GMSA INVESTMENTS LIMITED

PILLAR III DISCLOSURE

31 DECEMBER 2021

Business Model

The GMSA Investments Limited ("GMSA" or the "Firm") business model has evolved over the last 15 years to include an agency broking, matched principal and proprietary trading business.

The Firm operates primarily as a specialist broker-dealer in fixed income securities and listed equities. The Firm's model has developed over the past few years to specialise in illiquid and high yield bonds, where the team has strong expertise in pricing, analysis and execution capabilities.

GMSA undertakes no non-regulated business.

Pillar III Disclosures

The requirements as an IFPRU 730K Investment Firm consist of three Pillars:

Pillar I is a variable capital requirement based on the sum of operational, market and credit risk.

The Firm has adopted the following approach to its Pillar 1 capital calculation

- Credit Risk - the "Standardised Approach" Articles 111-141 CRR
- Market Risk – "Trading Book" and "Non Trading Book" Articles 325-377 CRR
- Operational Risk – "Basic Indicator Approach" Articles 315-316 CRR

Pillar II requires a firm to assess a wide range of risks to its business, their likelihood and impact.

The Firm has assessed a number of risks and detailed the controls in place to eliminate and mitigate the risks. In doing so it has adopted the "Structured" approach to the calculation of its ICAAP in accordance with the Committee of European Banking Supervisors Paper, 25 January 2006. In instances where mitigation is not possible the Firm will hold additional internal capital over and above its Pillar I calculations.

<u>As at 31st December 2021 positions showed:</u>

- Core Tier 1 Capital of **EUR 5,169,402** consisting of paid up share capital €3,000,000 plus €1,000,000 Reserves and €1,169,402 retained earnings
- Tier 2 Capital Nil
- Own Funds **EUR 5,169,402**
- Gross Total Risk Exposure Amount 19,727,827 EUR[1]
- Core Tier 1 and Total Capital Ratio **26.20%**[2]
- **Surplus capital over minimum requirement 3,591,176 EUR**

Common Equity Tier 1 capital of 4.5% of TREA. Our minimum requirement based on the above TREA is 887,752 EUR (excluding Pillar 2 capital) and we currently have a Common Equity Tier 1 capital amount of **5,169,402** EUR equals a surplus of 4,281,650 EUR[3].

[1] C 02.00 (CA 2) Capital Adequacy - Risk Exposure Amounts - COREP Q4, 2021
[2] C 03.00 (CA 3) Capital Adequacy – Ratios – COREP Q4, 2021
[3] C 03.00 (CA 3- 020) Capital Adequacy – Ratios – COREP Q4, 2021

Tier 1 capital of 6% of TREA. Our minimum requirement based on the above TREA is 1,183,670 EUR (excluding Pillar 2 capital) and we currently hold a Tier 1 capital amount of **5,169,402** EUR, equals a surplus of 3,985,732 EUR[4].

Total capital (Own Funds) of 8% of TREA. Our minimum requirement based on the above TREA is 1,578,226 EUR (excluding Pillar 2 capital) and we currently hold Own Funds of **5,169,402** EUR equals a surplus of 3,591,176 EUR[5].

Summarised in the below table:

CAPITAL REQUIREMENTS UNDER CRD IV (Article 92 of the Regulations)			
OWN FUNDS REQUIREMENTS	**Ratio**	**Min. Required Ratio**	**Surplus/(deficit) EUR**
Common Equity Tier 1 ratio	**26.20%**	**4.50%**	**4,281,650**
Tier 1 capital ratio	**26.20%**	**6%**	**3,985,732**
Total capital ratio	**26.20%**	**8%**	**3,591,176**

Further Own Funds Requirements figures are provided below:

- FX Risk = EUR 79,751
- Position Risk Specific :EUR 328,185
- Position Risk General: EUR 188,397
- Settlement Risk: EUR 3,303

With respect to Pillar 2 Capital Resource Requirements including CPB equal to **3,312,737** EUR, the Firm has surplus Capital Resources of EUR **1,856,665**.

