Deriv Investments (Europe) Limited

Pillar III:

Market discipline report

Contents

1. Introduction

The transposition of the Basel III framework into European law was done in two parts: publication of the Capital Requirements Directive IV (“CRD IV”/“Directive 2013/36/EU”) and the Capital Requirements Regulation (“CRR”/“Regulation (EU) No. 575/2013”). Both the directive and the regulation have been applicable since 1 January 2014.

Deriv Investments (Europe) Limited (C 70156) (“we”, “us”, “our”) is registered in Malta, licensed and regulated by the Malta Financial Services Authority (“MFSA”) as a Category 3 Investment Services provider under the Investment Services Act (Cap. 370, Laws of Malta).

This document is prepared in accordance with the above-mentioned directive and regulation.

2. Scope of application

We are required to publicly disclose Pillar III disclosures once a year at a minimum. With relation to the following, we have established policies that have been effective since 31 December 2020:

- Compliance of disclosure requirements per Part 8 of Regulation (EU) No. 575/2013
- Diversity of the board of directors (“Board”)
- Recruitment of the Board

We have no subsidiary and are making the disclosures on an individual basis.

This document is only applicable to clients who have direct contracts with us. It does not apply to clients contracted with any of the other subsidiaries belonging to Deriv Group Ltd.

3. Reporting location

We are a private limited liability company, incorporated and domiciled in Malta. The address of our registered office is W Business Centre, Level 3, Triq Dun Karm, B’Kara, BKR 9033, Malta.

We are a wholly owned subsidiary of Deriv Group Ltd whose registered address is Kingston Chambers, PO Box 173, Sea Meadow House, Road Town, Tortola, British Virgin Islands, VG1110.

This document contains the disclosures and will be published on our website at www.deriv.com.

4. Capital adequacy

4.1. Capital adequacy approach

Our capital management objectives are the following:

- To comply with the capital resources requirements specified by the MFSA
- To ensure that we can continue as a going concern and provide an adequate return to shareholders and benefits to other stakeholders by pricing services commensurately with the level of risk and maintaining an optimal capital structure to reduce the cost of capital.

Our capital adequacy is actively managed by periodic monitoring of capital ratios.

In accordance with Article 2 (1) of Commission Recommendation 2003/361/EC, we are categorised as a small or medium-sized enterprise.

4.2. Regulatory capital ratios

Regulatory capital ratios which are calculated using elements of own funds are disclosed as follows:

Table 2. Regulatory capital ratios

	2020	2019
	%	%
Common equity Tier 1	**17.78**	40.08
Tier 1 capital	**17.78**	40.08
Total capital	**50.06**	84.87

4.3. Return on assets

Return on assets are disclosed as follows:

Table 3. Return on assets

	2020	2019
	%	%
Return on total assets	**(18.80)**	(22.96)
Return on net assets	**(112.45)**	(77.74)

4.4. Risk weighted assets

Risk weighted assets and their minimum capital requirements are as follows:

Table 4. Risk weighted assets and minimum capital requirements for counterparty credit risk, foreign exchange risk, and operational risk

		31 December 2020
Risk components	**Risk weighted assets**	**Minimum capital requirements**
	USD	**USD**
Counterparty credit	746,144	59,692
Foreign exchange risk	231,745	18,540
Operational risk	81,096	6,488
Total	**1,058,985**	**84,720**

Risk components	Risk weighted assets	Minimum capital requirements
		31 December 2019
	USD	USD
Counterparty credit risk	1,118,129	89,450
Foreign exchange risk	153,409	12,273
Operational risk	81,096	6,488
Total	**1,352,634**	**108,211**

5. Risk management objectives and policies

5.1. Risk management strategy

The development and implementation of our strategic objectives depend on our capability and risk management strategy. As such, risk management forms one of the core foundations of our strategic objectives.

The primary elements of our risk management strategy include:

- Risk management policy
- Risk management processes and objectives
- General conduct of business
- Risk statement
- Overall risk tolerance limits
- Governance arrangement

5.2. Risk management policy

Risk management is an integral part of the management of our operations and is carried out internally using policies defined by the Board. Such policies define the categories of risk and specify the procedures and operating limits for each type of transaction and/or instrument and the choice of markets to enter. In accordance with these policies, we use a prudent approach into offering our services.

The policy is reviewed regularly and annually to reflect changes in market conditions and our activities. The Head of Risk/Director oversees the adequacy and functioning of the entire system of risk management and internal control with the Boards' oversight.

5.3. Risk management processes and objectives

We have in place a risk management process, coordinated by the Head of Risk/Director, to identify the risks to which we are or could be exposed and to manage those risks.

We are exposed to various risks which depend on the specific objectives being performed while fulfilling our business. Our objective is to identify the risks and determine if they may be avoided, reduced, spread, transferred, or prevented. Having recognised the need and the responsibility to preserve our resources, the following guidelines are followed in managing the risks that we may encounter:

- Achieve and maintain a reduced cost of risk without placing us in a position of risk exposure that could have a significant impact on our financial security.
- Evaluate and assess all risks of loss from the services we provide.
- Reduce or eliminate identifiable conditions and practices which may cause loss whenever possible.
- Maintain a risk register which includes a description of each risk, risk categorisation, and risk mitigation factors.

