Pillar 3 Disclosure

1. Background

The Capital Requirements Directive ('the Directive') of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). The FCA framework consists of three 'Pillars':

Pillar 1: sets out the minimum regulatory capital requirement for a firm. A BIPRU firm must maintain capital resources which are at least equal to the base capital resources requirement. A firm must also meet the variable capital requirement which is the higher of (i) the sum of credit and market risk capital requirement and (ii) fixed overheads requirement ('FOR').

Pillar 2: requires a firm to regularly assess the amount of internal capital it considers adequate to cover all the risks to which it is exposed under the overarching Pillar 2 rule. The process is known as the Internal Capital Adequacy Assessment Process ('ICAAP') and is the firm's internal responsibility.

Pillar 3: requires a firm to make disclosures to the market which will allow market participants to assess key information on firm's capital, risk exposures and risk assessment process.

Disclosure Policy

Ion Asset Architecture UK Limited ('Ion' / 'Company') adopts this policy to comply with disclosure requirements and to assess the appropriateness of the Company's Pillar 3 market disclosures, including their verification and frequency. This document is set out to meet the Pillar 3 obligations of Ion. Ion is a wholly owned subsidiary of Ion Asset Architecture Limited. Ion is not a part of a consolidation group and as such Pillar 3 disclosure is prepared on solo basis. The requirements for Pillar 3 disclosures are detailed in BIPRU 11.

Frequency and location of disclosure

The Company will be making Pillar 3 disclosures on annual basis and it will be published on Ion's website www.ion.fm.

Preparation and Verification

These disclosures explain the basis of preparation of certain capital requirements and provide information about the management of specific risks. They do not constitute audited financial statements and have been produced solely for the purposes of Pillar 3.

2. Background

The Director determines the business strategy and risk appetite of the Company, taking into account all the laws and regulations. The Company's risk framework is transparent in its form and implementation. Specific personnel are assigned responsibility for the risks across business units. Risks and mitigating controls are periodically reassessed, taking into account Company's risk appetite. The Director of the Company periodically reviews the quality of the risk management framework to ensure that appropriate controls are in place and that mitigating actions are moving forward.

ICAAP constitutes the base of Ion's risk management framework. Within this process the potential risks have been singled out and the likelihood and impact of those happening identified. Any inherent risks have been mitigated by imposing internal controls giving residual risk rating, against which adequate capital have been assigned.

This methodology ensures that should any of the assumed risks crystallised, sufficient capital has been kept in reserves and adverse events would not bring damage to Ion and/or its Investors.

The Director has identified below the main risks to which the Firm is exposed.

Credit Risk: the risk when a client or counterparty default on their obligations. Ion has some appetite for credit risk; however, the Firm's exposure to credit risk is low, given that it mainly has exposure to the Ion Group and to reputable financial institutions.

Operational Risk: the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

Business Risk: this is risk arising from changes in the Company business, including that Ion may not be able to carry out its activities. It is exposed to a wide range of macro-economic, geopolitical, industry, regulatory and other external risks that might adversely impact the Company's strategy. Strong knowledge of the markets, products and technology are the main mitigants. Additionally, ongoing stress testing is conducted to evaluate potential impact.

Market Risk: the risk that Ion's revenue and/or operations might be damaged by adverse market conditions. Ion does not trade as principal, act as a market maker or hold proprietary positions. The Company is therefore not subject to proprietary 'Position Risk'. The Company is, however, subject to market risk on short term positions resulting from foreign currency exposures in currencies other than GBP (the reporting currency).

3. Regulatory Capital Reserves Requirement

Pillar 1

Ion is authorised by the FCA as a full-scope UK Alternative Investment Fund Manager and is categorised by the FCA for prudential regulatory as a BIPRU EUR 125,000 firm. Pillar 1 capital resources requirement is set at the higher of (i) EUR 125,000, (ii) the sum of the market and credit risk requirements for Ion, or (iii) the FOR. Ion Pillar 1 capital requirement is GBP 620,000, which represents the Fixed Overheads requirement "FOR". The Company takes a prudent approach to the management of its capital base and monitors its expenditure on a monthly basis in order to take account of any material fluctuations, which may cause its FOR to be reassessed. Ion ensures that at all times it has sufficient capital to meet its FOR and verifies this on a monthly basis.

Pillar 2

The capital required under Pillar 2 is the sum of the capital required under Pillar 1 plus any additional capital required to be maintained against risks not adequately covered by Pillar 1 capital. Ion's approach to assessing the adequacy of its internal capital is set out in its ICAAP. The ICAAP involves consideration of a range of risks faced by the company and determines the level of capital needed to cover these risks.

Ion believes it has taken a prudent approach to its Pillar 2 calculations and that both, its capital resources and solvency, are sufficient to meet the company's operational and other risk requirements and that these capital resources are also adequate to support its operations without any need for additional injections of capital over the period considered within the business plan forecasts contained within the ICAAP. Stress and scenario tests performed during the ICAAP support management's view that adequate additional capital is held by the firm under Pillar 2.

4. **Ion's capital resources as at 31 December 2021 are as represented in the table below.**

Ion's Capital Resources	
	GBP (thousands)
Tier 1 Capital	1,077
Deductions	0
Tier 2 Capital	0
Deductions	0
Total Capital	**1,077**

Calculations	Pillar 1	Pillar 2
	GBP (thousands)	GBP (thousands)
Credit Risk (1)	14	
Market Risk (2)	59	
Fixed Overhead Requirement (FOR, (3))	620	
Variable Capital Requirement (higher of sum of 1 & 2 or 3 above)	620	
Base Capital Requirement (€125,000)	105	
Pillar 1 (minimum Regulatory Capital requirement)	**620**	
Business Risk		33
Operational Risk		42
Credit Risk		14
Market Risk		59
Liquidity Risk		28
Group Risk		6
Pillar 2		**182**
Wind Down (net)		561
Eligible Regulatory Capital (A)		1,077
Minimum Regulatory Capital Requirement (B)		620
Surplus (A-B)		457
Solvency Ratio		173.71%

5. Remuneration Disclosure

Ion is expected to meet requirements of the Remuneration Code set out in SYSC 19C and apply it appropriately according to its size, nature and complexity of its business.

The purpose of the Remuneration Code is to ensure firms establish, implement and maintain remuneration policies, procedures and practices that are consistent with, and promote, sound and effective risk management.

The Remuneration Code applies to 'Remuneration Code Staff' ('Code Staff'). This includes senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile.

Ion's remuneration policy structures incentives (i.e. bonuses) in such a way that it is not total performance, which determines the final bonus amount. Rather it is the risk-adjusted performance that is used to calculate any bonus payment to trading/investment management staff. Even if a member of staff is responsible for large amounts of revenue to the firm or funds, his or her bonus payment may be minimal if such revenue was achieved by taking a large amount of risk. This aligns Code Staff incentives with the interest of investors (and of the firm) which are interested in stable, long-term capital growth.