The Board is therefore comfortable that the Company is, and has been throughout the financial year, adequately capitalised for Pillar 1 and Pillar 2 purposes.

There is currently a surplus between the capital resources of the Firm and the capital requirements of the Firm as detailed above.

Summary of Principal Risks

Senior management monitor settlement risk, the credit facility with the Firm's clearer, and any margin requirements for open interest positions for its futures activity on a daily basis. The Firm's management are in direct contact with middle office and finance allowing for timely updates on any credit or settlement issues. Senior management are also aware in a real time environment of their own account trading activity. In an event that is severe enough to pose a financial risk to the Firm, the management will be able to react quickly.

Market Risk
In 2016 GMSA developed an enhanced Capital Adequacy Tool to ensure its daily CRR capital requirements are met, and that management are aware of any position or large exposures. GMSA's proprietary positions are limited in size restrictions.

[4] C 03.00 (CA 3- 040) Capital Adequacy – Ratios – COREP Q4, 2021
[5] C 03.00 (CA 3- 060) Capital Adequacy – Ratios – COREP Q4, 2021

FX Risk
The vast majority of trading activity is in EUROS, which is the same as the Firm's reporting currency; hence FX risk is minimal and mitigated by the Finance Department monitoring FX exposure and converting no-EUR revenues to Euros on a monthly basis as required.

Counterparty Risk
Credit risk is considered on a daily basis, although most of the counterparty risk is spread amongst large well capitalised regulated financial institutions, however the Firm will examine credit ratings and request audited accounts from counterparties who are not well known names, smaller in market capitalisation, not listed on a major exchange and/or unrated by a rating agency. The Firm's management board will then make a decision as to size of transaction undertaken, overall exposure to that party or indeed if to forgo any transactions if the risk is not acceptable. The Firm takes an active approach especially after Lehman Brothers and MF Global bankruptcies that the Firm will try to limit its overall exposure to a single or connected group, this is done on a case by case basis with available information such as financial analysis from audited accounts, credit reports from rating agencies, newswire and other commentary as to the health of a counterparty or potential counterparty. Historically none of the Firm's top 10 clients/counterparties has been responsible for >10% of the Firm's overall business. The introduction of mandatory partial settlement for outstanding/unsettled trades that came into force on 1 February 2022 (CSDR) is seen as being very favourable in reducing settlement delays and outstanding positions, hence reducing potential exposure to counterparties during the settlement cycle.

Settlement Risk
Settlement Risk is a daily indicator and is thus the indicator most responsive to the firm's trading activity. The firm actively monitors all unsettled transactions and models settlement risk on a daily basis using their Capital Adequacy Tool, and pushes counterparties for timely settlement. As of 2021, a new Auto-Partial settlement tool has been added to GPP which reduces outstanding unsettled trade amounts. As of February 2022, new CSDR regime imposes acceptance of automatic partials for outstanding/unsettled transactions, thus actively reducing counterparty and settlement risk.

Liquidity Risk
GMSA is required to maintain sufficient liquidity resources to ensure that there is no significant risk that its liabilities cannot be met as they fall due or that financial resources can only be secured at excessive cost. Liquidity risk may crystallise if sudden unexpected cash flows are experienced. GMSA has historically not had any credit facilities with its bankers. GMSA's liquidity requirements and balance sheet are closely monitored by Finance and Risk Management at all times. Analysis and reporting of the firm's liquidity position takes place on a daily basis. This means that under ordinary business conditions, the firm will always expect to have sufficient liquidity in order to be able to meet its liabilities as they fall due. The financial or liquidity situation of the Firm is made available to Executive Directors on a daily basis.

