar one capital requirement.

In addition to our trading book positions and bank accounts, we have a variety of balance sheet exposures including fixed assets, prepayments and other sundry balances. These are all risk weighted at 100% for regulatory capital purposes and effectively subject to an 8% capital requirement

We have therefore set the Pillar One Capital Requirement for Credit/Counterparty Risk at £116,101 which breaks down as follows:

Pillar One – market risk

We are a matched principal broker. We provide our clients with access to the markets but do not seek to participate in the markets ourselves. We may hold foreign currencies to meet our operational needs or as a result of our revenues accruing in that currency. We have traditionally regarded foreign exchange differences as either a profit or loss to the firm rather than a risk.

Our pillar one capital requirement is calculated using the standard method for foreign exchange as 8% of the greater of net longs and net shorts. We have therefore set the Pillar One Capital Requirement for Market Risk at £5,014

Pillar Two - credit and counterparty risk

We believe that we have mitigated credit risk to our clients through our rigorous margining processes. We are satisfied that this is borne out by the evidence of our past experience. We do not believe that we require any capital to cover credit risk to our clients,

Pillar Two – market risk

As a matched principal broker, we provide our clients access to the markets but do not participate in them ourselves. However, we do have foreign currency balances on our balance sheet. This includes funds held in foreign currencies for operational purposes, accrued revenues and costs. It would be possible to hedge all these exposures using CFDs, however, we do not think it would be consistent with our policy of not participating in the market.

We have therefore allowed £5,014, as the Pillar Two Market Risk

The regulatory capital requirement is currently dictated by our fixed overheads requirement of £134,970. Our capital requirements for credit risk amounts to £116,101 and our capital requirement for market risk amounts to £5,014

ITEM	PILLAR ONE	PILLAR TWO	HIGHER of P1 & P2
	GBP	GBP	GBP
Base EUR 125k	**110,541**	**-**	**110,541**
Client Credit Risk	-	-	-
Business Credit Risk	116,101	116,101	116,101
Market Risk	5,014	5,014	5,014
Total	**121,115**	**121,115**	**121,115**
Fixed Overheads or Wind Down	**134,970**	**70,092**	**134,970**
CAPITAL REQUIREMENT	134,970	121,115	134,970

BIPRU 3 - DISCLOSURE ON STANDARDISED CREDIT RISK
For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component, the Firm has adopted the Standardized approach (BIPRU 3.4) and the simplified method of calculating risk weights (BIPRU 3.5), which is currently calculated at £116,101.

BIPRU 4 - DISCLOSURE ON INTERNAL RATINGS BASED APPROACH
The Firm does not adopt the Internal Ratings Based approach and therefore this is not applicable.

BIPRU 7 – DISCLOSURE ON MARKWET RISK
The Firm’s market risk exposure was £5,014 as at 31st December 2018.

DISCLOSURE ON OVERALL PILLAR 2 RULE
The Firm has adopted the "Structured" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP is reviewed by the Board of the Firm annually, or when a material change to the business occurs.

BIPRU 11.5.7 R - DISCLOSURE ON COUNTERPARTY CREDIT RISK
Risk exists that clients’ positions are closed at a rate which may equate to a negative positon thus require the firm to chase the client for the shortfall. Clients are now given

the same NOP Margin method we receive from our PB. Furthermore, the Firm's new Back off system executes a live comparison of Client Margin against PB Margin.

BIPRU 11.5.8 R - DISCLOSURE ON CREDIT RISK AND DILUTION RISK
The Firm is primarily exposed to Credit Risk from the risk of non-collection of fees and the exposure to banks where cash assets held is deposited.

The Firm holds all cash with an A rated UK bank.

BIPRU 11.5.9 R - DISCLOSURE ON VALUE ADJUSTMENTS AND PROVISIONS
This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired Exposures that need to be disclosed under BIPRU 11.5.8 R (9).

