MeritKapital UK

PILLAR III DISCLOSURES

YEAR ENDED 30 SEPTEMBER 2017

Contents

1. Overview

1.1. Regulatory framework overview

The purpose of this document is to outline the Pillar 3 disclosures for **MeritKapital UK Ltd** (the 'Firm' or 'MKUK') for the period up to 30 September 2017 required by the Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), as set out in chapter 11 of BIPRU. The BIPRU together with the General Prudential Sourcebook ('GENPRU') 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 framework consists of a three "Pillar" approach:

- **Pillar I** establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating RWA.

- **Pillar II** requires Firms and supervisors to take a view on whether a Firm should hold additional capital against risks considered under Pillar I that are not fully captured by the Pillar I process (e.g. credit concentration risk); those risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk); and factors external to the Firm (e.g. business cycle effects). Pillar II connects the regulatory capital requirements to the Firm's internal capital adequacy assessment process ("ICAAP") and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and institutions on a continuous basis and to evaluate how well the institutions are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

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

1.2. Scope of application

The Firm MeritKapital UK Limited was incorporated in the United Kingdom as an Investment Firm on 23 June 2016 (registration number 09779913). The Firm is given permission to provide regulated products and services with Financial Conduct Authority reference number 720609.

The Firm is authorised by the Financial Conduct Authority and is subject to the Capital Requirements Directive ("CRD"). During the year under review, in respect of the MiFID business that the Firm had permission to conduct, the Firm was prudentially categorised as a BIPRU limited license Firm with minimum/initial capital of € 50,000 but did not hold Client money or assets. Furthermore, MKUK operated on a matched principle basis by providing fixed income brokerage of securities.

During 2018, the Company's licence was extended to include the investment services of "Dealing on Own Account", "Investment Advice", "Custody and Safekeeping" (CASS Small firm) and "Prime Brokerage". Consequently, the Company became an IFPRU € 730K investment Firm (Non-significant IFPRU Firm).

Under the new license, the Firm will engage in deals with respective eligible counterparties and professional clients as per its permissions to conduct investment activity as a full scope IFPRU investment Firm. The Company will offer a variety of Services and generate income from different business streams. This will be through brokerage fees, fees charged on prime-brokerage deals, the assets under management for custody services, charging ticketing fees per transaction or instruction for clearing services and generate further income by making their own investments unto the Company's books. In regard to proprietary trading, the Company will expand its operations over the primary and secondary market by participating in IPOs and new issue placements but also by investing into short tenure investments of sovereign or corporate debt securities of emerging market countries. Furthermore, the Company will act as intermediary in REPO agreements and will forward its clients requests for such agreements for a particular financial instrument to collaborating banks with which the Company has Global Master Repurchase Agreements ("GMRA"). Moreover, under the brokerage service the Company will provide equities and fixed income trading activities to its clients by providing them with access to various regulated and non-regulated markets via its established collaborating brokers via Bloomberg EMSX platform, Bloomberg chats, email, recorded phone and fax.

Additionally, under the new licence, the Company will perform clearing and settlement transactions through collaborations it forms with third-party custodians. Such custody services will also be available for institutional brokerage clients that approach the Company merely for custody services, mainly as they wish to capitalize on such a custody platform that is otherwise not available to smaller clients. In addition, under the investment advice service the Company will entail the provision of advisory services to a client, either upon request, or upon the initiative of the Company, in relation to one or more transactions concerning financial instruments investments opportunities present mainly in the Eurobonds market.

The Firm is publishing the disclosures on an individual (solo) basis. The Firm is regulated as a standalone entity in the UK and is not part of a UK consolidation group and this disclosure has been prepared in relation to the Firm only.

Overall the Firm offers a range of corporate credit investment strategies that seek to meet the performance, risk control, liquidity and transparency requirements for Professional Clients and Eligible Counterparties (as defined in the FCA Handbook).

Annual Reports and Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act 2006. The financial statements are presented in Sterling and all values are rounded to the nearest pound (£) except when otherwise stated.

