

**Assurance Report to the Cyprus Securities and Exchange Commission in respect of Naga Markets Limited for the year ended 31 December 2018 pursuant to paragraph 32(1) of the Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms and Part 8 of the European Regulation (EU) 575/2013**

1. We report in relation to the fair presentation of the disclosures of Naga Markets Limited (the “Company”) for the year ended 31 December 2018 (the “Pillar III Disclosures” or “Disclosures”), required by paragraph 32(1) of the Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms and Part 8 of the European Regulation (EU) 575/2013 (the “Regulation”). The Disclosures are attached as an Appendix and have been initialled for identification purposes.

*Respective responsibilities*

2. The Company’s Board of Directors is responsible for the preparation and fair presentation of the Disclosures in accordance with the Regulation. Our responsibility is to express an independent conclusion in relation to the fair presentation of the Disclosures, in all material respects, in accordance with the requirements of the Regulation.

*Scope of work performed*

3. We conducted our work in accordance with International Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”. This Standard requires that we plan and perform our work to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Disclosures are not fairly presented, in all material respects, in accordance with the requirements of the Regulation. Our procedures included verifying, on a sample basis, the compliance of the Disclosures with the requirements of the Regulation, as well as obtaining evidence supporting certain of the amounts and notifications included in the Disclosures. Our procedures also included an assessment of any significant estimates made by the Company’s Board of Directors in the preparation of the Disclosures. We believe that our procedures provide a reasonable basis for our conclusion.

4. The procedures performed do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, and hence we do not express any assurance other than the statement made below. Had we performed an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

## Conclusion

5. Based on our work described in this report, nothing has come to our attention that causes us to believe that the Disclosures for the year ended 31 December 2018 are not fairly presented, in all material respects, in accordance with the requirements of the Regulation.

6. Our report is solely for the purpose as set out and is not to be used for any other purpose or to be distributed to any other parties without our prior consent in writing. This report relates only to the Disclosures required pursuant to the Regulation and does not extend to any financial statements or other financial information of the Company.



Nicolas Pavlou  
Certified Public Accountant and Registered Auditor  
for and on behalf of

**Ernst & Young Cyprus Limited**  
Certified Public Accountants and Registered Auditors

Nicosia  
31 May 2019



# NAGA | MARKETS

## PILLAR III DISCLOSURES

“According to Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012”

YEAR ENDED 31 DECEMBER 2018

**May 2019**

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## 1. Overview

### 1.1. CIF Information

Naga Markets Ltd (hereinafter the “Company”) was incorporated in the Republic of Cyprus on 15 June 2009 as a limited liability company with registration number HE 251168.

The Company is a Cyprus Investment Firm (hereinafter “CIF”) and acts as the principal and market maker to its customers in Contracts for Difference (“CFDs”) on currency pairs, futures, commodities, indices, shares and metals.

On 21 August 2015, the Company changed its name from Ava Trade Ltd to AF Alaska Financial Ltd. Subsequently, on 18 May 2016, the Company changed its name from AF Alaska Financial Ltd to Hanseatic Brokerhouse Global Markets Ltd. On 28 September 2017, the Company changed its name from Hanseatic Brokerhouse Global Markets Ltd to NagaMarkets Ltd.

On 31 March 2016 the Company proceeded with a licence extension so as to include the ancillary service of “safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management”.

On 30 May 2016 the Company proceeded with a licence extension so as to include the investment service of “Dealing on Own Account” and the ancillary service of “Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit loan is involved in the transaction”.

Table 1 below illustrates the current licence information of the Company:

**Table 1 - Company Licence Information (based on the Third Appendix of the Law 144(I)/2007, as amended)**

		Investment Services and Activities								Ancillary Services						
		1	2	3	4	5	6	7	8	1	2	3	4	5	6	7
Financial Instruments	1	✓	✓	✓	✓	✓	-	-	-	✓	✓	-	✓	-	-	-
	2	✓	✓	✓	✓	✓	-	-	-	✓	✓			-		-
	3	✓	✓	✓	✓	✓	-	-	-	✓	✓			-		-
	4	✓	✓	✓	✓	✓	-	-	-	✓	✓			-		-
	5	✓	✓	✓	✓	✓	-	-	-	✓	✓			-		-
	6	✓	✓	✓	✓	✓	-	-	-	✓	✓			-		-
	7	✓	✓	✓	✓	✓	-	-	-	✓	✓			-		-
	8	✓	✓	✓	✓	✓	-	-	-	✓	✓			-		-
	9	✓	✓	✓	✓	✓	-	-	-	✓	✓			-		-
	10	✓	✓	✓	✓	✓	-	-	-	✓	✓			-		-

The Company is authorised to provide the following **Investment Services**, in accordance with Part I of the Third Appendix of the Law 144(I)/2007, as amended:

1. Reception and transmission of orders in relation to one or more financial instruments
2. Execution of orders on behalf of clients
3. Dealing on own account
4. Portfolio Management
5. Placing of financial instruments without a firm commitment basis<sup>1</sup>

<sup>1</sup> The Firm did not provide such Investment Service even though it had the authorisation to do so.

The Company is authorised to provide the following **Ancillary Services**, in accordance with Part II of the Third Appendix of the Law 144(I)/2007, as amended:

1. Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
2. Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
3. Foreign exchange services where these are connected to the provision of investment services

The Company is authorised to provide the aforementioned investment and ancillary services, as applicable for each service, for the following Financial Instruments, in accordance with Part III of the Third Appendix of the Law 144(I)/2007, as amended:

1. Transferable Securities
2. Money Market Instruments
3. Units in Collective Investment Undertakings
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls
8. Derivative instruments for the transfer of credit risk
9. Financial contracts for differences
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls

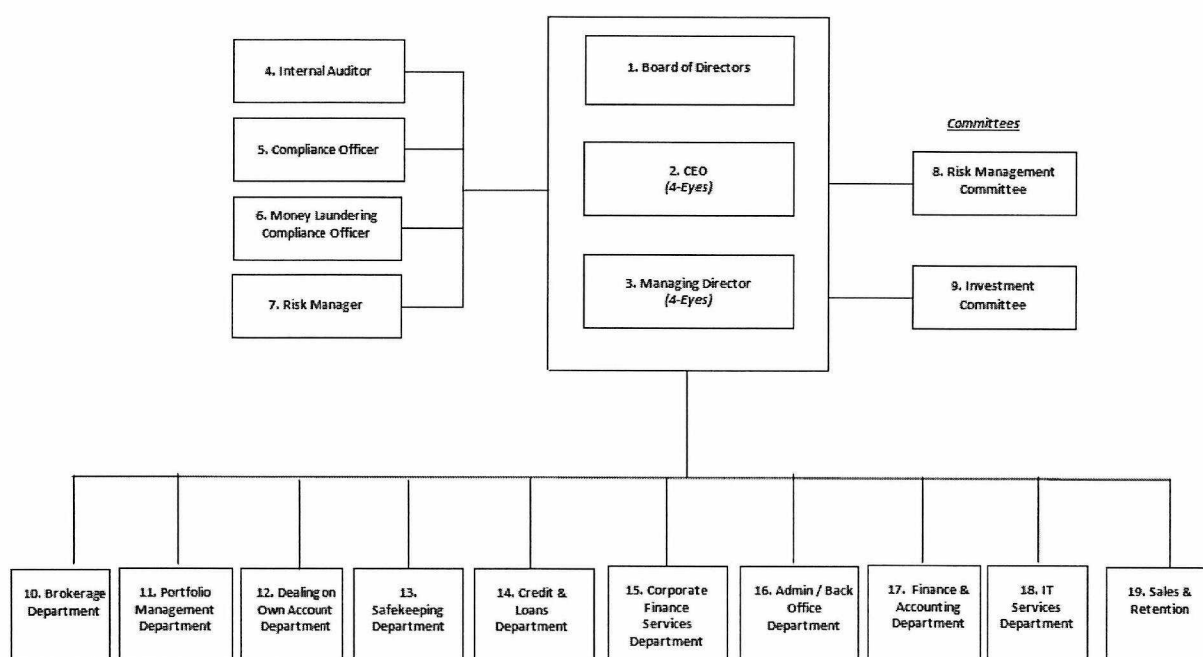
Moreover, the Company is categorised as “Full Scope” CIF with minimum/initial capital requirement of €730,000.

## **1.2. Scope of application**

The Company is publishing the disclosures on an individual (solo) basis.

Annual Reports and Financial Statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and the provisions of the Cyprus Company Law, Cap. 113.

### 1.3. Organizational Structure



### 1.4. Regulatory framework overview

This report has been prepared in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the “Regulation” or the “CRR”) and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (the “CySEC”) for the prudential supervision of investment firms.

CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. Furthermore, CRR introduces significant changes in the prudential regulatory regime applicable to institutions including amended minimum capital ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. Additionally, CRR permits a transition period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018. CRR is immediately binding on all EU member states. CRD IV governs access to internal governance arrangements including remuneration, Board of Directors (the “Board”) composition and transparency.

CRD IV is transposed into national laws, which allows national regulators to impose additional capital buffer requirements. Based on the provisions of the Macroprudential oversight of Institutions Law of 2015 which came into force on 1 January 2016, the CBC is the designated Authority responsible for setting the macroprudential buffers that derive from the CRD IV.

In accordance with the provisions of this law, the CBC sets, on a quarterly basis, the Countercyclical Capital Buffer (the “CCyB”) level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined by the CBC ahead of the beginning of each quarter. The CBC has set the level of the CCyB rate for Cyprus at 0% for 2018.

Moreover, according to paragraph 52(2) of the Directive, the Macroprudential Authority may

exempt small and medium sized CIFs from holding an institution specific CCyB, in addition to their CET 1 Capital. Based on the assessment made, using financial data for y.e. 31/12/2014, the Macroprudential Authority has decided that the Company meets the definition of a small and medium CIF. However, the Company was not included in the above assessment because it obtained its authorization to provide the investment service of “Dealing on own account” in 2016. Until the next assessment is made, the Company is obliged to maintain an institution specific CCyB.

The institution specific CCyB rate for 31 December 2018 is 0% as illustrated in the table below:

**Table 2 - Geographical Distribution of own funds requirements for the calculation of the Countercyclical Capital Buffer**

31 December 2018 (€'000)							
	General Credit Exposures	Trading Book Exposure	Own Funds Requirements			Own Funds Requirements Weights	Counter cyclical Buffer Rate
	SA	SA	General Credit Exposures	Trading Book Exposures	Total		
Germany	447	0	27	-	27	12,7%	0%
Cyprus	14	0	1	0	1	0,5%	0%
Spain	1,304	0	78	0	78	36,7%	0%
United Kingdom	48	0	3	0	3	1,4%	0%
Poland	95	0	6	0	6	2,7%	0%
Other	1,241	0	98	0	98	46%	0%
<b>Total</b>	<b>3,149</b>	<b>0</b>	<b>213</b>	<b>0</b>	<b>1,466</b>	<b>100%</b>	<b>0%</b>

**Table 3 - Amount of institution-specific countercyclical capital buffer**

31 December 2018	Amount (€'000)
Total Risk Exposure Amount	16,606
Institution specific countercyclical buffer rate	0%
<b>Institution-specific countercyclical capital buffer requirement</b>	<b>0</b>

Further to the above, the Company has to comply with the capital conservation buffer (the “CCB”). The CCB will be phased-in gradually, starting from 1 July 2016 at 0.625% and increasing by 0.625% every year thereafter, until being fully implemented (2.5%) on 1 January 2019. The Company is obliged to maintain a 1.25% CCB in addition to the CET1 capital maintained for the year 2018 to meet the own funds requirement imposed by Article 92 of the CRR.

The Macroprudential Oversight of Institutions Law, 2015, also requires the maintenance of additional capital buffer by the systemically important credit institutions and investment firms either at the national level, or at the EU level, referred to as Other Systemically Important Institutions (“O-SII”).



The O-SII capital buffer reflects the cost for an institution of being systemically important and reduces the moral hazard from the support of the institution from the state and the taxpayers and compensates for the higher risk it represents for the national financial system and the potential consequences of its failure. The Company is not obliged to maintain an O-SII capital buffer as it is not an O-SII institution.