5.4. General conduct of business

We conduct our operations in a manner that avoids unnecessary excessive risks and that assumes an acceptable level of risk which is integral to the day-to-day running of the business.

Our Board and senior management team act in a prudent and diligent manner to safeguard our reputation. Risks that arise due to the nature of our business operations are minimised through a prudent and diligent conduct of business and in accordance with our risk appetite and risk profile.

Risks are minimised through adherence to our own internal control systems and procedures. Adherence to applicable laws, regulations, directive, and guidelines issued by MFSA and European Union is overseen by the Board.

We adopt a positive and proactive approach to managing these risks and maintaining capital levels that exceed the minimum regulatory requirements.

Furthermore, our Board and senior management team acknowledge that the proper conduct of business not only safeguards against adverse reputational consequences to us but also helps to protect the reputation of our peers and the industry.

5.5. Board declaration — Adequacy of risk management arrangements

The Board acknowledges that the senior management team has taken reasonable steps to establish and maintain risk management policies, processes, and day-to-day application that are appropriate to our business nature.

5.6. Concise risk statement

The Company adopts a conservative risk appetite. The risk appetite and acceptable risk level is cascaded to the key risk components of the Company.

5.7. Governance arrangement

5.7.1. Governance and oversight

The Board is committed to meeting high standards of corporate governance and strives to uphold its own highest standards of corporate governance as a private limited company by monitoring the developments in corporate governance standards within the industry and the region.

The Board's roles, powers, duties, and functions are established based on the following guiding principles:

- responsible for our leadership and provision of strategic direction and oversight.
- Monitor and periodically assess the effectiveness of our governance arrangements.
- Approve and oversee the development and implementation of our strategic objectives, risk strategy, and internal governance.
- Ensure integrity of accounting and financial reporting procedures.
- Ensure adequacy and effectiveness of risk management and internal control functions.
- Ensure compliance with relevant rules, laws, regulations and relevant standards.

Roles and responsibilities of members of the Board:

- Maintain a sufficiently good repute and possess sufficient collective knowledge, skills, and experience.
- Consider and approve frameworks, policies, and procedures.

- Devote adequate human and financial resources to the training of employees and members of the Board.
- Assess and consider acceptable risk tolerance level.
- Determine dividend policy and amount.
- Consider and approve implementation of appropriate corporate governance arrangements.
- Monitor adequacy and effectiveness of controls and address deficiencies
- Act with honesty, integrity and independence of mind.
- Oversee and monitor the decision-making process.

5.7.2. Members of the Board

The Board is comprised of three executive directors and one non-executive director. During the financial year ended 31 December 2020, the directors in office and their directorships, both within Deriv Group Ltd (internal) and outside of Deriv Group Ltd (external), stand as follows:

Members of the Board	Internal	External
Jean-Yves Christian Sireau	17	5
Joanna Frendo	4	Nil
Derek Swift	2	Nil
David Mallia	1	Nil

The non-executive director resigned in October 2020, and a replacement is currently pending the approval of the MFSA.

5.7.3. Recruitment policy of members of the Board

The chairperson and members of the Board are responsible for reviewing the appropriate diversity in the context of Board composition and perceived needs of the Board at a particular point in time.

When a recruitment need arises, the Board shall attempt to identify appropriate individuals as potential candidates. Consideration shall be based on skills, knowledge, expertise, qualification, experience, characteristics, competency, financial soundness, and with due regard for the benefits of diversity on the Board, in accordance with good governance practices and applicable law.

The candidates shall be screened, and shortlisted candidates shall be interviewed and assessed by the chairperson and members of the Board. The successful candidate shall be nominated for election to the Board at the upcoming Board meeting.

A candidate shall not be appointed or begin performing any director-related function which requires prior approval by the Malta Financial Services Authority (“MFSA”), until the MFSA has granted its approval.

The adequacy and appropriateness of this policy is assessed at least on an annual basis.

5.7.4. Policy on Board diversity

Board diversity and individuality is valued and encouraged to provide a broader range of competence, skills, and experiences to enhance our capabilities to deliver business results and manage risks.

With regards to the selection of Board composition, we are committed to embracing diversity to achieve our strategic objectives and to sustain our competitive advantage.

Differences in various important characteristics, such as educational and functional background, regional and industry experience, skills, opinions, personalities, gender, race, ethnicity, and other distinctions between directors shall be considered in determining Board composition.

A well-balanced representation of the Board enables efficient discharge of its duties and responsibilities, making use of all aspects of its diversity.

Board appointments shall be made taking into consideration the skills, experience, independence, competence, and knowledge which are essential to effectively promote our success.

Board members are subject to evaluation on an annual basis. Board member's performance may be reviewed in accordance with the processes agreed by the Board from time to time. The Board is collectively responsible for our success.

The adequacy and appropriateness of this policy is assessed at least on an annual basis.

5.7.5. Risk management function

Risk is an inherent component in all aspects of our business. We continuously promote a culture of risk awareness and responsibility.