1.3. Scope of Business

The Firm specialises in fixed income brokerage of securities within the global fixed income marketplace. Although the Firm is not restricted to high yield and emerging markets bonds, it prides itself on its niche in this sphere. Relationships with large buy side funds that span from the western capital markets to the emerging markets are a testament to this specific market expertise. The Firm's other institutional relationships utilise its efficient platform for treasury book rebalancing, capital preservation strategies and allocation requests for the primary market amongst other service offerings.
<u>Emerging Markets</u>

The Firm provides speedy and efficient execution for its client pool across a range of fixed income instruments by capitalising on a diverse and established institutional network.

It has a focus within the emerging markets (Sovereigns, Corporates, High yield, distressed) space of Latin America, and MENA but particularly within Sub-Saharan Africa. The Firm leverages off its relationships in the countries in which it operates to facilitate price competitive sourcing of respective paper but also to gain local respective insight. Simultaneously it maintains and continues to grow its network of buy side holders in the western capital markets space. This specific approach allows the team of the Firm to maintain a level of anonymity when transacting and to, simultaneously, secure good pricing.

Primary Market Bonds

Utilising its large network of liquidity providers which includes lead managers and brokers alike, the Firm accepts orders for placement of new issues in the bond market to target the requested allocations of its end clients. The team is able to take on either outright or hedged orders and specific information on upcoming deals is distributed daily via clients preferred communication medium.

Cross Currency Bonds

Trading of cross currency bonds that are denominated in emerging market currencies but settle in a cross-currency denomination. This is particularly interesting for onshore investors who wish to gain FX exposure of the emerging market currencies amid an environment of varying central bank monetary policies between the emerging markets and the developed ones.

Trading of equities on global exchanges through Direct Market Access (DMA)

This may be offered through the provision of our front-end platform or orders may be received through third party platforms such as Bloomberg. OTC orders may also be facilitated where the underlying shares are rather illiquid and a transaction may be better executed in bulk.

Following the licence extension, the Company is authorised to perform the following investment activities and type of investments to eligible counterparties and professional clients:

<table>
<tr><th>Investment Activity</th><th>Investment type</th></tr>
<tr><td>Advising on investments (except on Pension Transfers and Pension Opt Outs)</td><td rowspan="6">• Debenture
• Government and public security
• Rights to or interests in investments (Security)
• Share</td></tr>
<tr><td>Arranging (bringing about) deals in investments</td></tr>
<tr><td>Dealing in investments as agent</td></tr>
<tr><td>Dealing in investments as principal</td></tr>
<tr><td>Making arrangements with a view to transactions in investments</td></tr>
<tr><td>Safeguarding and administration of assets (without arranging)</td></tr>
</table>

1.4. Disclosure Policy

Firm MeritKapital UK Limited has a formal policy which details its approach in complying fully with the disclosure requirements laid out in Chapter 11 of the BIPRU. The following sets out the Firm's Disclosure Policy as applied to Pillar III Disclosures, according to BIPRU 11 requirements.

Materiality of Disclosures

The rules in BIPRU 11 provide that the Firm may omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions.

If a Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement. However, MKUK has made no omissions on the grounds that information is immaterial.

Disclosures and Proprietary or Confidential Information

The Firm is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information, if it were shared, would undermine the Firm's 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.

Furthermore, the Firm must regard information as confidential if there are obligations to clients 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. We have made no omissions on the grounds that it is proprietary or confidential.

1.5. Frequency of publication

The Firm's policy is to publish the disclosures required on an annual basis. The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements as per the provisions of BIPRU 11.3.9R.

1.6. Media and Location of publication

Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements. In this respect, the Firm's Pillar III disclosures are published on the Company's website: www.meritkapital.co.uk.

1.7. Verification

The Firm's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. The Firm's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures have been reviewed by the Risk Management Committee. The information contained in this disclosure has not been audited by our Firm's external auditors and does not constitute any form of financial statement.

