UP TREND Limited

ANNUAL DISCLOSURE AND MARKET DISCIPLINE REPORT

2018

ACCORDING TO THE REQUIREMENTS OF PART EIGHT OF REGULATION (EU) № 575/2013 of 26 June 2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

Contents:

1. Introduction

The Disclosure and Market Discipline Report for the year 2018 has been prepared by UP TREND Ltd as per the requirements of Regulation (EU) № 575/2013 issued by the European Parliament and of the council.

In accordance with Regulation (EU) № 575/2013 (the "Capital Requirements Regulation", "CRR"), which was introduced in late 2014, the Company is required to disclosure information relating to its risk exposure and management, capital structure, capital adequacy as well as the most important characteristics of the Company's corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants.

According to Basel III regulations, there are three pillars, which are designed to promote market discipline through the disclosure of important financial information regarding the risk exposures of the Company and of the risk management process followed.

The current regulatory framework consists of three fundamental pillars:

- **Pillar I**: Sets out the minimum capital requirements for the Company to be able to cover the credit risk, market risk and operation risk.
- **Pillar II**: Sets out the supervisory review which requires the regulators to undertake a qualitative review of the Company's capital allocation techniques (ICAAP) and compliance with the relevant standards.
- **Pillar III**: Sets out the required disclosures to allow market participant to gain access and better understand the risk profile of the Company, to assess/review important information of the capital structure, risk exposures, the risk management process followed and most important the capital adequacy of the Company.

Pillar III aims to encourage market discipline by developing a set of disclosure information, which gives access to market participants, regarding to the Company's capital adequacy and to each material category of risk it faces. Additionally, it aims to provide information regarding the risk assessment and the risk mitigation process which was followed by the Company during 2018.

The Board of Directors and Senior Management are responsible for establishing and maintaining an effective internal control structure over the disclosure of financial information, including Pillar III disclosures.

The disclosure is prepared on an individual basis based on the information of the audited annual financial statement of the Company as at 31 December 2018.

Company Information:

UP TREND Ltd is a Limited Liability Company, registered in Bulgaria; address: 51A, Nicola Y. Vaptsarov Blvd., 1st floor, Lozenets district, 1407 Sofia, Republic of Bulgaria. The Company obtained its license from Financial Supervision Commission in Bulgaria to operate as an Investment Firm under license number № РГ-03-110/13.07.2018. Since 1998 the Company is a member of "Bulgarian Stock Exchange – Sofia" and "Central Depository".

The main activity of the Company is the provision of one or more investment services and activities within European Union and the European Economic Area, as well as in third countries.

2. Risk management objectives and policies – Article 435

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

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

The Company is assessing its internal capital on a continuous basis. The assessment of internal capital is considered a key element in the Company's risk management regime. The Company has adopted the "Pillar 1 plus" approach to determine its internal Pillar 2 capital requirements.

Given the diversity and evolution of the Company's activities, risk management involves the following main categories:

- Credit and Counterparty risk;
- Market risk;
- Operational risk;
- Liquidity risk;
- Compliance risk;
- Reputational risk;
- Strategic risk;
- Business risk;
- Settlement risk;
- Correlation risk;
- Concentration risk;
- Interest risk arising from non-trading book activities;
- Impairment risk;
- Large expositions.

With regards to risk reporting the Company monitors on a daily basis its capital adequacy to ensure that it has adequate capital to meet its regulatory requirements.

3. Scope of application - Article 436

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

4. Own funds - Article 437

As at 31 December 2018 the Company's regulatory capital base comprises of Common Equity Tier 1, which includes share capital, premium reserves, other reserves and retained earnings. In order to arrive at the CET 1 capital, the value of intangible assets, after the application of amortisation charges, is deducted.

A detailed breakdown of the Company's Total Eligible Own Funds, as at 31 December 2018, is presented in the table below:

Capital Structure (in thousands of BGN)

Capital Base – Structure as at 31 December 2018	Amount
Share Capital	1 550
Premium Reserves	5
Other Reserves	184
Retained Earnings	11
Deductions:	
Intangible Assets	-2
Common Equity Tier 1 Capital	**1 748**
Additional Tier 1 Capital	**0**
Tier 1 Capital	**1 748**
Tier 2 Capital	**0**
OWN FUNDS / TOTAL CAPITAL	**1 748**

The Company follows the Standardised Approach for the purposes of measuring its capital requirements for: credit risk, counterparty credit risk, dilution risk, settlement risk for free deliveries, position risk, foreign exchange risk and commodities risk, while for operational risk the Business Indicator Approach is used.