The following describes the structure and organisation of our risk management function:

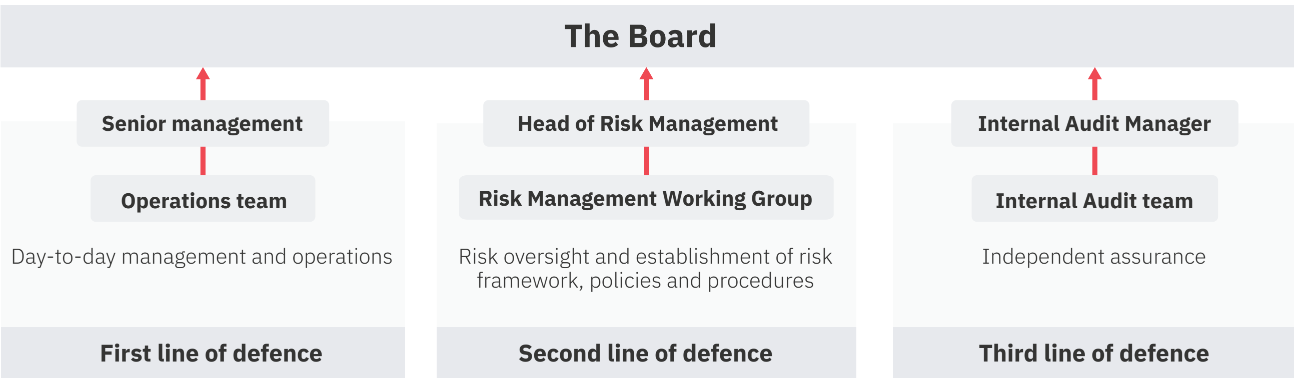

Diagram 1. Structure and organisation of risk management function

The following describes our risk reporting flow:

Diagram 2. Risk information flow to the Board

5.7.6. Risk Management Working Group

Our Risk Management Working Group (RMWG) has been established since 2018. The Group's risk management framework is designed to provide appropriate risk monitoring and assessment of our business.

The Board is responsible to establish and oversee the RMWG's risk management framework and internal control systems that are designed to manage the risks with an acceptable level of tolerance set by the Board. The Board periodically reviews the effectiveness and adequacy of the framework and systems by identifying, assessing, monitoring, and communicating key business risks.

The RMWG meets on a quarterly basis unless otherwise determined. Minutes of RMWG's meetings are kept and are provided to the Board following the RMWG meeting.

6. Own funds

The table below provides the disclosure of the Company's own funds structure:

Table 5. Regulatory capital

	2020	2019
	USD	USD
Common equity Tier 1 capital: instruments and reserves	**256,412**	542,084
Capital instruments	**1,000,000**	1,000,000
Accumulated loss	**(743,099)**	(454,216)
Other adjustments to CET 1	**(489)**	(3,700)
Other intangible assets	**(489)**	(3,700)
Deferred tax that rely on future probability and do not arise from temporary differences nor of associated tax liabilities	**-**	-
Total CET 1	**256,412**	**542,084**
Tier 2 capital		
Paid up capital instruments and subordinated loans	**465,589**	605,973
Total capital (own funds)	**722,001**	1,148,057
Risk weighted exposure amounts for counterparty credit risks	**746,144**	1,118,129
Total risk exposure amount for foreign exchange risk 3	**231,745**	153,409
Total risk exposure amount for operational risks	**81,096**	81,096
Total risk exposure amount	**1,058,985**	**1,352,634**

The full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items, and other filters and deductions applied to our own funds and the balance sheet in the audited financial statements is provided in the following table:

Table 6. Reconciliation of balance sheet to regulatory capital

	Balance sheet in accordance with IFRS 2020 USD	**Regulatory adjustments 2020 USD**	**Regulatory own funds 2020 USD**
Ordinary share capital	1,000,000	-	1,000,000
Accumulated loss	(744,047)	948	(454,216)
Inadmissible assets - intangible assets	-	(3,700)	(3,700)
Investor compensation scheme	948	(948)	-
	256,901	**(3,700)**	**542,084**

	Balance sheet in accordance with IFRS 2019 USD	**Regulatory adjustments 2019 USD**	**Regulatory own funds 2019 USD**
Ordinary share capital	1,000,000	-	1,000,000
Accumulated loss	(455,164)	948	(454,216)
Inadmissible assets - intangible assets	-	(3,700)	(3,700)
Deferred tax that relies on future profitability and does not arise from temporary differences	-	-	-
Investor compensation scheme	948	(948)	-
	545,784	**(3,700)**	**542,084**

The main features and terms and conditions of Tier 1 and Tier 2 instruments are disclosed in the table below:

Table 7. Terms and conditions of share equity

Capital instruments main features	**Ordinary share capital**
Governing law	Maltese law
Regulatory treatment	
Transitional CRR rules	Common Equity Tier 1
Post-transitional CRR rules	Common Equity Tier 1
Amount recognised in regulatory capital	1,000,000 USD
Nominal amount of instrument	1,000,000 USD
Issue price	1 USD
Accounting classification	Share equity
Original date of issuance	22 April 2015
Perpetual or dated	N/A
Original maturity date	N/A
Issuer call subject to prior supervisory approval	No

Coupons/dividends	
Fixed or floating dividend coupon	Floating
Coupon rate	N/A
Existence of dividend stopper	No
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	No
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
Write-down features	No
Position in subordination hierarchy in liquidation	Subordinated to creditors
Non-compliant transitional features	No