The Regulatory framework consists of a three “Pillar” approach:

- **Pillar I** establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating RWA.
- **Pillar II** requires firms and supervisors to take a view on whether a firm should hold additional capital against risks considered under Pillar I that are not fully captured by the Pillar I process (e.g. credit concentration risk); those risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk); and factors external to the firm (e.g. business cycle effects). Pillar II connects the regulatory capital requirements to the Company’s Internal Capital Adequacy Assessment Process (“ICAAP”) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and institutions on a continuous basis and to evaluate how well the institutions are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.
- **Pillar III** - Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds.

According to the Directive, the risk management disclosures should be included in either the financial statements of the CIFs if these are published, or on their websites. The Pillar III disclosure requirements are contained in Articles 431 to 455 of the Regulation. In addition, these disclosures must be verified by the external auditors of the CIF. The CIF will be responsible to submit its external auditors’ verification report to CySEC. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements.

### **1.5. Disclosure Policy: Basis and Frequency of Disclosure / Location and verification**

The Company has a formal policy, approved by the Board, which details its approach in complying fully with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR.

#### **1.5.1. Information to be disclosed**

The Regulation provides that institutions may omit one or more disclosures, if such disclosures are not regarded as material, except for the following disclosures:

- Regarding the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved (*Article 435 (2) (c) of CRR*).
- Own funds (*Article 437 of CRR*).
- Remuneration policy (*Article 450 of CRR*).

## **Materiality of Disclosures**

Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, this was not included in the document.

## **Disclosures and Confidential Information**

The Regulation also provides that institutions may omit one or more disclosures, if such disclosures are regarded as confidential or proprietary. The CRR defines proprietary as if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investments therein less valuable.

Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality. Under the light of the above, the Company avoided to disclose such confidential information in this report.

### **1.5.2. Frequency**

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

### **1.5.3. Medium and location of publication**

Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements. In this respect, the Company's Pillar III disclosures are published on the Company's website, <https://www.nagamarkets.eu/>.

### **1.5.4. Verification**

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. In addition, the Remuneration disclosures have been reviewed by the Risk Management Committee.

The Pillar III Disclosures are verified by the external auditors and submit to CySEC the verification report by the end of May.

## **1.6. Risk management objectives and policies**

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

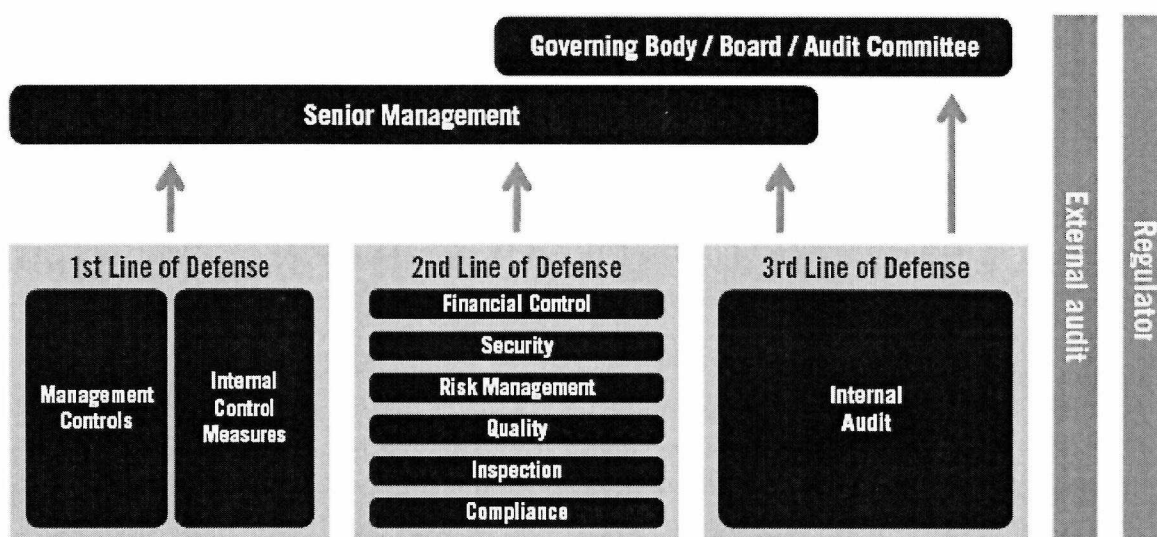
First Line of Defence: Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organizational risk appetite and are fully compliant with Company's policies and where appropriate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

Second Line of Defence: The Risk Management Function is responsible for proposing to the

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

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

## The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

### 1.6.1. Risk Management Framework

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

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

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

As part of its business activities, the Company faces a variety of risks, the most significant of which are described further below. The Company holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk.

### 1.6.2. Risk Appetite Statement

Risk Appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the Board and management confidence to avoid risks that are not in line with the strategic objectives.

The Company has established a robust Risk Appetite Framework. The Board expresses the Risk Appetite Framework, which defines the type and amount of risk that the Company is prepared to accept to achieve its objectives. The Company's Risk Appetite Framework covers three primary areas:

**Table 4 - Risk Appetite areas**

<b>Risk Area</b>	<b>Risk Types</b>
Financial	<ul style="list-style-type: none"> <li>• Credit Risk</li> <li>• Market Risk</li> <li>• Liquidity Risk</li> </ul>
Reputational	<ul style="list-style-type: none"> <li>• Conduct Risk</li> <li>• Customer Risk</li> <li>• Regulatory Risk</li> <li>• External reputational Risk</li> </ul>
Operational & People	The risk associated with the failure of key processes or systems and the risks of not having the right quality and quantity of people to operate those processes

The Risk Appetite framework has been designed to create links to the strategic long term plan, capital planning and the Company's risk management framework.

The Board approves the Company's corporate strategy, business plans, budget, long term plan and ICAAP. The Company employs mitigation techniques defined within the Company's policies, to ensure risks are managed within Risk Appetite.

### 1.6.3. Risk Culture

Risk culture is a critical element in the Company's risk management framework and procedures. Management considers risk awareness and risk culture within the Company as an important part of the effective risk management process. Ethical behaviour is a key component of the strong risk culture and its importance is also continuously emphasised by the management.