Money Held with Banks & Clearer
Please note GMSA's bank account is held with Natwest and Revolut; GMSA do not consider quarterly management information necessary to analyse its credit position; material changes in either bank's financial position would be widely reported in the financial and non-financial news, allowing GMSA oversight via this method. Generally monies held are split fairly equally between the 2 banks, hence the Firm is not overly reliant on any single bank for the funding of its day to day operations.

GMSA utilises Global Prime Partners ("GPP") as its main clearing agent for all fixed income business. Deposits and monies held by GPP are segregated, with proprietary long positions maintained in a CASS account. A secondary clearer was introduced in Q1 2021 Banca CredInvest and the Firm is in early stages of testing functionalities. The addition of a second clearer reduced operational risk and dependency on GPP.

Clearing of equity trades is handled directly between IBP Markets Ltd and the relevant counterparty via the creation of specific sub-accounts. All monies and trading deposits held by IBP are segregated. As of October 2021, TFS Derivatives Limited (Tradition Group) has been added as DMA provider. All client activity has been rerouted to Tradition from IBP as the former is considered a much larger and secure counterparty with state of the art technology and systems which will allow for smooth and error free confirmation and settlement of trades. The Firm uses IBP Markets exclusively for part of its proprietary trading business when it is close to exhausting its trading line limit with Tradition. Tradition does not hold any monies by way of trading deposit or margin requirement.

Trading deposits held with Equita SIM for access to Italian retail bond platforms is segregated.

__Operational Risk__

Loss of Key Staff
Whilst no one person is essential, the founding members are core to our business plans. The Firm has a balanced board could temporarily allocate the responsibilities of 1 director whilst a replacement as sought. Thus no extraordinary expenditure to replace staff beyond our normal budget is required.

Trade dealing errors
To date trade dealing errors are a de minimus percentage of overall trading volumes, and immaterial economic terms

Failure of outsourced service provider
SLAs in place to manage performance of service providers. Highest quality service providers are employed.

Service providers have controls in place to manage the risks within their own businesses.
GMSA reviews the service provided and the SLA at least annually.

Breach of IT security
The Firm's IT security is maintained in conjunction with a robust data protection programme. Industry leading systems are used. Anti-virus software is in place for all servers and desktops. Virus definitions are updated when a new patch is released.

Failure to follow the Firm's proprietary trading policy
No history of mandate breaches, in terms of client instructions. The Firm does not manage accounts on a discretionary basis. The Firm has implemented systems and controls to monitor investment activity, and reviews are conducted on both an informal day-today and formal basis.

Fraud /Theft
Only the Managing Director may make disbursements of company cash and these are monitored by the Firm's Finance Manager. Additionally, monthly reconciliations of the Firm's bank accounts are undertaken by the Firm's Finance Manager. Daily account reconciliations carried out by Head of Middle Office/Operations Manager. Real time back up of emails, will have a preventative effect of GMSA losing IP and customer data. Due to the segregation of duties, and retention by GMSA oversight of settlement and accounting functions, the risk of fraud is low.

The Firm has considered the above risks and believes its Pillar 1 calculation is sufficient.

Bad debt risk, failure to collect payments due
Revenues comprise of commissions charged for client executions and spreads from bid/ask on fixed income transactions plus profits on own account trading. To that extent, the risk of non-receipt is quite low.

Insurance risk

Insurance does not pay out when required, Requirements are reviewed yearly by an independent broker.

We have cover for D&O, professional liability, key man and employer liability

Concentration risk
Lack of diversification of funds/clients etc. - GMSA operates 3 different lines of business and accordingly the business is adequately diversified.

Interest rate risk
The company does not borrow in its own right, but in an indirect consequence movements in interest rates will impact the pricing and volatility of fixed income securities both client driven and the Firms own account trading. This can be viewed depending on effective strategy employed as an advantage as the Firm generally makes more profits in volatile periods

GMSA have considered the universe of credit risk it is subject and believes its Pillar I calculation is sufficient.