Table 8. Terms and conditions of subordinated loan

Capital instruments main features	**Subordinated loan 1**
Issuer	Deriv Group Ltd
Governing law	Maltese law
Regulatory treatment	
Transitional CRR rules	Tier 2 capital
Post-transitional CRR rules	Not applicable
Instrument type	Subordinated Loan
Amount recognised in regulatory capital	200,000 USD
Nominal amount of instrument	200,000 USD
Accounting classification	Debt
Original date of issuance	22 November 2017
Perpetual or dated	Dated
Original maturity date	17 November 2022
Issuer call subject to prior supervisory approval	No

Capital instruments main features	**Subordinated loan 2**
Issuer	Deriv Limited
Governing law	Maltese law
Regulatory treatment	
Transitional CRR rules	Tier 2 capital
Post-transitional CRR rules	Not applicable
Instrument type	Subordinated loan
Amount recognised in regulatory capital	500,000 USD
Nominal amount of instrument	500,000 USD
Accounting classification	Debt
Original date of issuance	25 November 2019
Perpetual or dated	Dated
Original maturity date	25 November 2024
Issuer call subject to prior supervisory approval	No

Coupons/dividends	
Fixed or floating dividend coupon	N/A
Coupon rate	N/A
Existence of dividend stopper	No
Fully discretionary, partially discretionary, or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	No
Non-cumulative or cumulative	N/A
Convertible or non-convertible	Non-convertible
Write-down features	No
Position in subordination hierarchy in liquidation	General debt
Non-compliant transitional features	No

7. Risk components

7.1. Counterparty credit risk components

The exposure classes applicable to us in respect of our counterparty credit risk is comprised of the following:

Table 9. Counterparty credit exposure analysis by exposure class

			31 December 2020
Exposure classes	**Total exposure value**	**Minimum capital requirements**	**Risk weighted exposure**
	USD	**USD**	**USD**
Central government	-	**-**	-
Institutions	1,532,993	59,457	743,218
Corporates	-	-	-
Other items	2,926	234	2,926
Total	**1,535,919**	**59,692**	**746,144**

Exposure classes	Total exposure value	Minimum capital requirements	Risk weighted exposure
			31 December 2019
	USD	USD	USD
Central government	-	-	-
Institutions	1,440,311	57,110	713,881
Corporates	402,109	32,169	402,109
Other items	2,139	171	2,139
Total	**1,844,559**	**89,450**	**1,118,129**

We apply the standardised approach for the calculation of our counterparty credit risk.

Counterparty credit risk is the risk of incurring a financial loss on our assets, loans, and receivables when a counterparty fails to meet the obligations towards us and includes concentration risk. Concentration risk is the risk arising from high exposures to a single counterparty or a group of connected counterparties.

Our exposure to central government is composed of the deferred tax asset arising from temporary differences.

Exposure to institutions comprises of cash and cash equivalents placed with financial institutions. Our counterparty for cash and cash equivalents are financial institutions of high-quality external credit ratings assigned by international credit rating agencies. As such, the Board considers the credit risk for cash and cash equivalents to be low.

Our exposure to corporates includes receivables from related companies within Deriv Group Ltd. Counterparty credit risk associated with these balances is considered to be low as these related companies are creditworthy counterparties.

Exposure to other items comprise of our plant, equipment, and prepayments. We maintain all reasonable controls to ensure that all physical assets are safeguarded against possible theft or other causes of damage or destruction.
Such controls are in place to safeguard our plant and equipment against all reasonable risks. We are insured against foreseeable financial losses arising from damage or theft.

7.2. Counterparty credit risk adjustment

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

We did not have any financial assets that are past due and impaired as at 31 December 2020. No specific and general credit risk adjustments were made to our financial assets for the financial year ended 31 December 2020.

7.2.1. Exposures by average exposure amount over the period broken down by different type of exposure classes

The table below outlines our exposure by exposure class net of any specific provision:

Table 10. Average counterparty credit exposure

	31 December 2020	
Exposure classes	**Total exposure value USD**	**Average exposure value USD**
Central government	-	-
Institutions	1,532,993	1,493,781
Corporates	-	113,003
Other items	2,926	17,457
Total	**1,535,919**	**1,624,240**

	31 December 2019	
Exposure classes	**Total exposure value USD**	**Average exposure value USD**
Central government	-	-
Institutions	1,440,311	1,192,415
Corporates	402,109	395,412
Other items	2,139	21,814
Total	**1,844,559**	**1,609,640**

7.2.2. Exposures post value adjustments by industry and exposure class

The table below outlines our exposure by exposure class and industry area* net of any specific provision:

Table 11. Industry analysis of counterparty credit exposure

	31 December 2020					
Exposure classes	**Financial services USD**	**Real estate USD**	**Public administration USD**	**Arts and entertainment USD**	**Others USD**	**Total USD**
Central government	-	-	-	-	-	-
Institutions	1,532,993	-	-	-	-	1,532,993
Corporates	-	-	-	-	-	-
Other items	-	-	-	-	2,926	2,926
Total	**1,532,993**	**-**	**-**	-	2,926	**1,535,919**

Exposure classes	Financial services USD	Real estate USD	Public administration USD	Arts and entertainment USD	Others USD	Total USD
						31 December 2019
Central government	-	-	-	-	-	-
Institutions	1,440,311	-	-	-	-	1,440,311
Corporates	-	-	-	402,109	-	402,109
Other items	-	360	-	-	1,779	2,139
Total	**1,440,311**	**360**	**-**	402,109	1,779	**1,844,559**