The Company is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to take accountability for them. The Company embraces a culture where each of the business areas is encouraged to take risk-based decisions, while knowing when to escalate or seek advice.

### **1.7. Declaration of the Management Body**

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and – as such – offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

## **2. Governance - Board and Committees**

### **2.1. The Board of Directors**

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

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff constituting the Company.

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

### **2.2. Number of Directorships held by members of the Board**

All members of the Board commit sufficient time to perform their functions in the Company. The number of directorships which may be held by a member of the Board at the same time shall take into account individual circumstances and the nature, scale and complexity of the Company's activities. Unless representing the Republic, members of the Board of a CIF that is significant in terms of its size, internal organization and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- one executive directorship with two non-executive directorships;
- four non-executive directorships.

For the purposes of the above, the following shall count as a single directorship:

- Executive or non-executive directorships held within the same group.

Directorships in organizations which do not pursue predominantly commercial objectives such as non-profit or charitable organizations shall not count for the purposes of the above



guidelines.

The table below discloses the number of directorships held by members of the management body.

**Table 5 - Number of Directorships of the members of the Board of Directors**

<b>Director</b>	<b>Function</b>	<b>Number of Executive Directorships</b>	<b>Number of Non-Executive Directorships</b>
Mr. Michael Milonas	CEO	2	more than 10
Mr. Stavros Fattas	Managing Director	1	-
Mr. Pascal Warnecke	Non-Executive Director	2	1
Mr. Yasin Qureshi	Non-Executive Director	5	-
Mr. Andreas Matsas	Non-Executive Director	1	3
Mr. Socratis Fekkas	Non-Executive Director	1	3

*Note: The information in this table is based on representations made by the Company.*

Mr. Michael Milonas appointed as CEO on 6 April 2017. Mr. Stavros Fatta appointed as Managing Director on 3 October 2017. Mr. Socratis Fekkas appointed as Independent Non-Executive Director on 10 July 2017. Mr. Lambros Andreou resigned from his function as Independent Non-Executive Director on 31 December 2017. Mr. Marcus Duve resigned from his function as Managing Director on 6 April 2017. Mr. Matthias Pickert resigned from his function as General Manager on 6 April 2017. Mr. Timur Coban resigned from his function as Executive Director on 28 February 2017.

### **2.3. Policy on Recruitment**

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework.

In identifying and engaging the members of its Board of Directors, the Company has taken into consideration the matters outlined in Section 9 of "Investment Services and Activities and Regulated Markets Law" L.87(I)/2017, as subsequently amended and/or replaced from time to time.

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

### **2.4. Policy on Diversity**

The Company is committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organization.

## 2.5. Governance Committees



### Risk Management Committee

In order to support effective governance and management of the wide range of responsibilities the Board has established the *Risk Management Committee*. The role of the Risk Management Committee is to provide oversight, review and challenge of the material risks both current and future affecting the business whilst ensuring that there is effective management and control of all key risks and issues facing the Company. The members of the Risk Management Committee are shown in the table below:

**Table 6 - Risk Management Committee**

Member Name	Function
Mr Michael Milonas	Managing Director
Mr Stavros Fattas	General Manager
Mr Andreas Matsas	Independent, Non-Executive Director

The Risk Management Committee, inter alia, scrutinizes, and decides on various risks inherent with the operation of the Company with the view to formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company. Moreover, the Risk Management Committee reviews the risk management procedures in place (monitors and controls the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department).

The Risk Management Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.

The Risk Management Committee meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager.

### Investment Committee

An Investment Committee has been formed to ensure the implementation of a prudent investment policy and the monitoring of the provision of adequate investment services to customers. The Investment Committee reports directly to the Senior Management and its members are shown in the table below:

**Table 7 - Investment Committee**

<b>Member Name</b>	<b>Function</b>
Mr Michael Milonas	Managing Director
Mr Stavros Fattas	General Manager
Mr Stavros Katsampis	Head of Dealing on Own Account

The Investment Committee is responsible, inter alia:

- (a) to supervise the proper choice of investments (framework for investment decisions)
- (b) to analyse the investment potential and contribute to the elaboration of the investment policy, as applicable
- (c) to determine the Company's pricing policy
- (d) to decide upon the markets and types of Financial Instruments in which the Company shall be active
- (e) to determine the mode, content and frequency of the Client's briefing
- (f) to brief the Internal Auditor, as applicable
- (g) to analyse the economic conditions and the investment alternatives based on a thorough examination of third party reports
- (h) to annually review the established dealing on own account policy and to use the recommendations of the Head of the Dealing on Own Account Department. Such a review shall also be carried out whenever a material change occurs

## **2.6 Other Governance Functions**

### **Internal Audit**

The Company, taking into account the nature, scale and complexity of its business activities, as well as the nature and the range of its investment services and activities, establishes and maintains an internal audit function through the appointment of a qualified and experienced Internal Auditor. The Internal Auditor is appointed and reports to the Senior Management and the Board of the Company.

The Internal Auditor is separated and independent of the other functions and activities of the Company. The Internal Auditor bears the responsibility to:

- (a) establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements
- (b) issue recommendations based on the result carried out in accordance with point (a)
- (c) verify compliance with the recommendations of point (b)
- (d) provide timely, accurate and relevant reporting in relation to internal audit matters to the Board and the Senior Management of the Company, at least annually

The Internal Auditor is responsible for applying the Internal Control System (hereinafter, the "ICS"), which confirms the accuracy of the reported data and information. Furthermore, the role of the Internal Auditor is the programming, on an at least annual basis (as applicable), of checks on the degree of application of the required ICS.

The Internal Auditor has clear access to the Company's personnel and books. Likewise, the Company's employees have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided.

The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions shall be taken. The Board ensures all issues are dealt with and prioritized according to the Board's assessment.

### **Compliance Officer**

The Board ensures regulatory compliance through a comprehensive and pro-active compliance strategy. To this end, the Board appoints a Compliance Officer in order to establish, implement and maintain adequate and effective policies and procedures, as well as appropriate systems and controls designed to detect any risk of failure by the Company to comply with its obligations. Further to this, the Compliance Officer is responsible to put in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively. The Compliance Officer reports to the Senior Management and the Board of Directors.