1.8. Risk Management objectives and policies

The Firm's compliance monitoring procedures are designed around risks considered to be relevant to the Firm. These will be updated annually through a process taking input from senior management and from the Board. The compliance monitoring process also highlights the processes in place which are designed to mitigate any identified risks.

1.9. Risk Management Framework

Managing risk effectively in a continuously changing risk environment requires a strong risk management culture. As a result, the Firm has established an effective risk oversight structure and the necessary internal organisational controls to ensure that the Firm undertakes the following:

- The adequate risk identification and management
- The establishment of the necessary policies and procedures
- The setting and monitoring of the relevant limits and
- Compliance with the applicable legislation

The Board meets on a regular basis receives and updates on risk and regulatory capital matters from management and Risk Manager. The Board reviews regularly (at least annually) written reports concerning compliance, risk management and internal audit policies, procedures and work as well as the Firm's risk management policies and procedures as implemented by Management.

The Board accepts that in its pursuit of its strategic and business goals, the Company will be exposed to risk. Some risks will be consciously taken in the pursuit of profit. Other risks will be an indirect consequence of profit taking activities.

Accordingly, it is important that the Company's overall risk-taking activities are undertaken within a set of prescribed limits and tolerances in order that the potential impact of such risks on the earnings and capital ratios of the Company can be managed.

It is accepted that the risk profile of the Company will vary and at times and thus the Company may be exposed to a higher level of risk particularly at times when market or environmental conditions may be volatile.

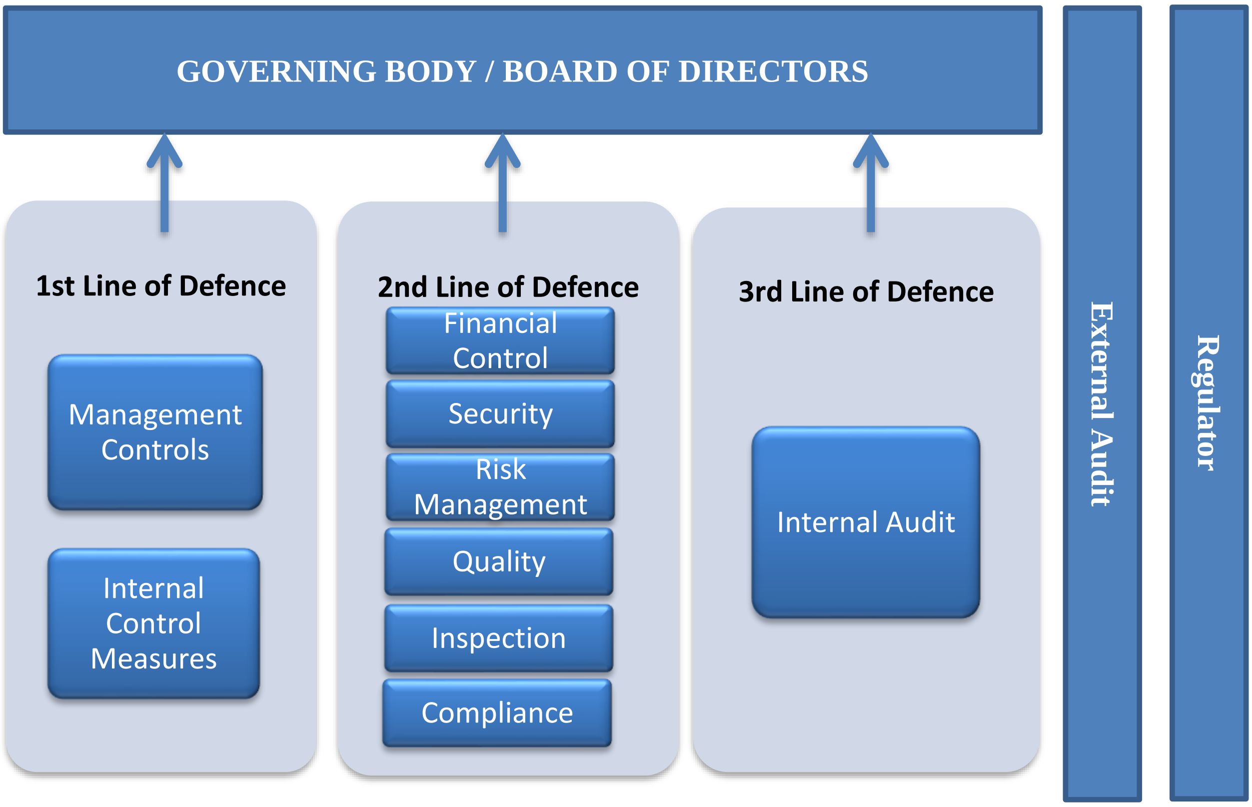
As part of its business activities, the Firm faces a variety of risks, the most significant of which are described further below.