BIPRU 11.5.10 R - DISCLOSURE ON CALCULATING RISK WEIGHTED EXPOSURE – STANDARDISED APPROACH
This disclosure is not required because the Firm has not adopted the standardized approach. Instead the Firm uses the simplified method of calculating risk weights.

BIPRU 11.5.11 R - DISCLOSURE ON CALCULATING RISK WEIGHTED EXPOSURE – IRB APPROACH
This disclosure is not required because the Firm has not adopted the Internal Rating Based approach.

BIPRU 11.5.12 R - DISCLOSURE ON MARKET RISK
The Firm has negligible exposure to settlement and price volatility. These risks are managed by having robust internal controls to limit our exposure. Other potential exposures are non-trading book exposures to foreign currency assets or liabilities held on our balance sheet.

BIPRU 11.5.13 R - DISCLOSURE ON USE OF THE VaR MODEL
This disclosure is not required because the Firm does not use a VaR model for the calculation of the Market Risk Capital Requirement.

BIPRU 11.5.14 R - DISCLOSURE ON OPERATIONAL RISK
The Firm's Pillar 1 Capital Resources Requirement is equal to the higher of: €125,000; or Credit Risk Capital plus Market Risk Capital; or Fixed Overhead Requirement. Our Fixed Overhead Requirement is disclosed as a proxy for the Pillar 1 Operational Risk Capital calculation, which is currently calculated at £134,970.

BIPRU 11.5.15 R - DISCLOSURE ON NON-TRADING BOOK EXPOSURES IN EQUITIES
This disclosure is not required because the Firm does not have non-trading book exposure to Equities and Bonds

BIPRU 11.5.16R - DISCLOSURE ON EXPOSURES TO INTEREST RATE RISK IN THE NON-TRADING BOOK

Although the Firm holds substantial cash balances on its balance sheet, there is no significant exposure to interest rate fluctuations.

BIPRU 11.5.17 R - DISCLOSURE ON SECURITISATION

This disclosure is not required because the Firm does not securitize its assets.

BIPRU 11.5.18 R - DISCLOSURE ON REMUNERATION

Under the FCA's Remuneration Code guidance, Finotec Trading UK Limited is a Tier 4 Company, which allows it to display many of the technical requirements of the Code and proportionately apply the Code's rules and principles in establishing its Remuneration Policy.

Decision making Process for Remuneration Policy

During 2018 the Company's Remuneration Policy was determined and administered by the Board.

Risk management is fundamentally important to the Company in its provision of order execution services. The Company has designed and implemented its Remuneration Policy to underwrite and promote effective risk management, consistent with the nature of its business.

The Company's Remuneration Policy takes full account of the Company's strategic objectives and the long term interests of shareholders and other stakeholders. Its objective is to recognise and reward good and excellent performance of employees that helps drive the sustainable growth of the Company and to preserve shareholder value by ensuring the successful retention of employees.

For the year ended 31 December 2018, the Directors reviewed the performance of other employees and based on that review determined the overall level of remuneration for each employee and the split between fixed (base salary) and variable (bonus) remuneration.

Code Staff Criteria

The following groups of employees have been identified as meeting the FCA's criteria for Code Staff:

- Any employee holding a significant influence function
- Other senior managers who have an input into the decision-making process of the Company

- Any employee receiving total remuneration which takes them into same remuneration bracket as senior management.

The Link between Pay and Performance for Code Staff

Code staff remuneration is made up of fixed (basic salary) and variable (bonus) elements. Variable remuneration is directly linked to the overall performance of the Company and is designed to link reward with the long term growth and success of the Company.

Aggregate Quantitative Information on Remuneration for Code Staff

For the year ending 31 December 2018, there were 3 Code Staff (as defined above). All were senior managers holding a significant influence function. Aggregate remuneration expenditure in respect of Code Staff was £92,000.00

Remuneration expenditures were divided between fixed and variable remuneration as follows:

- Fixed remuneration: £92,000.00
- Variable remuneration: £0.00
- Number of beneficiaries: 3

Fixed remuneration consists of basic salaries only while variable remuneration consists of bonus payments.