The Compliance Officer is independent from other functional responsibilities and has the necessary authority, resources, expertise and access to all relevant information. The objectives of the Compliance officer include but are not limited to, to prohibit the realization for the Customers of Company of any operations which may infringe the existing legislation and to ensure compliance with the current and any new laws, regulations and directives at times issued by CySEC.

### **Anti-Money Laundering Compliance Officer**

The Board retains a person to the position of the Company's Anti-Money Laundering Compliance Officer (hereinafter the "MLCO") to whom the Company's employees report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The MLCO belongs to the higher hierarchical levels/layers of the Company so as to command the necessary authority. The MLCO leads the Company's Anti-Money Laundering Compliance procedures and processes and report to the Senior Management and the Board of the Company.

Scope and objectives of the MLCO:

- a) The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income
- b) To decrease the probability of appearance among the Customers of the Company of any persons/organizations engaged in illegal activity and/or related with such persons/organizations
- c) To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing
- d) To ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities

## **2.7 Information flow on risk to the management body**

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

**Table 8 - Information flow on risk to management body**

	Report Name	Owner of Report	Recipient	Frequency
1	Risk Management Report	Risk Manager	CySEC, Board	Annual
2	Compliance Report	Compliance Officer	CySEC, Board	Annual
3	Internal Audit Report	Internal Auditor	CySEC, Board	Annual or more frequent upon management request
4	Anti-money laundering report	Anti-money laundering Compliance Officer	CySEC, Board	Annual
5	Investment Committee decisions	Investment Committee members	Board	Upon request
6	Financial Statements	External Auditors	Board	Annual
7	Suitability report	External Auditors	Board	Annual

### 3. Own Funds

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

On 15 June 2016 the Company issued 730,000 additional shares of €1 each at nominal value. On 27 June 2017 the Company issued 500,000 additional shares of €1 each at nominal value and on 29 December 2017 issued 10,000 additional shares of €1 each at a premium of €299 per share. This transaction resulted in a share premium reserve amounting to €2,990,000.

After the finalisation of the audited financial statements, the profit for 2018 was included in the own funds and as such the Company was in compliance of both the minimum/initial capital requirements and Capital Ratio requirements.

**Table 9 - Composition of capital base**

<b>31 December 2018</b>	<b>€'000</b>
<b>Eligible Own Funds</b>	
Share capital	1,440
Share Premium	2,990
Retained Earnings as at 1 January 2018	939
Audited profit/(loss) for the period	552
Dividends	(939)
<b>Deductions from Own Funds</b>	
Intangible assets	(26)
CYSEC Investor Compensation Fund	(122)



<b>31 December 2018</b>	<b>€'000</b>
<b>Original Own Funds (Tier 1 Capital)</b>	<b>4,834</b>

	<b>€'000</b>	<b>€'000</b>
<b>Total Risk Exposures and Minimum Capital Requirements</b>	<b>Minimum Capital Requirements</b>	<b>Total Risk Weighted Exposures</b>
Credit risk	316	3,952
CVA Risk	-	-
Foreign Exchange Risk	358	4,480
Equity Market Risk	453	5,656
Commodity Risk	93	1,164
Interest rate risk in the Trading Book	-	-
Operational Risk	108	1,354
Additional capital requirements for the large exposure excess in the Trading Book	-	-
<b>Total</b>	<b>1,328</b>	<b>16,606</b>

<b>Capital Adequacy Ratio</b>	<b>29.11%</b>
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### 3.1. Tier 1 & Tier 2 Regulatory Capital

The Company's Tier 1 capital is wholly comprised of Common Equity Tier 1 Capital. The composition of the capital base and capital ratios of the company is shown in the following table:

**Table 10 - Composition of the capital base and capital ratios**

	<b>Current period €'000</b>	<b>Full impact €'000</b>
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>		
Capital instruments and the related share premium accounts	4,430	4,430
Retained earnings	552	552
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>4,982</b>	<b>4,982</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>		
Additional deductions of CET1 Capital due to Article 3 of the CRR (*)	(122)	(122)
Other Intangible Assets	(26)	(26)
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(148)</b>	<b>(148)</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>4,834</b>	<b>4,834</b>
<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>4,834</b>	<b>4,834</b>
<b>Tier 2 (T2) capital</b>	<b>-</b>	<b>-</b>
<b>Total capital (TC = T1 + T2)</b>	<b>4,834</b>	<b>4,834</b>
<b>Risk weighted assets</b>		
<b>Credit risk</b>	<b>3,952</b>	<b>3,952</b>
<b>Market risk</b>	<b>11,300</b>	<b>11,300</b>
<b>Operational risk</b>	<b>1,354</b>	<b>1,354</b>
<b>Total risk weighted assets</b>	<b>16,606</b>	<b>16,606</b>

<b>Capital ratios and buffers</b>		
Common Equity Tier 1	29.1%	29.1%
Tier 1	29.1%	29.1%
Total Capital	29.1%	29.1%

*\* Treatment pursuant to Circular C162 (Capital adequacy requirements - Change in the treatment of the Investors Compensation Fund ("ICF") Contribution) on 10 October 2016, according to which the contribution to ICF will no longer be risk weighted as an "exposure to public sector entities" pursuant to paragraph 13(3) of Directive DII44-2014-15. Moreover, the said ICF exposure is deducted from CET1 Capital pursuant to Article 3 (Application of stricter requirements by institutions) of the CRR. The aforementioned Article gives the member states the power to request from the institutions to hold own funds in excess of those required by the CRR.*

### 3.2. Balance Sheet Reconciliation

Institutions shall disclose a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions and the balance sheet in the audited financial statements of the institution as follows:

**Table 11 - Balance Sheet Reconciliation**

	<b>2018</b>
	<b>€000</b>
<b>Equity</b>	
Share capital	1,440
Share Premium	2,990
Retained earnings/(Accumulated losses)	939
Profit & Loss	552
Dividends	(939)
<b>Regulatory Deductions</b>	
Additional deductions of CET1 Capital due to Article 3 of the CRR	(122)
Other Intangible Assets	(26)
<b>Total as per Regulatory Capital</b>	<b>4,834</b>

## 4. Compliance with Regulatory Capital and the overall Pillar II Rule

### 4.1. Internal Capital

The purpose of capital is to provide sufficient resources to absorb unexpected losses over and above the ones that are expected in the normal course of business. The Company aims to maintain a total capital ratio which will ensure there is sufficient capital to support the Company during stressed conditions.