** We use the UK Standard Industrial Classification of Economic Activities 2007 for the above classification purpose*

7.2.3. Exposures post value adjustments by significant geographic area and material exposure class

The table below outlines our exposure by exposure class and geographic area net of any specific provision:

Table 12. Geographical analysis of counterparty credit exposure

Exposure classes	Malta USD	Germany USD	United Kingdom USD	Seychelles USD	Gibraltar USD	Others USD	Total USD
							31 December 2020
Central government	-	-	-	-	-	-	-
Institutions	1,394,074	-	86,157	-	52,762	-	1,532,993
Corporates	-	-	-	-	-	-	-
Other items	1,076	-	-	-	-	1,850	2,926
Total	**1,395,151**	**-**	86,157	-	52,762	**1,850**	**1,535,919**

Exposure classes	Malta USD	Germany USD	United Kingdom USD	Seychelles USD	Gibraltar USD	Others USD	Total USD
							31 December 2019
Central government	-	-	-	-	-	-	-
Institutions	1,328,564	(581)	37,114	-	53,229	21,985	1,440,311
Corporates	-	-	-	401,863	-	247	402,109
Other items	2,139	-	-	-	-	-	2,139
Total	**1,330,703**	**(581)**	37,114	401,863	53,229	**22,231**	**1,844,559**

7.2.4. Exposures post value adjustments by residual maturity and by material exposure class

The table below outlines our exposure by exposure class and residual maturity net of any specific provision:

Table 13. Residual maturity analysis of counterparty credit exposure

	31 December 2020			
Exposure classes	**< 3 months**	**< 1 year**	**> 1 year**	**Total**
	USD	**USD**	**USD**	**USD**
Central government	-	-	-	-
Institutions	-	1,532,993	-	1,532,993
Corporates	-	-	-	-
Other items	2,926	-	-	**2,926**
Total	**2,926**	**1,532,993**	**-**	**1,535,919**

	31 December 2019			
Exposure classes	**< 3 months**	**< 1 year**	**> 1 year**	**Total**
	USD	**USD**	**USD**	**USD**
Central government	-	-	-	-
Institutions	-	1,440,311	-	1,440,311
Corporates	-	402,109	-	402,109
Other items	1,779	-	360	**2,139**
Total	**1,779**	**1,842,420**	**360**	**1,844,559**

7.3. Market risk analysis

7.3.1. Foreign currency risk

Our revenue, purchases, and operating expenditure are mainly denominated in euro and sterling pound. We have a short-term risk exposure for foreign currency risk on our cash and cash equivalents placed with financial institutions denominated in Australian dollar, euro, and sterling pound.

The Head of Risk/Director monitors our exposure to foreign currency risk on a continuous basis against acceptable thresholds.

We do not enter into any hedging positions to mitigate our exposure to foreign currency risk.

7.3.2. Interest rate risk

We are not exposed to interest rate risk since we do not have any interest-bearing borrowings. Interest exposure on our financial assets bearing variable interest rates is not considered to be significant, and we do not rely on it as a source of income.

7.4. Liquidity risk

Our exposure to liquidity risk arises from our obligations to meet our financial liabilities, comprised of derivative financial liabilities, trade payables, and other payables. Prudent liquidity risk management activities include maintaining sufficient cash balances to ensure the availability of an adequate amount of liquid funds to meet our obligations when they become due.

We adopt systems and procedures to monitor and manage liquidity risk. The primary objective of these systems and procedures are to ensure that adequate levels of liquidity buffers are maintained.

Periodic reconciliations, reporting, and cash management procedures are in place to manage our liquidity.

Our liquidity risk is not deemed to be significant in view of the excess of net cash inflows arising from operating, financing, and investment activities.

7.5. Large exposure risk components

Limits on large exposures are established to ensure that a company manages its exposure to counterparties within appropriate limits determined in accordance with its capital resources requirements.

We implement an automated control procedure by checking, limiting, and reporting our large exposure risk whenever a contract is purchased.

We do not have any large exposures exceeding the calculated threshold percentage of own funds for the financial year ending 31 December 2020.

7.6. Commodities risk components

Commodities risk refers to the risk of holding or taking positions in commodities such as physical products which are and can be traded in the secondary market. This includes commodity derivatives. It is our policy not to hold any investments in commodities.

7.7. Operational risk components

Operational risk represents the risk of loss resulting from inadequate or failed internal controls, or from external events, and this includes legal risk. Our internal control system consists of systematically structured organisational and technical measures to secure and protect our assets, prevent and report errors and irregularities and comply with laws and regulations. Our internal processes and procedures are continuously monitored and reviewed by the senior management team for efficiency and effectiveness purposes.

We adopt established International Financial Reporting Standards and implement adequate segregation of duties in place to avoid conflict of interests. Audit trails and logs are maintained in all systems and tools accessed and used by employees. Additionally, we adopt a “need-to-know” access control policy.

All employees are vetted for their conduct, qualifications, and experience prior to their engagement. A continuous education and training programme is provided to develop the necessary knowledge and skills required to carry out their job functions.

Our operational risk exposure is calculated following the basic indicator approach.

7.8. Credit valuation adjustment risk

Credit valuation adjustment (“CVA”) refers to an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the entity but does not reflect the current market value of the credit risk of the entity to the counterparty.