As at 31 December 2018, the Company's Risk exposure with respect to the three risk categories were as follows:

Risk exposure amount under Exposure classes Structure (in thousands of BGN)

TOTAL RISK EXPOSURE AMOUNT	**8 754**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**214**
Standardised Approach (SA) exposure classes excluding securitisation positions	214
Retail	133
Other items	81
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS UNDER STANDARDISED APPROACH (SA)	**8 262**
Foreign Exchange	8 262
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	**278**
OpR Basic indicator approach (BIA)	278

5. Capital requirements – Article 438

In accordance with the Capital Requirements Directive, the company must maintain the following minimum capital adequacy ratios:

- Common Equity Tier 1 capital of 4.5% of Total Risk Exposure;
- Tier 1 capital of 6% of Total Risk Exposure;
- Total Capital of 8% of Total Risk Exposure;

However, the Company always aims to maintain capital adequacy ratios well above the required minimum.

The Surplus of CET1 capital is 15.5%, 14% for Tier 1 capital and 12% for total capital.

Capital ratios (in thousands of BGN)

Own Funds / Total Capital	**1 749**
Tier 1 Capital	**1 749**
Common Equity Tier 1 Capital	**1 749**
Total Risk Exposure amount	8 754
CET1 Capital ratio	20%
Minimum requirement of CET1 Capital ratio	4.5%
Surplus(+)/Deficit(-) of CET1 capital	**1 355**
T1 Capital ratio	20%
Minimum requirement of T1 Capital ratio	6%
Surplus(+)/Deficit(-) of T1 capital	**1 224**
Total capital ratio	20%
Minimum requirement of Total Capital ratio	8%
Surplus(+)/Deficit(-) of total capital	**1 049**

6. Exposure to counterparty credit risk – Article 439

The counterparty credit risk is currently managed under credit risk. As such continuous monitoring of counterparty credit risk is carried out. For calculating its risk weighted exposures for counterparty credit risk, the Company follows the Standardised Approach.

The counterparty credit risk in respect of customers arises from a customer's trading position going into deficit through incurring a loss in excess of the required margin deposit. This credit risk relates to the derivative financial instruments traded by the Company. The exposure is being measured automatically, in real-time, using the Company's trading platforms. The Company makes sure that there is no exposure on the counterparty other than that covered with the counterparty's funds held as required margin for trading transactions. The amount of margin taken limits the counterparty exposure and thus the Company's counterparty credit risk. Depositing additional margin with the

Company will increase the counterparty's limit, while the withdrawal will decrease it. Through margin deposits the Company exercises credit risk mitigation for counterparty credit risk, while at the time being it is not used to reduce the credit risk capital requirements.

The Company accepts as counterparty, for the purposes of depositing client funds, only banking institutions that the Company internally assesses as financially stable. In order to diversify its exposure, UP TREND Ltd maintains accounts with a number of European based investment grade banking institutions.

Client funds are held in segregated accounts, separated from company funds, meaning that once received client funds are deposited by the Company on the client's behalf. It should be noted that the above-mentioned account(s) are held by UP TREND Ltd in a fiduciary capacity while client funds deposited are not recognized in the Company's financial statements as assets or liabilities.

For the purpose of calculating the capital requirement for credit risk under the Standardized Approach, the investment firm classifies its exposures into classes according to its credit quality as each class is assigned a specified risk weight under Part Three, Title II, Section 2 of Regulation 575/2015 on prudential requirements for credit institutions and investment firms.

As noted above, the Company follows the Standardised Approach for calculating credit risk capital requirements. Specifically the capital requirements against each exposure class are as follow:

Amounts in thousands of BGN

Exposure classes: Standardised Approach (SA)	Original Exposure Pre Conversion Factors	Exposure Net of Value Adjustments and Provisions	Risk Weighted Exposure Amount
Total Exposures	**258**	**258**	**214**
Breakdown of Total Exposures by Exposure Types:			
On Balance sheet Exposures Subject to Credit Risk	258	258	214
Exposures / Transactions subject to Counterparty Credit Risk			
75%	177	177	133
100%	81	81	81

During the year and the year end there were no past due balances within trading securities, repurchase receivables, due from banks, loans and advances to customers and other financial assets and neither any impairments.

7. Capital buffers – Article 440

Pursuant to Article 77 of Ordinance 50 of the Financial Supervision Commission, UP TREND Ltd does not maintain capital buffers.

8. Indicators of global systemic importance – Article 441

The Company is not defined as global systemic important institution.

9. Credit risk adjustments – Article 442

Receivables without a fixed maturity are recognized at the initial cost. In the balance sheet of the company the receivables are stated at a price less any impairment loss due to uncollectibility. An impairment loss is recognized if there is an objective evidence that the company will not be able to collect all due amounts under the original terms of the claim due to significant financial difficulties of the debtor, probability of bankruptcy and liquidation, financial restructuring or inability to pay its obligations (more than 360 days). The balance amount of the assets is reduced by using an allowance account for impairment and the amount of the loss is recognized in the income statement as impairment costs.