### 4.2. Approach to assessing adequacy of Internal Capital

The Company has established an ICAAP, document it in a Manual and produce in this regard an ICAAP Report, as per the Circular C026 and Circular 027 (Guidelines GD-IF- 02 & GD-IF-03). Upon CySEC's request the ICAAP Report shall be submitted to CySEC.

The ICAAP report describes how the Company implemented and embedded its ICAAP within its business. The ICAAP also describes the Company's Risk Management framework e.g. the Company's risk profile and the extent of risk appetite, the risk management limits if any, as well as the adequate capital to be held against all the risks (including risks other than the Pillar I risks) faced by the Company.

## **5. Pillar I Capital Requirements**

The following tables show the overall Pillar I minimum capital requirement and risk weighted assets for the Company under the Standardised Approach to Credit Risk, Market Risk and the Basic Indicator Approach for the Operational Risk.

### **5.1. Credit Risk**

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

The Company has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Directive.

#### **5.1.1. Credit risk adjustments**

The Company assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. For those trading receivables that are 90 days or more past due, in non-accrual status, the Company classifies them as "in default", thus an impairment test will emerge. A financial asset is past due if a counterparty has failed to make a payment when contractually due.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a receivable is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income. None of the derivative financial instruments is either past due or impaired.

### 5.1.2. Credit Risk – Risk Weighted Assets

The Company's Credit Risk Weighted Assets and Capital Requirements broken down by exposure class were as follows:

**Table 12 - Exposure classes as at 31 December 2018**

	<b>Risk Weighted Assets</b>	<b>Capital Requirements</b>
	<b>€000</b>	<b>€000</b>
<b>Exposure class</b>		
Institutions	1,004	80
Corporates	1,125	90
Retail	1,519	122
Other Items	304	24
<b>Total</b>	<b>3,952</b>	<b>316</b>

### 5.1.3. Credit Risk – Analysis of Average exposures and total amount of exposures after accounting offsets

The Company shall disclose the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposures as follows:

**Table 13 - Analysis of Average Exposures**

	<b>Original exposure amount, net of specific provisions</b>	<b>Exposure Amount, net of specific provisions and after CRM</b>	<b>Average Exposure</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Exposure class</b>			
Institutions	5,019	5,019	5510
Corporates	1,125	1,125	566
Retail	2,025	2,025	1,478
Other Items	307	307	763
<b>Total</b>	<b>8,476</b>	<b>8,476</b>	<b>8,316</b>

### 5.1.4. Credit Risk – Risk Weighted Assets by Geographical distribution

The Company shall disclose the geographical distribution of the exposures, broken down in significant areas by material exposures classes. The geographical distribution of the exposure classes of the Company are as follows:

**Table 14 - Geographical distribution of the exposure classes**

<b>31 December 2018</b>							
<b>Geographical Distribution of the Exposures</b>							
<b>€000</b>							
<b>Exposure class</b>	<b>Cyprus</b>	<b>Germany</b>	<b>United Kingdom</b>	<b>Poland</b>	<b>Spain</b>	<b>Other</b>	<b>Total</b>
Institutions	222	3,593	1,204	-	-	-	5,019
Corporates	14	18	-	-	-	1,093	1,125

Retail	-	429	49	95	1,304	148	2,025
Other Items	-	-	-	-	-	307	307
<b>Total</b>	<b>236</b>	<b>4,040</b>	<b>1,253</b>	<b>95</b>	<b>1,304</b>	<b>1,548</b>	<b>8,476</b>

#### 5.1.5. Credit Risk – Distribution of exposures by industry

The Company shall disclose the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate as follows:

**Table 15 - Exposures by industry**

	<b>Banking/Financial services</b>	<b>Private Individuals</b>	<b>Other</b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Exposure class</b>				
Institutions	5,019	-	-	5,019
Corporates	1,125	-	-	1,125
Retail	2,075	-	-	2,075
Other Items	-	-	307	307
<b>Total</b>	<b>8,219</b>	<b>-</b>	<b>307</b>	<b>8,476</b>

#### 5.1.6. Residual maturity broken down by exposure classes

The Company shall disclose the residual maturity breakdown of all the exposures, broken down by exposure classes, as follows:

**Table 16 - Residual maturity broken down by exposure class**

	<b>Residual Maturity ≤ 3 months</b>	<b>Residual Maturity &gt; 3 months or Not Applicable</b>	<b>Total</b>
<b>Exposure</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Institutions	5,019	-	5,019
Corporates	1,125	-	1,125
Retail	2,025	-	2,025
Other Items	307	-	307
<b>Total</b>	<b>8,476</b>	<b>-</b>	<b>8,476</b>

#### 5.2. Use of ECAIs

The Company shall disclose the names of the nominated External Credit Assessment Institutions (“ECAIs”) and the exposure values along with the association of the external rating with the credit quality steps.

The Company uses external credit ratings from Moody’s. These ratings are used for all relevant exposure classes.

The general ECAI association with each credit quality step is as follows:



**Table 17 - ECAI Association with each credit quality step**

Table 17: ECA Association with each credit quality step						
Credit Quality Step	Moody's Rating	Corporate	Institutions			Sovereign
			Sovereign method	Credit Assessment method		
				Maturity > 3 months	Maturity 3 months or less	
1	Aaa to Aa3	20%	20%	20%	20%	0%
2	A1 to A3	50%	50%	50%	20%	20%
3	Baa1 to Baa3	100%	100%	50%	20%	50%
4	Ba1 to Ba3	100%	100%	100%	50%	100%
5	B1 to B3	150%	100%	100%	50%	100%
6	Caal and below	150%	150%	150%	150%	150%

Exposures to unrated institutions are assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated, as specified in Article 121 of CRR. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favourable risk weight of 20% if specific conditions are met.