To ensure effective risk management, the Company has adopted the Three Lines of Defence model, with clearly defined roles and responsibilities.

First Line of Defence: Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organisational risk appetite and are fully compliant with Company's policies and where appropriate defined thresholds. First Line of Defence acts as an early warning mechanism for identifying (or remedying) risks or failures.

Second Line of Defence: The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company's risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. The Risk Management Function will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them. Integral to the mission of Second Line of Defence is identifying risk areas, detecting situations/activities, in need of monitoring and developing policies to formalise risk assessment, mitigation and monitoring.

Third Line of Defence: Comprises by the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of design and operational effectiveness of the systems of internal controls. Internal Audit undertakes on-site inspections/visits to ensure that the responsibilities of each Function are discharged properly (i.e. soundly, honestly and professionally) as well as reviews the Company's relevant policies and procedures. Internal Audit works closely with both the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.

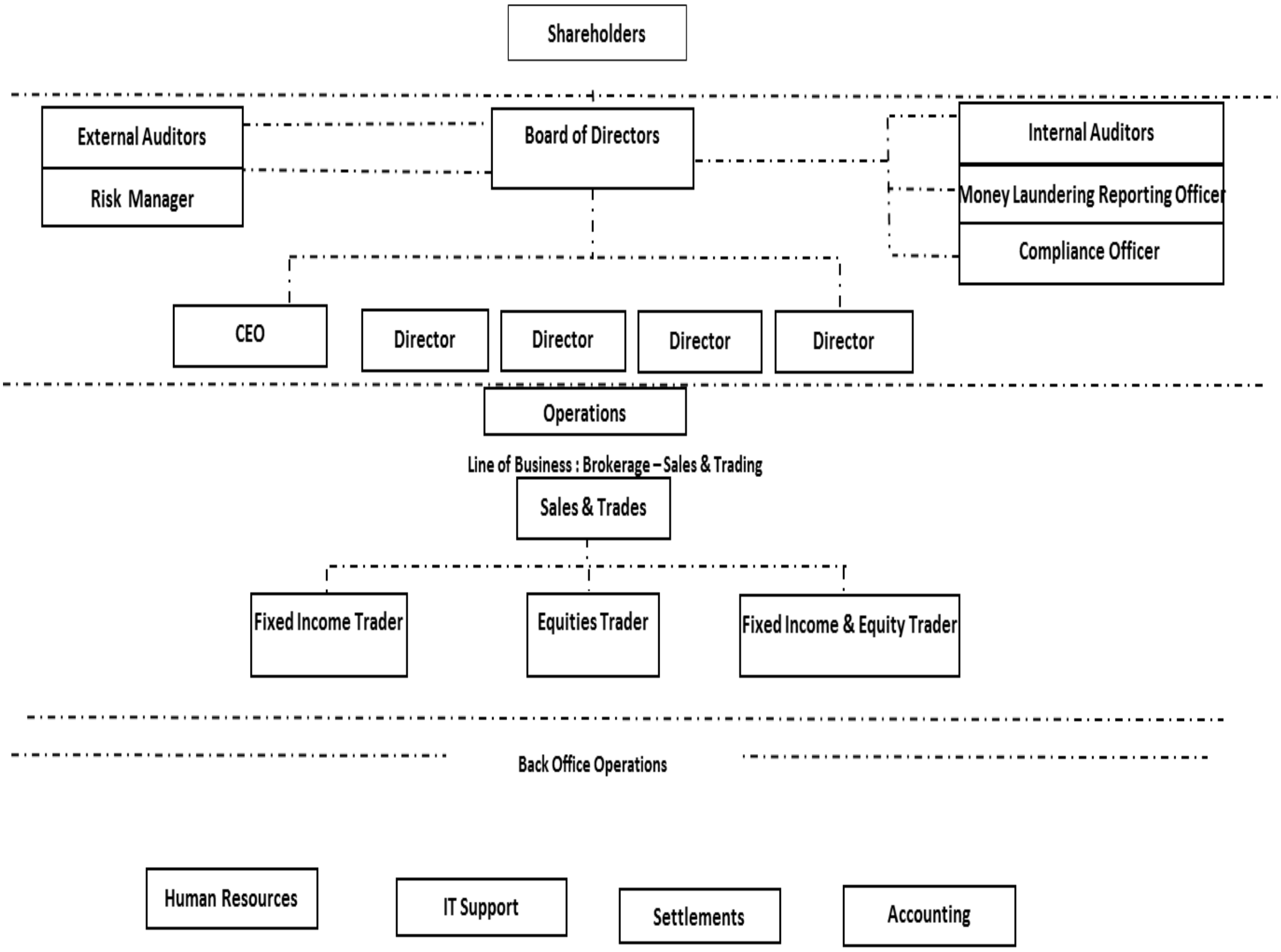


2. Corporate Governance and Risk Management

The Firm's systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness.

The risk management and internal control systems are embedded in the operations of the Firm and are capable of responding quickly to evolving business risks, whether they arise from factors within the Firm or from changes in the business environment.

The Company's organisational structure during the year ended 30 September 2017 is presented below:



2.1. The Board of Directors

The Board has the overall responsibility for the establishment and oversight of the Firm's Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust. The Board comprises of two executive directors and two non-executive directors.

The members of the Board possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board reflects an adequately broad range of experiences to be able to understand the Firm's activities, including the main risks to ensure the sound and prudent management of the Firm as well as sufficient knowledge, of the legal framework governing the operations of an Investment Firm.

The Firm has in place the Internal Policies which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff of the Firm.