10. Unencumbered assets – Article 443

As at 31 December 2018 in the investment firm there are no unencumbered assets.

11. Use of ECAIs – Article 444

As at 31 December 2018 the Company does not have exposure classes for which ECAIs is used.

12. Exposure to market risk – Article 445

Market risk includes: Position risk; Foreign exchange risk; Commodities risk.

The Company defines the capital requirements for market risk in accordance with Part Three, Title IV of Regulation (EU) №575/2013

UP TREND Limited does not have an exposure to market risk for position risk in traded debt instruments and equities, as well as for commodities risk.

MARKET RISK: STANDARDISED APPROACHES FOR FOREIGN EXCHANGE RISK (in thousands of BGN)

MARKET RISK: STANDARDISED APPROACHES FOR FOREIGN EXCHANGE RISK	NET POSITIONS		OWN FUNDS REQUIREMENTS	TOTAL RISK EXPOSURE AMOUNT
	LONG	SHORT		
TOTAL POSITIONS IN NON-REPORTING CURRENCIES	**8 427**	**6 617**	**661**	**8 262**
Currencies closely correlated	331	245	13	
All other currencies	7 084	6 372	567	
Gold	1 012	0	81	

Memorandum items: CURRENCY POSITIONS				
Euro	278			
Australian Dollar		1 064		
Canadian Dollar		3 520		
Czech Koruna		245		
Danish Krone	2			
Pound Sterling		355		
Forint	51			
Yen	3 668			
Mexican Peso		2		
Zloty	111			
Russian Ruble	8			
Swedish Krona		3		
Swiss Franc	708			
Turkish Lira	8			
US Dollar	2 559			
Norwegian Krone		24		
New Zealand Dollar		1 403		
Singapore Dollar		2		
Other	22			

13. Operational risk – Article 446

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can be further divided into the following sub-categories: Internal Fraud risk; External Fraud risk; Marketing and Advertising risk; Regulatory Reporting risk; Internal Procedures and Controls risk; Damage to Physical Asset, Business Disruption & System Failures risk; Legal risk, IT and reputational risk.

The Company mitigates operational risk through the risk platform technology and sophisticated procedures that benefit from hands-on involvement of the experienced specialist risk management and the essential assistance of back office department. Also, Internal Audit visits ensures that employees comply with the Company's internal procedures.

The Company adopts the Basic Indicators Approach ("BIA") to calculate operational risk capital requirements. Under the BIA, the own funds requirements are equal to 15% of the average over three years of the relevant indicator as set out in Article 316 of the Regulation. The average of the three years is calculated on the basis of the last twelve monthly observations.

The Company's operational risk own funds requirement arose to 14 903 BGN.

The below table summarize the operational risk capital requirements of the Company by for the year ended 31 December 2018:

Amounts in thousands of BGN

Relevant Indicator			Own Funds Requirement	Total Operational Risk Exposure Amount
Year -3 (2014)	Year -2 (2015)	Last year (2016)		
95	104	247	22	278

14. Exposures in equities not included in the trading book – Article 447

The Company`s investment portfolio includes:

Issuer	Number of ordinary shares	Amount (in BGN)
Ainvesting Ltd	10	10
Ainvestments Ltd	10	10
Total portfolio:	**20**	**20**

15. Exposure to interest rate risk on positions not included in the trading book – Article 448

Given the nature and structure of the company's investment portfolio, the exposure to interest rate risk is only indirect, as the instruments included in the portfolio are not interest-bearing and their potential nominal income is not tied to global and local interest rates.

Only the return of closing positions in the investment portfolio could be negatively impacted by the change of interest rates and inflation.

16. Exposure to securitisation positions – Article 449

The investment firm does not have exposure to securitization positions for the reporting period.

17. Remuneration policy – Article 450

Remuneration refers to payments or compensations received for services or employment. The remuneration system includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment.

The process of determining the remuneration of the employees in IP "TREND" Ltd is regulated by the Remuneration Policy, prepared by the managers and adopted by the General Meeting of the Partners. The Company did not set up a remuneration committee and did not use an external consultant to determine the remuneration policy.

During 2018, the Company's remuneration system is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile. The practices are established to ensure that the rewards for the "Executive Management" provide the right incentives to achieve the key business aims.

The employees' total remuneration currently consists of a fixed component while variable remuneration components may also occur in the future.

Fixed remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role.

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

For the year ended 31 December 2018 the Company identified the persons classified as Code Staff whose professional activities have a material impact on its risk profile.