Stress Tests
The Firm has always succeeded even during the financial crisis of 2008. Nevertheless, the Firm has a Recovery and Resolution policy in place which it will enact if there is a sustained period of losses or dramatic fall in revenues. This will enable the firm to reduce overheads and continue business.

GMSA has conducted a series of stress test to model the strength of the firm and its regulatory capital ratios in a series of hypothetical situations.

The model works with the following assumptions:

- All revenues and expenses occur on a monthly basis and within period (i.e no deferred income or expenses)
- Market Risk of Proprietary positions is not modelled (as this is too variable), hence the model assumes no proprietary trading positions.
- Tier 1 Capital consists of Issued Share Capital, Reserves and Running P/L on monthly basis
- Fixed/Current Assets
- Percentage of Balance Sheet Assets that are non-EURO and incur FX risk = 20%
- Non-Euro Cash at Bank modelled at 15.4% of balances
- Interest on Cash Deposits = 1%
- Interest on Loans = 4%
- Corporation Tax Rate = 19%
- Fixed Assets assigned Credit Risk Weighting of 100%
- Cash Held at Bank assigned Credit Risk Weighting of 20%
- Operational Risk modelled as 15% of 3year projected Net Revenues of each Scenario
- FX Risk of 8%
- Settlement Risk is taken as Average of 5yr Settlement Risk as per Q4 COREPs

<u>Scenario 1: Major Downturn with gradual Recovery</u>

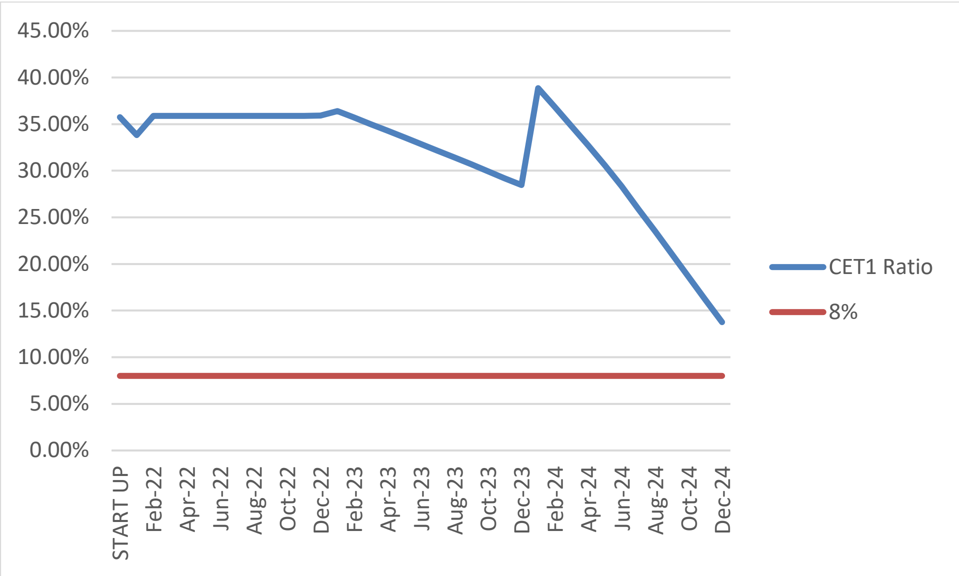
This would model the situation where there is a large shock to the system, such as the concurrent loss of 4-5 major counterparties, abrupt market downturn or loss of multiple revenue generating employees.

- Firm's proprietary trading, matched principal brokerage and equity agency business reduced by 50% in the first year.
- Year 2 and Year 3 see a gradual pick up of revenue by 5% each year.
- Cost of Sales increase/decrease in line with revenues

- Salaries unchanged
- All other Expenses increase by 5% year on year for the 3 year period.