The Firm implements and maintains adequate risk management policies and procedures which identify the risks relating to the Firm's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Firm. The Firm adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

2.2. Risk Management Function

Risk Manager

In order to support effective governance and management of risks faced by the Firm, the Risk Manager and the Compliance Department were assigned a wide range of responsibilities. The role covered by the Risk Manager and the Compliance Department was is to provide oversight, review and challenge of the material risks both current and future affecting the business whilst ensuring that there is effective management and control of all key risks and issues facing the Firm.

The Risk Manager, with the support to the Compliance, , inter alia, scrutinises, and decides on various risks inherent with the operation of the Firm with the view to formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Firm. Moreover, they review the risk management procedures in place.

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify.

The Risk Manager and the Compliance Department meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by either party.

Conclusively, the Risk Manager during the year under review was responsible to:

- establish, implement and maintain adequate risk management procedures for the Company's Risk Management Framework
- monitor the adequacy and effectiveness of the Company's Office risk management policy and the level of compliance with which the risk management policy is adhered to.
- manage the risks associated with the outsourced Function and Operations.
- manage the risks associated with the Company's Office Functions and Operations.

2.3. Information flow on risk to the Management Body

Risk information flows up to the Board directly from the business departments and control functions. The Board ensures that it receives on a frequent basis, at least annually written reports regarding Internal Audit, Compliance, Money Laundering and Terrorist Financing and Risk Management issues and approves the Company's ICAAP report as shown in the table below:

Table 1 - Information flow on risk to management body

	Report Name	Owner of Report	Frequency
1	Risk Management Report	Risk Manager	Annual
2	ICAAP	Risk Manager	Annual or more frequent upon management request
3	Compliance Report	Compliance Officer	Annual
4	Internal Audit Report	Internal Auditor	Annual or more frequent upon management request
5	Anti-Money Laundering Report	Anti-Money Laundering Compliance Officer	Annual

Furthermore, the Company believes that the risk governance processes and policies are of utmost importance for its effective and efficient operation. The processes and the policies are reviewed and updated on an annual basis or when deemed necessary and are approved by the Board.