We collect the total purchase price for each contract upfront, at the time the client enters a contract. This purchase price is deducted from the client’s account balance. We do not offer any form of loans or financing facilities to our clients. This means that for the entire duration of the contract, the client will not be liable for any additional funds. As such, the credit risk of the client is not an influencing factor in the ultimate outcome of a given client’s contract. Our risk exposure to credit valuation adjustment is low.

7.9. Free deliveries

Free deliveries cater for the risk that the licence holder has either: (a) paid for free deliveries transactions in financial instruments which qualify as trading book business before receiving them; or (b) has delivered financial instruments which qualify as trading book business, sold in a free deliveries transaction, before receiving payment for them.

Free deliveries are not a concern for us with regards to the contracts within the trading book. We collect the total purchase price for each contract upfront, at the time the client enters a contract. This purchase price is deducted from the client's account balance. As such, the risk that the clients will not pay for their transactions does not constitute a risk exposure to us and our bottom line.

7.10. Compliance risk

In accordance with the directors' report of the audited financial statements for the financial year ended 31 December 2020, there were no breaches of licence conditions or other regulatory requirements which were subject to administrative penalties or other regulatory sanctions. The risk of regulatory sanctions, financial loss, or adverse reputational impact due to failure to comply with the financial reporting requirements set out by MFSA and International Financial Reporting Standards is low. All the necessary reports required by MFSA are filed on time and prepared with utmost diligence and care. The Directors consider our reputation as one of our key success factors.

7.11. Insurance covers

We hold an insurance policy which provides coverage in respect of loss of money or loss or damage to any other asset or property belonging to us or which are in the care, custody, or control of our business or for which we are responsible. The policy is reviewed on an annual basis.

7.12. Trading book risk components

7.12.1. Position risk

Position risk is the risk of losses arising from movements in market prices, in on- and off-balance sheet investments in financial instruments which qualify as trading book business.

For measuring position risk on derivatives, we use the scenario approach (scenario matrix analysis), as outlined in the Basel II Agreement, Bank for International Settlements, to mitigate and report our position risk.

Scenario matrix analysis is accomplished by specifying a fixed range of changes in the option portfolio's risk factors and calculating changes in the value of the option portfolio at various points over the grid.

7.12.2. Counterparty credit risk

Counterparty credit risk ("CCR") represents the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

CCR is not a concern for us with regards to the contracts within the trading book. We collect the total purchase price for each contract upfront, at the time the client enters a contract. This purchase price is deducted from the client's account balance. We do not offer any form of loans or financing facilities to our clients.

7.12.3. Settlement risk

Settlement risk is the risk that our cash against documented transactions in financial instruments is unsettled after the delivery due date.

Settlement risk is negligible for us. We collect the total purchase price for each contract upfront, at the time the client enters a contract. This purchase price is deducted from the client's account balance.

We will conduct settlements on the very same day that the contracts conditions are fulfilled by crediting payouts to clients whose contracts are in the money. We will not exchange any additional funds with clients whose contracts are out of the money.

8. Remuneration policy and practices

8.1. Remuneration guiding principles

The Board's remuneration structure is designed to achieve an appropriate balance between risk and reward. The current remuneration structure is based on two key principles, which are considered best practice in the human resources domain:

- Internal equity — Directors/employees who perform similar job functions with similar skill levels should earn similar amounts
- External competitiveness — Director/employee compensation package compares favourably with companies of similar industry, business nature, size, and geographical area.

Over time, remuneration reflects the director's/employee's value to us and is fair vis-à-vis other directors/employees within Deriv Group Ltd.

8.2. Performance appraisal

Our performance appraisal is based on a self-assessment system and is conducted twice a year. The appraisal focuses on the following areas:

- Skills
- Teamwork
- Work performance
- Personal traits

The three broad categories used as a general guideline for ratings of performance appraisal results:

- Exceeds expectation
- Meets expectation
- Below expectation

8.3. Directors' remuneration

The Board represents the following:

- Amounts paid to Directors are fixed and any increase is based on our performance as well as individual performance. Bonus is discretionary and performance based.
- All payments are done in cash and no shares or share options are granted as part of the remuneration package.

Table 14. Remuneration analysis by senior management and members of staff

			31 December 2020
	Executive director **USD**	**Non-executive director** **USD**	**Total** **USD**
Fixed	101,893	5,632	107,526
Variable	-	-	-
Total	101,893	5,632	107,526
Number of beneficiaries	2	1	3

Table 15. Remuneration analysis by business area

	31 December 2020
	Aggregate remuneration
	USD
Compliance and customer support	144,644
Human resource and finance	-
Marketing	-
Technical	67,676
Total	**212,320**

Remuneration analysis by business area excludes director's fee paid to Non-Executive Director of US$ 5,632 for services rendered up until their resignation in October 2020.

9. Leverage

9.1. Leverage ratios

Leverage ratio is calculated by dividing Tier 1 capital by a defined measure of on-balance sheet assets. It measures the relationship between the capital resources of the organisation to its total assets.