The Other Items category includes tangible assets and VAT input risk weighted at 100%, cash items in the process of collection risk weighted at 20% and cash in hand risk weighted at 0%.

### 5.2.1. Credit Risk exposures by credit quality step pre and post credit risk mitigation

**Table 18 - Exposures after credit risk mitigation as at 31 December 2018**

Credit Quality Step	Exposure values after credit risk mitigation
Unrated/Not Applicable	8,476
<b>Total</b>	<b>8,476</b>

## 5.3. Securitisations

The Company is not an active participant in the origination of securitisations (meaning pooled assets with tranching risk), and accordingly detailed Pillar III disclosures are not made.

## 5.4. Counterparty Credit Risk

Counterparty Credit Risk ("CCR") may be defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, repurchase agreements and long settlement transactions.

The Company reserves the right, at any time and at the Company's sole discretion, to set-off any unrealised losses incurred in respect of an open position against any of the client money that is held by the Company to the client's credit.

The client money that is held by the Company is used as funded credit protection (collateral) for derivatives and the Financial Collateral Comprehensive Method is used for the calculation of the

funded credit protection.

**Table 19 - Counterparty Credit Risk broken down by contract type as at 31 December 2018**

Type of contract	Notional Value	Exposure Amount before CRM	Exposure Amount after CRM	Risk Weighted Assets	Capital Requirements
	€000	€000	€000	€000	€000
Derivatives	3,050	2,024	1,518	1,518	121
<b>Total</b>	3,050	2,024	1,518	1,518	121

### **Counterparty Policies with respect to wrong-way risk exposures**

Wrong-way risk occurs when the exposure to a particular counterparty is positively correlated with the PD of the counterparty itself or where there is an adverse correlation between a counterparty's PD and the mark-to-market value of the underlying transaction. The Company does not have any Wrong-Way Risk Exposures.

### **5.5. Market Risk**

Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. From a regulatory perspective, market risk stems from all the positions included in institution's trading book as well as from commodity and foreign exchange risk positions in the whole balance sheet.

As per the requirements of the Regulation, the Company shall disclose the own funds requirements for Market Risk exposures.

In order to minimise market risk exposures, the Company has a maximum limit which is used as a trigger to automatically transfer the excess trading flow to other Liquidity Providers.

The Company benefits from a number of factors that reduce the volatility of its revenue and protect it from significant changes in market conditions such as its product range. This diversification leads to a significant reduction in the Company's exposure to price risk. The Company's exposure to risk price at any point in time depends primarily on short-term market conditions and client activities during the trading day, hence the exposure at each reporting date may not be representative of the price risk exposure faced by the Company over the year.

The following table discloses the Company's market risk as 31 December 2018:

**Table 20 - Market Risk RWA and Capital Requirements**

<b>Market Risk</b>	<b>2018 €000</b>
<b>Risk Weighted Assets</b>	
Traded Debt Instruments	-
Equity	5,656
Foreign Exchange	4,480
Commodities	1,164
<b>Total Market Risk RWA</b>	<b>11,300</b>
<b>Total Market Risk Requirements</b>	<b>904</b>

### 5.5.1. Equity Risk

The sum of the absolute values of all the Company's net long positions and all its net short positions is its overall gross position. The Company calculates, separately for each market, the difference between the sum of the net long and the net short positions. The sum of the absolute values of those differences is its overall net position.

The specific risk on this individual equity can be ignored if the stock-index future in question is exchange traded and represents a relevant appropriately diversified index.

The Company multiplies its overall gross position by 8% in order to calculate its own funds requirement against specific risk. The own funds requirement against general risk are the Company's overall net position multiplied by 8%.

**Table 21 – Equity Risk RWA and Capital requirements**

	<b>Equity Risk RWA €000</b>	<b>Capital requirements €000</b>
General Risk	5,656	453
<b>Total</b>	<b>5,656</b>	<b>453</b>

### 5.5.2. Foreign Exchange Risk

The Company's reporting currency is Euro. Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

If the sum of the Company's overall net foreign-exchange position and its net gold position exceeds 2% of its total own funds, the Company calculates own funds requirements for foreign exchange risk. The own funds requirement for foreign exchange risk is the sum of its overall net foreign-exchange positions and its net gold position in the reporting currency, multiplied by 8%.

The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of exposure to a particular currency pair.

The table below shows the Company's exposure to Foreign Exchange Risk (Market Risk):

**Table 22 - Foreign Exchange Risk RWA and Capital Requirements**

	Foreign Exchange Risk RWA €000	Capital requirements €000
Positions in non-reporting currencies and gold	4,480	358

### 5.5.3. Commodities Risk

The risk of the unexpected changes in commodities prices. These commodities are split into precious metals (except gold), base metals, agricultural products and other energy products (oil gas). The Company calculates its capital requirement with respect to commodities risk using the Simplified Approach.

Each position in commodities or commodity derivatives is expressed in terms of the standard unit of measurement. The spot price in each commodity is expressed in the reporting currency.

The capital requirements for each commodity are calculated as the summation of the following:

- 15% x net position (long or short) x spot price for the commodity
- 3% x gross position (long plus short) x spot price for the commodity

The overall capital requirements for commodities risk is the sum of capital requirements for each commodity.

**Table 23 - Commodities Risk RWA and Capital requirements**

	Commodities Risk RWA €000	Capital requirements €000
Positions in commodities	1,164	93

### 5.5.4. Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk in relation to its bank deposits and from the interest charged on the derivative financial instruments that remain open overnight.

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

## 5.6. Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide range of issues.

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

Furthermore, the Company has in place policies and processes whose implementation assists with the evaluation and management of any exposures to operational risk.

For the calculation of operational risk in relation to the capital adequacy reports, the Company uses the Basic Indicator Approach. Based on the relevant calculations in the Company's capital requirements, the figure calculated shows that the Company's Risk weighted assets, as at 31 December 2018, was **€1.354k** as provided by the table below:

The tables below show the Company's exposure to Operational Risk:

**Table 24 - Operational Risk capital requirements**

	2016	2017	2018	Average Exposure	Capital Requirements	RWA's
	€000	€000	€000	€000	€000	€000
<b>Total</b>	635	919	612	722	108	1.354

Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15% of the average of three years of the above relevant indicator, resulting to **€108k** capital requirements.