3. Capital Resources

Capital resources (also referred to as own funds) is the type and level of regulatory capital that must be held to enable the Firm to absorb losses. The Firm is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

During the year under review the Company was a €50k BIPRU (MiFID activity restriction) Limited License Firm and in accordance with GENPRU 2.1.40 the Company maintained at all times capital resources equal to or in excess of its variable capital requirements. The Company's capital resources requirements were the greater of:

- The base capital requirement of €50,000 or
- The variable capital requirement which is the higher of
  - sum of its market and credit risk capital requirements or
  - the fixed overhead requirement

During 2018, the Company's licence was extended to include the investment services of 'Dealing on Own Account', 'Custody and Safekeeping', 'Prime Brokerage 'and 'Investment Advice' and as such to become an IFPRU €730,000 investment firm.

The Directors constantly monitor the performance of the Firm and capital adequacy is regularly assessed by them. The Firm will also monitor risks throughout the year and decide if additional capital should be held against them. Additional risks that supplement the pillar 1 requirements are detailed below but the Directors have accessed that meeting the pillar 1 capital requirement is adequate to cover risks relevant to the business and no pillar 2 add-on is needed.

3.1. Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information relating to their own funds. Furthermore, institutions shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution. In this respect, the Firm's total capital is comprised of Common Equity Tier 1 capital.
Under BIPRU as at 30 September 2017, the Firm was subject to a Fixed Overhead Requirement of £112,000. Furthermore, the surplus of regulatory capital under BIPRU was £437,000.

The composition of the capital requirements and capital surplus of the Firm is shown in the following table:

Table 2- Composition of the capital base

Common Equity Tier 1 (CET1) capital: instruments and reserves	**£000**
Capital instruments and the related share premium accounts	649
Accumulated Reserves	(162)
Common Equity Tier 1 (CET1) capital	**487**
Additional Tier 1 (AT1) capital	**-**
Tier 1 capital (T1 = CET1 + AT1)	**487**
Tier 2 (T2) capital	**-**
Total capital (TC = T1 + T2)	**487**
Capital requirements	
Credit risk	9
Market risk	-
Fixed Overhead	112
Total Capital Requirements	**112**
Surplus/Deficit of own funds	**437**

3.2. Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

In order to meet the requirements for disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, the Firm discloses the capital instruments' main features as outlined below:

Table 3 - Main features of capital instruments as at 30 September 2017

Capital Instruments Main Feature	**CET1**
Issuer	MeritKapital UK Limited
Regulatory Treatment	
Eligible at Solo/(sub-)consolidated/solo	Solo
Instrument type	Common Equity
Amount recognized in regulatory capital*	US $1,000,000 (recognized in the Audited Financials as £649,240)
Nominal amount of instrument	US $1,000,000
Issue Price	US $1

Accounting classification	Shareholders' Equity
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	N/A
Coupons / dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	N/A

**The Company proceed with further issuance of 1,500,00 ordinary shares of nominal value of US $1 per share for the total amount of $1,500,000 in May 2018.*

The Firm's capital resources consist of CET1 Capital. No additional Tier 1 and Tier 2 Capital available.

3.3. Compliance with the Regulation and the overall Pillar II Rule (BIPRU 11.5.4R)

The Firm has established its ICAAP as required under Pillar 2. The process essentially formalised the Firm's risk appetite/management framework and aligned it with the financial processes and procedures. As a consequence, potential risks are identified, assessed, evaluated, managed and quantified – where appropriate.