Periodically, the Internal Capital Adequacy Assessment Process (ICAAP), which provides a view of the impact of severe and unexpected events on profits, risk weighted assets, capital, and leverage, is carried out. Leverage ratio is monitored periodically.
For the purpose of Article 451 (CRR), leverage ratios calculated in accordance with Article 429 (CRR) are disclosed as follows:

Table 16. Leverage ratio

	2020	**2019**
	%	**%**
Leverage ratio - using a fully phased-in definition of Tier 1	16.69	29.33
Leverage ratio - using a transitional definition of Tier 1	16.69	29.33

9.2. Reconciliation of leverage ratio

The following table discloses the breakdown of leverage ratio exposure as well as the reconciliation of leverage ratio exposure with accounting assets in the balance sheet:

Table 17. Reconciliation of balance sheet to leverage ratio exposure

	2020	**2019**
	USD	**USD**
Summary reconciliation of accounting assets and leverage ratio exposures:		
Total assets as per published financial statements	1,536,408	1,848,259
Total leverage ratio exposure	**1,536,408**	**1,848,259**

	2020	2019
	USD	USD
Leverage ratio common disclosure:		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,535,919	1,844,559
(Asset amounts deducted in determining Tier 1 capital)	489	3,700
Total on-balance sheet exposures (excluding derivatives, SFTs, and fiduciary assets)	**1,536,408**	**1,848,259**
Tier 1 capital	256,412	542,084
Total leverage ratio exposuresLeverage ratio	1,536,408	1,848,259
Leverage ratio	**16.69%**	**29.33%**

	2020	2019
	USD	USD
Split-up of on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)		
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	1,535,919	1,844,559
Banking book exposures, of which:		
Institutions	1,532,993	1,440,311
Corporate	-	402,109
Other exposures (plant and equipment, deferred tax asset and prepayments)	2,926	2,139

Index of tables

Disclosure Map

Table 1. Disclosure requirement: Mapping of capital requirements regulation (“CRR/Regulation (EU) No. 575/2013”) to Pillar III: Market discipline report reference

Pillar lll requirement	Description	Report section reference	Regulation (EU) 575/2013 article reference
Disclosures applicable			
Scope of disclosure requirements	Public disclosure requirement	2	431(1)
	Permission granted by competent authorities for certain instruments and methodologies shall be subject to public disclosure	2	431(2)
	Adoption of formal policy on compliance with disclosure requirement	2	431(3)
	Explanation of rating decisions	N/A	431(4)
Frequency of disclosure	Annual publication of disclosures	2	433
Means of disclosure	Appropriateness of medium, location and means of verification	2	434(1)
	Equivalent disclosures	2	434(2)
Risk management objectives and policies	Strategies and processes	5.1, 5.2	435(1)(a)
	Structure and organisation of risk management function	5.6.4	435(1)(b)
	Scope and nature of risk reporting and measurement systems	5.1, 5.2	435(1)(c)
	Policies, strategies and processes for hedging and mitigating risk	5.1, 5.2	435(1)(d)
	Board-approved declaration on the adequacy of risk management arrangements	5.5	435(1)(e)
	Board-approved concise risk statement	5.6	435(1)(f)
	Governance — Number of directorships held by board members	5.7.2	435(2)(a)
	Governance — Board recruitment policy	5.7.3	435(2)(b)
	Governance — Board diversity policy	5.7.4	435(2)(c)
	Governance — Risk management working group	5.7.6	435(2)(d)
	Governance — Risk information flow to the Board	5.7.5	435(2)(e)
Scope of application	Name of institution	1, 3	436(a)
	Basis of consolidation	N/A	436(b)(i)–(iv)
	Impediment on prompt transfer of own funds or repayment of liabilities	N/A	436(c)
	Shortfall in own funds in all subsidiaries	N/A	436(d)
	Circumstances making use of “Derogation to the application of prudential requirements on an individual basis” and “Individual consolidation method”	N/A	436(e)

Pillar requirement	Description	Report section reference	Regulation (EU) 575/2013 article reference
Own funds	Full reconciliation of components of own funds to audited balance sheet	6	437(1)(a)
	Description of main features of components of own funds	6	437(1)(b)
	Terms and conditions of components of own funds	6	437(1)(c)
	Nature and amounts of each prudential filter pursuant to Articles 32 to 35	N/A	437(1)(d)(i)
	Nature and amounts of each deduction made pursuant to Articles 36, 56 and 66	6	437(1)(d)(ii)
	Nature and amounts of items not deducted in accordance with Articles 47, 48, 56, 66 and 79	N/A	437(1)(d)(iii)
	Description of applied restrictions	N/A	437(1)(e)
	Explanation of basis of calculation of capital ratios	N/A	437(1)(f)
	Development and submission of draft implementing technical standards by EBA for points (a), (b), (d), and (e) above	6	437(2)
Capital requirements	Summary approach of capital adequacy assessment	4.1	438(a)
	Upon demand from the relevant competent authority, the result of capital adequacy assessment	N/A	438(b)
	8% of the risk-weighted exposure amounts for each of the exposure classes (for institutions calculating the risk-weighted exposure amounts in accordance with the standardised approach)	7.1	438(c)
	8% of the risk-weighted exposure amounts for each of the exposure classes (for institutions calculating the risk-weighted exposure amounts in accordance with internal ratings based approach)	N/A	438(d)(i) – (iv)
	Own funds requirements for market risk or settlement risk, or large exposures where they exceed limits	4.4	438(e)
	Own funds requirements calculated in accordance with the standardised approach, internal ratings based approach, and advanced measurement approach	4.4	438(f)
Credit risk adjustments	Definitions for accounting purposes of “past due” and “impaired”	7.2	442(a)
	Description of approaches and methods adopted for determining specific and general credit risk adjustments	N/A	442(b)
	Exposures (before applying credit risk mitigation and after accounting offsets) by average exposure amount over the period broken down by a different type of exposure class	7.2.1	442(c)
	Exposures by significant geographic areas and material exposure classes	7.2.2	442(d)
	Exposures by industry or counterparty type, broken down by exposure classes	7.2.3	442(e)
	Exposures by residual maturity, broken down by exposure classes	7.2.4	442(f)