The results obtained show:

	Year 1 (2022)	Year 2 (2023)	Year 3 (2024)
Common Equity Tier 1 ratio	28.11%	21.48%	15.47%



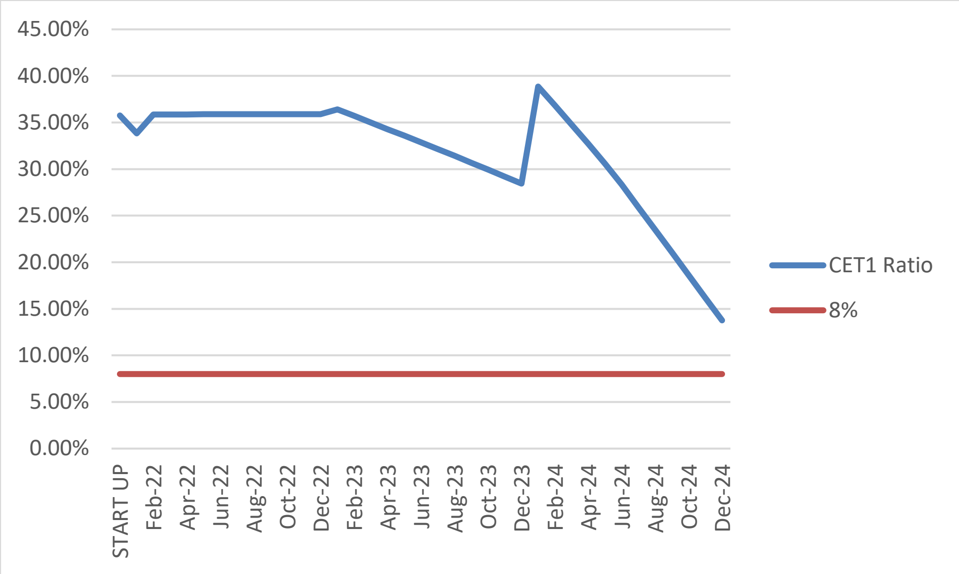
Scenario 2: High Inflation combined with prolonged Downturn in Business

This would model the situation where there is a prolonged period of inflation with expenses increasing by 10% annually for each year, combined with a prolonged downturn in business activities of 20% year on year

- Firm's proprietary trading, matched principal brokerage and equity agency business reduced by 20% for each of the 3 years.
- Cost of Sales increase/decrease in line with revenues
- All other Expenses increase by 10% year on year for the 3 year period.

The results obtained show:

	Year 1 (2022)	Year 2 (2023)	Year 3 (2024)
Common Equity Tier 1 ratio	36.37%	30.52%	21.36%