The Firm has adequate resources over the next three years to meet its strategic objectives and future increases in capital requirements will be satisfied by retention of future profit reserves. Senior Management of MKUK has a low risk appetite that is governed firstly by the regulatory requirements imposing the Company to have in all cases own funds more or equal to the sum of its capital requirements, and more than the Company's initial capital.

Management considers the ICAAP to be comprehensive, relevant and proportional to the business of MKUK.

The Company reviews and updates its ICAAP at least annually. The quality and quantity of the Firm's capital resources are monitored on an ongoing basis.

4. Pillar I Capital Requirements

The following sections show the overall Pillar I minimum capital requirement and risk weighted assets for the Firm under the Standardised Approach to Credit Risk, Market Risk and the Fixed Overheads requirements.

4.1. Credit Risk

In the ordinary course of business, the Firm is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises when counterparties fail to discharge their obligations and this could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The Firm has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Directive. The Firm continuously monitors the fair value calculations, forecast and actual cash flows, and cost budgets so that to ensure that the carrying level of Firm's own funds.

No concentrations of credit risk with respect to trade receivables existed at year end. Trade receivables are shown net of any provision made for impairment. The management believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in the trade receivables. Cash balances are held with high credit quality financial institutions and the Firm has policies to limit the amount of credit exposure to any financial institution. Furthermore, the Company quantifies the risk of default of its credit institutions to be considered quite moderate, based on the relevant calculations in the Company's capital requirements. Moreover, the Company approximates that the credit event may occur occasionally- every 1 to 5 years.

4.2. Market Risk

Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices (foreign exchange risk). From a regulatory perspective, market risk stems from all foreign exchange risk positions in the whole balance sheet. The Firm's reporting currency is British Pound. The Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

As a BIPRU € 50k during the year under review, the Firm did not deal for its own account. MKUK operated on a matched principle basis by providing fixed income brokerage of securities.

Market risk was therefore limited to movements in foreign exchange rates. During the year ended 30 September 2017, the Firm did not itself take positions in shares or other instruments and was not exposed to settlement or commodities risk. However, the Company was exposed to foreign exchange risk arising from the day-to-day operations of the Company where most of the commissions received were in USD.

The Firm's ICAAP assessment showed that in the event of a significant market fall, the Company would still meet its capital adequacy requirements. The Firm continues to monitor different economic scenarios to model the impact of economic downturns on its financial position.

4.3. Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Firm's income and operating cash flows are substantially independent of changes in market interest rates. Other than cash at bank, which attracts interest at normal commercial rates, the Firm has no other significant interest bearing financial assets or liabilities. Interest Rate risk regarding Firm funds on deposit and any impact on the Firm is limited and is regarded as negligible.

The Firm's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

4.4. Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide range of issues. The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

Furthermore, the Company has in place policies and processes whose implementation assists with the evaluation and management of any exposures to operational risk. Such policy and process are the Business Continuity and Disaster Recovery Plan. The Company acknowledges that a significant hazard exists to its ability to continue normal business procedures following unexpected incident. Moreover, the Company has an important dependency with its automatic systems and processes. As a result, a recovery plan is needed in order to deal with the risk of potential disaster.

Furthermore, major sources of operation risk include outsourcing of operations, IT security, internal and external fraud, implementation of strategic change and regulatory non-compliance.

The Firm operates a robust risk management process which is regularly reviewed and updated with details being provided to all staff. The Firm's Compliance oversight is responsible for the periodic reviews and recommending any changes to the Board as well as a periodic summary report on all significant risk issues.

All senior management will bear responsibility for internal controls and the management of business risk as part of their accountability to the board.

Individuals are responsible for identifying the risks surrounding their work, implementing controls over those risks and reporting areas of concern to their line manager.

5. Pillar 2 Risks

5.1. Business Risk

Business Risk includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts are conducted with a view to minimize the Firm's exposure to business risk. These are analyzed and taken into consideration when implementing the Firm's strategy.

5.2. Capital Risk Management

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

The Firm has reported on its capital adequacy semi-annually while under the licence extension, the Company is required to report on its capital adequacy on a quarterly basis. The Company has to maintain at all times the minimum capital resources requirements and thus the management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of management accounts to monitor the financial and capital position of the Firm.