The disclosure of the aggregate remuneration of the Code Staff can be found below:

Remuneration for the period: 1 January 2018 – 31 December 2018 (in thousands of BGN)	Executive Directors	Brokers and Investment advisors
Total Fixed Remuneration	37	70
Total Variable Remuneration	None	None
Number of Beneficiaries	2	3

It is noted that no one within the Company receives a remuneration that exceeds the value of 1 million BGN or 500,000 EUR.

18. Leverage – Article 451

According to CRR, Article 429, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposure measure and is expressed as a percentage. Institutions shall calculate the end-of-quarter leverage ratio as per the discretions.

The leverage ratio of the Company is calculated using the fully phased-in definition of Tier 1 capital and on-balance and off-balance sheet items amount.

As at 31 December 2018, the leverage ratio of the Company was equal to 96.09% using a fully phased-in definition of Tier 1 Capital, as per the table below:

Amounts in thousands of BGN

Leverage ratio	LR Exposure: Month-1-value	LR Exposure: Month-2-value	LR Exposure: Month-3-value	Leverage ratio calculated as the simple arithmetic mean of the monthly leverage ratio over a quarter
Tier 1 capital – fully phased-in definition	1 800	1 800	1 749	
On-balance and Off-balance sheet items	2 763	2 728	2 819	
Leverage Ratio – using a fully phased-in definition of Tier 1	**65.16%**	**66.00%**	**62.03%**	**64.40%**

19. Use of the IRB Approach to credit risk – Article 452

As at 31 December 2018 UP TREND Ltd does not use the IRB Approach to credit risk.

20. Use of credit risk mitigation techniques – Article 453

The Company is exposed to credit risk as the risk of loss that would incur if the counterparty in a transaction failed to perform its contractual obligations within a particular timeframe prescribed.

The main collateral that UP TREND Ltd accept is cash.

21. Use of the Advanced Measurement Approaches to operational risk – Article 454

As at 31 December 2018 UP TREND Ltd does not use any advanced measurement approaches to operational risk.

22. Use of Internal Market Risk Models – Article 455

As at 31 December 2018 the investment firm does not use any internal market risk models.

23. Main characteristics of capital instruments

As at 31 December 2018 the Company's regulatory capital base consists of Common Equity Tier 1.

Main characteristics of the capital instruments of UP TREND Ltd are represented below in accordance to the template in Annex II of Commission Implementing Regulation (EU) № 1423/2013 of 20 December 2013:

Main characteristics of capital instruments		
1.	ISSUER	**UP TREND Limited**
2.	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	**N/A**
3.	Governing law(s) of the instrument	**Bulgaria**
	Regulatory treatment	**Common Equity Tier 1**
4.	Transitional CRR rules	**Tier 1 Capital**
5.	Post-transitional CRR rules	**Common Equity Tier 1**
6.	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	**Solo**
7.	Instrument type (types to be specified by each jurisdiction)	**Ordinary Shares**
8.	Amount recognised in regulatory capital	**1 550 000**
9.	Nominal amount of instrument	**1 550 000**
9A.	Issue price	**100%**
9B.	Redemption price	**N/A**
10.	Accounting classification	**Ordinary Shares**
11.	Original date of issuance	**2008**

12.	Perpetual or dated	**Perpetual**
13.	Original maturity date	**N/A**
14.	Issuer call date, contingent call dates and redemption amount	**N/A**
15.	Optional call date, contingent call dates and redemption amount	**N/A**
16.	Subsequent call dates, if applicable	**N/A**
	Coupon / dividends	
17.	Fixed or floating dividend/coupon	**N/A**
18.	Coupon rate and any related index	**N/A**
19.	Existence of dividend stopper	**N/A**
20A.	Fully discretionary, partially discretionary or mandatory (in items of timing)	**N/A**
20B.	Fully discretionary, partially discretionary or mandatory (in items of amount)	**N/A**
21.	Existence of step up or other incentive or redeem	**N/A**
22.	Noncumulative or cumulative	**Noncumulative**
23.	Convertible or non-convertible	**Non-convertible**
24.	If convertible, conversion trigger(s)	**N/A**
25.	If convertible, fully or partially	**N/A**
26.	If convertible, conversion trade	**N/A**
27.	If convertible, mandatory or optional conversion	**N/A**
28.	If convertible, specify instrument type convertible into	**N/A**
29.	If convertible, specify issuer of instrument it converts into	**N/A**
30.	Write-down features	**N/A**
31.	If write-down , write-down trigger(s)	**N/A**
32.	If write-down , full or partial	**N/A**
33.	If write-down , permanent or temporary	**N/A**
34.	If temporary write-down, description of write-up mechanism	**N/A**
35.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	**N/A**
36.	Non-compliant transitioned features	**N/A**
37.	If yes, specify non-compliant features	**N/A**