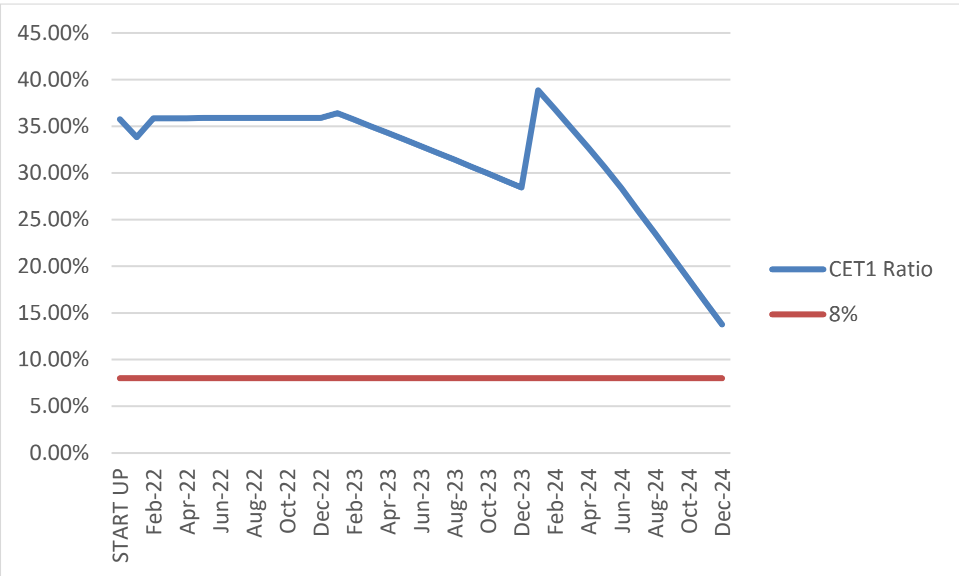


Scenario 3: Major Downturn in Year 1 with steady decline in Years 2 and 3

Major shock to the company in year 1 with continued weak trading in years 2 and 3

- Firm's proprietary trading, matched principal brokerage and equity agency business reduced by 50% in the first year.
- Year 2 and Year 3 see a gradual decline in revenues of 10% each year.
- Cost of Sales increase/decrease in line with revenues
- Salaries decline 5% each year to reflect results
- All other Expenses increase by 5% year on year for the 3 year period.

	Year 1 (2022)	Year 2 (2023)	Year 3 (2024)
Common Equity Tier 1 ratio	29.41%	23.20%	17.16%

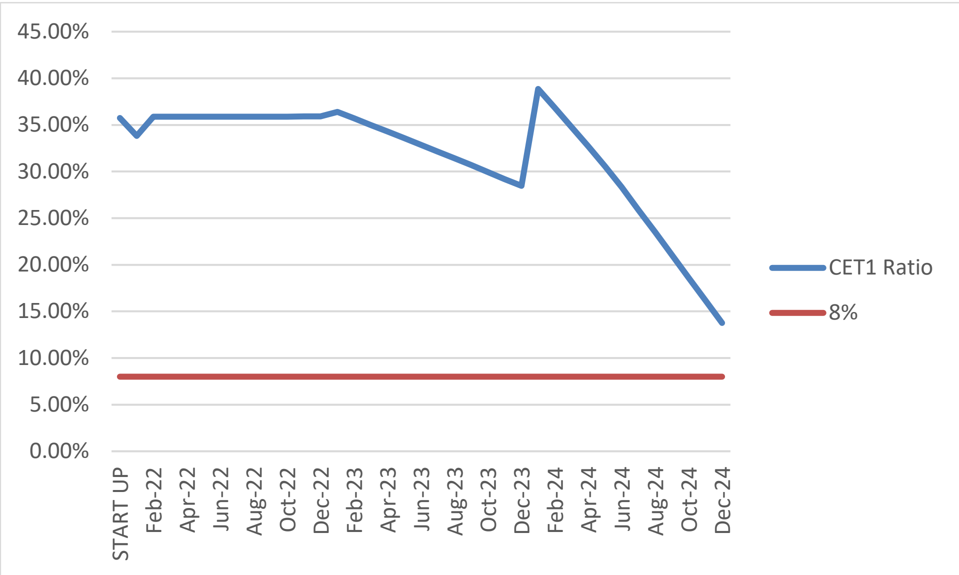


<u>Scenario 4: Reduced Revenues for 3 years with Increased Expenses and unchanged Cos of Sales</u>

This scenario models the case where the firm experiences a slow down in business for each of the 3 years of 15%. However it is not able to reduce cost of sales and all other expenses go up by 10% each year

- Firm's proprietary trading, matched principal brokerage and equity agency business reduced by 15% each year.
- Cost of Sales unchanged
- Salaries decline 5% each year to reflect results
- All Expenses increase by 10% year on year for the 3 year period.

	Year 1 (2022)	**Year 2 (2023)**	**Year 3 (2024)**
Common Equity Tier 1 ratio	35.90%	28.46%	13.76%



The management consider these to be a fair test of a sustained period of reduced income combined with increased expenditure. The results emphasise the management's confidence with the firm's current capital position

Changes in exchange rates
Potential impact on trading activities due to fluctuations in the exchange rate can also affect base regulatory capital requirements.