5.3. Liquidity Risk

Liquidity risk is defined as the risk 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 Firm has policies and procedures with the object of minimising such losses. The Firm's compliance monitoring procedures are designed around risks considered to be relevant to the Firm. These will be updated annually through a process taking input from senior management and from the board. The compliance monitoring process also highlights the processes in place which are designed to mitigate any identified risks.

Management consider liquidity to only be a risk in extreme market conditions and/or due to failures by designated counterparties that the Company is associated with. In order to mitigate this management are able to increase the capital, review cash flows day-to-day under different market scenarios, monitor daily the Company's exposures and /or available margins with its liquidity providers and regularly review the credit ratings or counterparties.

6. Remuneration policy

The Firm has established a remuneration policy, which its purpose is to set out the remuneration practices of the Firm taking into consideration the salaries and benefits of the staff, in accordance with the provisions of Directive as well as to FCA's Remuneration Code set out in the SYSC Sourcebook of the FCA's Handbook on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Firm's size, internal organisation and the nature, scope and complexity of its activities.

The design of the Policy is approved by the people who effectively direct the business of the Firm, after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance. The people who effectively direct the business should be responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks that remuneration policies and practices can create. The Board discusses remuneration policy matters at least annually.

Furthermore, the Policy should also benefit from the full support of senior management or, where appropriate, the supervisory function, so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures.

Finally, the Policy should also adopt and maintain measures enabling them to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

6.1. Remuneration System

The Firm's remuneration system and policy is concerned with practices of the Firm for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management and members of the Board; the said practices are established to ensure that the rewards for the 'executive management' are linked to the Firm's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Firm uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Firm's short and long-term success.

The remuneration mechanisms employed are well known management and human resources tools that take into account the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives. Operating within the scope of MKUK's risk appetite is an absolute pre-requisite to the award of any variable, incentive or performance related compensation.

The Firm's remuneration system takes into account the highly competitive sector in which the Firm operates, and the considerable amount of resources the Firm invests in each member of the staff.

The total remuneration of staff, whose professional activities have a material impact on the risk profile of the Firm currently, consists of a fixed and a variable component. The 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 a staff member to perform each position/role. MKUK will not be awarding any variable remuneration that consist of shares or equivalent ownership interests at this time as the board have determined that the size and scale of MKUK does not currently allow for such a strategy. As MKUK grows, should it become appropriate to do so then such a scheme will be implemented. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

During the year under review there was no remuneration payable under deferral arrangements (with vested or unvested portions). Finally, the Firm did not pay any non-cash remuneration for the year under review.

6.2. Performance Based Measurements

MKUK has determined that the following criteria to determine such payments will include but not be limited to (depending on the role undertaken):

- Individual performance against objectives for bringing in and maintaining clients
- Client satisfaction

Where assessments of financial performance are used to calculate variable remuneration components, these will be principally based on profits, where these have been adjusted for current and future risks.

MKUK takes into account the quality of business undertaken and services provided when assessing the performance of relevant employees.

6.3. Remuneration of Senior Management Personnel and Directors

The FCA rules require certain Firms to disclose aggregate information on remuneration in respect of its BIPRU Remuneration Code Staff broken down by business area, senior management and other Code Staff, including "risk takers".
The Firm's activities include Financial Planning (advisory services) and Investment Management. The Firm's Directors, Senior Management or staff members do not fall into the category of "risk takers". The link between performance and pay is inevitable in a small Firm, but the Firm's risk

adverse strategy and robust risk management systems mitigate any risks. The total remuneration of the key management personnel of the Firm, including Board, for the year ended 30 September 2017 are presented in the table below:

Table 4 – Remuneration analysis split by fixed and variable remuneration

2017	Key Management Personnel
Fixed Remuneration	£97,656
Variable Remuneration	£9,834
Total Remuneration	**£107,490**
Number of beneficiaries	2