## 6. Leverage Ratio

The Company shall disclose the Leverage Ratio and how it applies the definition of Tier 1 Capital. The Company's Leverage Ratio for the period up to 31 December 2018 was **82.77%** based on the fully phased-in definition of Tier 1:

**Table 25 - Leverage Ratio applicable amounts**

<b>31 December 2018</b>	<b>Applicable Amounts €'000s</b>
Total assets as per published financial statements	6,710
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
Adjustments for derivative financial instruments	(1,497)
Adjustments for securities financing transactions "SFTs"	
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	
Other adjustments	627
<b>Total leverage ratio exposure</b>	<b>5,840</b>



**Table 26 - Leverage Ratio exposures**

<b>31 December 2018 (€'000)</b>	<b>CRR leverage ratio exposures</b>
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	4,343
(Asset amounts deducted in determining Tier 1 capital)	-
<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)</b>	<b>4,343</b>
<b>Derivative exposures</b>	
Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)	-
Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	1,497
<b>Total derivative exposures</b>	<b>1,497</b>
<b>Securities financing transaction exposures</b>	
<b>Total securities financing transaction exposures</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>	
<b>Other off-balance sheet exposures</b>	
<b>Capital and total exposures</b>	
<b>Tier 1 capital</b>	<b>4,834</b>
<b>Total leverage ratio exposures</b>	<b>5,840</b>
<b>Leverage ratio</b>	<b>82.77%</b>

**Table 28 - Leverage Ratio on-balance sheet exposures**

<b>31 December 2018 (€'000)</b>	<b>CRR leverage ratio exposures</b>
<b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	<b>9,294</b>
Trading book exposures	
Banking book exposures, of which:	9,294
Exposures treated as sovereigns	
Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	
Institutions	5,019
Retail exposures	2,025
Corporate	1,125
Exposures in default	
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,125

**Description of the processes used to manage the risk of excessive leverage**

In order to manage the risk of excessive leverage, the Company monitors its Leverage ratio at least

on a quarterly basis and ensures that is always well above the current threshold of 3%.

### **Factors that had an Impact on the Leverage Ratio during the period**

The Leverage ratio of the Company as at 31 December 2018 was 82,77%(31 December 2017: 39,05%)with an average rate of 30.30%. This is due to the fluctuation of the volume of open CFD positions and the exposure measure.

## **7. Other Risks**

### **7.1. Concentration Risk**

Concentration Risk includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc.

Concentration risk was partly addressed through diversification of counterparties, namely banking institutions.

The Company's experience in the collection of trade receivables has never caused debts which are past due and have to be impaired. The Company has a policy in place to monitor debts overdue by preparing debtors ageing reports.

### **7.2. Reputation Risk**

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large customers, poor customer service, fraud or theft, customer claims, legal action and regulatory fines.

The Company has transparent policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company provides high quality services to customers.

### **7.3. Strategic Risk**

Strategic Risk could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

### **7.4. Business Risk**

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

## **7.5. Capital Risk Management**

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

The Company is further required to report on its capital adequacy quarterly and has to maintain at all times a minimum total capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of management accounts to monitor the financial and capital position of the Company.

## **7.6. Regulatory Risk**

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Procedures Manual. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore the risk of non-compliance is very low.

## **7.7. Legal and Compliance Risk**

Legal and Compliance Risk could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the Board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

## **7.8. IT Risk**

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

## **7.9. Risk Reporting**

The Company maintains a system in place to record any risk event incurred on a special form duly completed by personnel of each department and is submitted to the Compliance officer and Risk manager when such event occur.

## **7.10. Liquidity Risk**

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has policies and procedures with the object of minimizing such losses.

## **8. Remuneration policy**

The Company has established a remuneration policy, which its purpose is to set out the remuneration practices of the Company taking into consideration the salaries and benefits of the staff, in accordance with the provisions of the Directive as well as the Circular 031 (Circular 031 has been issued in place of Guidelines GD-IF-07 for the correct filing purposes) on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Company's size, internal organization and the nature, scope and complexity of its activities.

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

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

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

### **8.1. Remuneration System**

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

The remuneration mechanisms employed are well known management and human resources tools that take into account the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives.

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

It is noted that the Company has taken into account its size, internal organization and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee. Decisions on these matters are taken on a Board level while the remuneration policy is periodically reviewed.

The total remuneration of staff currently consists of a fixed component only. The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for a staff member to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/competitors.

Furthermore there is no remuneration is payable under deferral arrangements (with vested or unvested portions. Finally the Company did not pay any non-cash remuneration for the year under review.

## 8.2. Performance Appraisal

The Company implements a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit. These Indicators include quantitative as well as qualitative criteria. The appraisal is being performed as follows:

- a. Objectives are set in the beginning of each month, quarter and/or year (each department is being appraised on different periods) defining what the Company functions, departments and individuals are expected to achieve over an upcoming period of time.
- b. Performance checks and feedbacks: managers provide support and feedback to the concerned staff during the time periods decided, during the daily activities or during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.
- c. Annual performance evaluation: takes place annually, usually at the end of each year.

## 8.3. Remuneration of Senior Management Personnel and Directors

The remuneration of the senior management personnel of the Company, including Board are shown in the following tables:

**Table 29 - Remuneration analysis split by Executive and Non- Executive Directors**

<b>2018</b>	<b>Executive Directors</b>	<b>Non - Executive Directors</b>
<b>Fixed reward</b>	€230,752	€30,000
<b>Variable reward</b>	€1,100	-
<b>Total</b>	€231,852	€30,000

Companies are required to disclose the number of natural persons that are remunerated €1mln



or more per financial year, in pay brackets of €1mln, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. Nevertheless, currently there are no natural persons at the Company that are remunerated €1mln or more per financial year and as such the above disclosure is not applicable to the Company. No sign-on payments have been awarded during 2018, while no severance payments were paid during the year.

All members of the Board were remunerated by the Company. The non-executive director fees include the fees for the period that they served as members of the Board as well as for being members of the Board's committees.