Volatility in Corporate Bonds
With respect to the Firm's proprietary trading business GMSA are fully aware of the risks when trading in non-investment grade bonds. This is where GMSA's specialty lies and strong expertise in pricing, analysis and execution capabilities.

Political risk
GMSA considers that political risk has been reduced due primarily in part due to the Brexit between UK and EU and results of US Presidential elections.

The resulting figures from the Pillar I and II calculation are below:

Pillar 1 Calculation	EUR		Pillar 2 Calculation	Additional Capital EUR	TOTAL Pillar 2 EUR
Operational Risk[6]	827,952		Operational Risk	410,000	**1,237,952**
Counterparty, Standardised Credit and Settlement Risk[7]	150,903		Counterparty, Standardised Credit and Settlement Risk (11)	169,800	**320,703**
Market Risk[8]	516,582		Market Risk	500,000	**1,016,582**
Foreign Exchange Risk[9]	79,751		Foreign Exchange Risk	0	**79,751**
Large Exposures Risk[10]	0		Large Exposures Risk	0	**0**
			Business Risks	500,000	**500,000**
			Other Risks	0	**0**
			Group Risks	0	**0**
			TOTAL PILLAR 2		**3,154,988**
			Risk management & Governance scalar 5% of Total Pillar 2 – SREP 2018		**157,749**
TOTAL PILLAR 1 Capital Resources Requirement	**1,575,188**		**Capital Resources Requirements**		**3,312,737**
			Capital Planning Buffer (CPB)[11]	0	**0**
			Total Capital Resources Requirement with CPB		**3,312,737**
Capital Resources[12]	**5,169,402**		**Capital Resources**		**5,169,402**
Excess	**3,594,214**		**Excess**		**1,856,665**

<u>Pillar III Remuneration Disclosure</u>

[6] C 16.00a C 16.00.a (OPR) Operational risk - Excluding AMA – COREP Q4, 2021 [COREP SUBMISSION PERIOD DATA TO 31.12.2021]

[7] C 07.00.a.007(Total) - Credit and counterparty credit risks and free deliveries: Standardised Approach to capital requirements – COREP Q4, 2021 (1,882,985/12.5 = 150,639) + Settlement Risk C 11.00. (3,303 / 12.5 = 264)

[8] C 18.00a (Total) - Market risk: Standardised Approach for traded debt instruments, COREP, Q4, 2021

[9] C 22.00 - Market risk: Standardised Approaches for foreign exchange risk, COREP, Q4 2021

[10] At the time of updating ICAAP, the Firm had no large exposures.

[11] As per SREP 2018

[12] C 01.00 - Capital Adequacy - Own funds definition, paid up share capital €3,000,000 plus €1,000,000 Reserves and €1,169,402 retained earnings

Under the FCA Remuneration Code the Firm has determined that it is a Tier Three Firm, which allows it to disapply many of the technical requirements of the Code and proportionately apply the Code's rules and principles in establishing its Remuneration Policy.

Decision Making Process for Remuneration Policy

Given the nature and size of the Firm the Remuneration Policy was determined and administered by the Board.

The Board therefore is responsible for making strategic decisions on level of remuneration and other benefits for other senior employees, including all Code Staff.

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

Code Staff Criteria

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

- Any employee holding a significant influence function;
- Other senior managers have an input into the decision making process of the Firm
- Any employee receiving total remuneration which takes them into the same remuneration bracket as senior management.

The Link between Pay and Performance for Code Staff

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

Aggregate Quantitative Information on Remuneration for Code Staff

For the year ending December 2021, the firm had 4 code staff. All were SIF Function Holders.

Aggregate expenditure in respect of Code Staff was €530,268

Remuneration expenditure was divided between fixed and variable remuneration as follows:

Fixed Remuneration	€392,469
Variable Remuneration	€137,799