Pillar requirement	Description	Report section reference	Regulation (EU) 575/2013 article reference
Credit risk adjustments	Amount of impaired exposures and past due exposures; specific and general credit risk adjustments; and charges for specific and general credit risk adjustments, by significant industry or counterparty type	N/A	442(g)(i) – (iii)
	Amount of impaired exposures and past due exposures, by significant geographical areas, including specific and general credit risk adjustments related to each geographical area	N/A	442(h)
	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.	N/A	442(i)
	Description of type of specific and general credit risk adjustments	N/A	442(i)(i)
	Opening balances	N/A	442(i)(ii)
	Amounts taken against the credit risk adjustments	N/A	442(i)(iii)
	Amounts set aside or reversed for estimated probable losses on exposures, and any other adjustments	N/A	442(i)(iv)
	Closing balances	N/A	442(i)(v)
Exposure to market risk	Position risk, large exposures exceeding limits, FX, settlement and commodities risk	4.4, 7.3, 7.12	445
Operational risk	Approaches for the assessment of own funds requirements for operational risk, description of methodology, discussion of internal and external factors considered	4.4, 7.7	446
Remuneration policy	Decision-making process, number of meetings held, composition and mandate of a remuneration committee	8.1, 8.2	450(a)
	Link between pay and performance	8.1, 8.2	450(b)
	Important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy, and vesting criteria	8.1, 8.2	450(c)
	Ratios between fixed and variable remuneration	8.3	450(d)
	Performance criteria on which the entitlement to shares, options or variable components of remuneration is based	8.1, 8.2	450(e)
	Main parameters and rationale for any variable component scheme	8.3	450(f)
	Aggregate quantitative information on remuneration, by business area	N/A	450(g)
	Aggregate quantitative information on remuneration, broken down by senior management and members of staff	N/A	450(h)
	Amount of remuneration split into fixed and variable, and number of beneficiaries	8	450(h)(i)
	Amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types	8	450(h)(ii)
	Amounts of outstanding deferred remuneration, split into vested and unvested portions	8	450(h)(iii)
	Amounts of deferred remuneration awarded paid out and reduced through performance adjustments	N/A	450(h)(iv)

Pillar requirement	Description	Report section reference	Regulation (EU) 575/2013 article reference
Remuneration policy	New sign-on and severance payments made and the number of beneficiaries of such payments	N/A	450(h)(v)
	Amounts of severance payments awarded, number of beneficiaries, and highest award to a single person	N/A	450(h)(vi)
	Number of individuals being remunerated EUR 1 million or more, broken down by pay bands	N/A	450(i)
	Upon demand from Member State of competent authority, the total remuneration for each member of the management body or senior management	N/A	450(j)
Leverage	Leverage ratio	9.1	451(1)(a)
	Breakdown and reconciliation of exposure measure	9.2	451(1)(b)
	Amount of derecognised fiduciary items	N/A	451(1)(c)
	Description of the processes used to manage risk of excessive leverage	9.2	451(1)(d)
	Description of factors that had an impact on the leverage ratio	9.2	451(1)(e)
	Implementation standards	9.2	451(2)
Disclosure of own funds	Application of this article during the period from 1 January 2014 to 31 December 2021	6	492(1)
	The extent to which the level of Common Equity Tier 1 capital and Tier 1 capital exceed the requirements	4.2	492(2)
	Nature and effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital, and own funds of the individual filters and deductions	6	492(3)(a)
	Amounts of minority interests and Additional Tier 1 and Tier 2 instruments, and related retained earnings and share premium accounts, issued by subsidiaries that are included in consolidated Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds	N/A	492(3)(b
	Effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied	6	492(3)(c)
	Nature and amount of items that qualify as Common Equity Tier 1 items, Tier 1 items, and Tier 2 items by virtue of applying the derogations specified	N/A	492(3)(d)
	Amount of instruments that qualify as Common Equity Tier 1 instruments, Additional Tier 1 instruments, and Tier 2 instruments	6	492(4)
	Implementation standards	6	492(5)

Pillar lll requirement	Description	Report section reference	Regulation (EU) 575/2013 article reference
Disclosures not applicable			
Non-material, proprietary, or confidential information	-	N/A	432
Exposure to counterparty credit risk	-	N/A	439
Capital buffers	-	N/A	440
Indicators of global systemic importance	-	N/A	441
Unencumbered asset	-	N/A	443
Use of External Credit Assessment Institution	-	N/A	444
Exposures in equities not included in the trading book	-	N/A	447
Exposure to interest rate risk on positions not included in the trading book	-	N/A	448
Exposure to securitisation positions	-	N/A	449
Use of the IRB approach to credit risk	-	N/A	452
Use of credit risk mitigation techniques	-	N/A	453
Use of advanced measurement approaches to operational risk	-	N/A	454
Use of internal market risk models	-	N/A	455

DERIV