



# Royal Forex Ltd

*Regulated by the Cyprus Securities and Exchange Commission License no. 269/15*

## **DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2019**

*August 2020*

## DISCLOSURE

*The Disclosure and Market Discipline Report for the year 2019 has been prepared by Royal Forex Ltd as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive D1144-2014-14 issued by the Cyprus Securities and Exchange Commission.*

*Royal Forex Ltd states that any information that was not included in this report was either not applicable on the Company's business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.*

*Royal Forex Ltd is regulated by the Cyprus Securities and Exchange Commission under License number 269/15.*

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*The Board of Directors is ultimately responsible for the risk management framework of the Company. The Risk Management framework is the sum of systems, policies, processes and people within the Company that identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company's operations.*

*The Board of Directors approves in full the adequacy of Risk Management arrangements of the institution providing assurance that the risk management systems in place are adequate with regards to the institution's profile and strategy.*

# Contents

<b>1. INTRODUCTION .....</b>	<b>6</b>
1.1. INVESTMENT FIRM .....	6
1.2. PURPOSE .....	6
1.3. THE COMPANY .....	8
1.4. REGULATORY SUPERVISION.....	9
1.5. MAJOR DEVELOPMENTS DURING THE FIRST QUARTER OF 2020 .....	10
<b>2. GOVERNANCE AND RISK MANAGEMENT .....</b>	<b>12</b>
2.1. TYPES OF RISKS .....	13
2.2. RISK APPETITE.....	14
2.3. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS.....	15
2.4. STRESS TESTS .....	16
2.5. DIVERSITY POLICY .....	17
2.6. BOARD RECRUITMENT.....	18
2.7. REMUNERATION.....	18
2.8. DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BODY .....	19
2.9. BOARD RISK MANAGEMENT DECLARATION .....	20
2.10. RISK PROFILE.....	20
2.11. REPORTING AND CONTROL .....	22
<b>3. CAPITAL MANAGEMENT AND ADEQUACY .....</b>	<b>25</b>
3.1. THE REGULATORY FRAMEWORK .....	25
3.2. REGULATORY CAPITAL.....	25
3.3. SOLVENCY RATIO (CAPITAL RATIO OR CAPITAL ADEQUACY RATIO).....	28
3.4. CAPITAL MANAGEMENT .....	28
3.5. LEVERAGE RATIO .....	31
<b>4. CREDIT RISK .....</b>	<b>34</b>
4.1. EXTERNAL RATINGS .....	34
4.2. QUANTITATIVE INFORMATION .....	35
<b>5. MARKET RISK.....</b>	<b>39</b>
5.1. QUANTITATIVE INFORMATION .....	39
<b>6. OPERATIONAL RISK .....</b>	<b>41</b>
6.1. QUANTITATIVE INFORMATION .....	42
<b>7. LIQUIDITY RISK .....</b>	<b>43</b>
<b>8. PRODUCT INTERVENTION MEASURES .....</b>	<b>45</b>
<b>9. NEGATIVE BALANCE PROTECTION RISK MANAGEMENT .....</b>	<b>47</b>
<b>10. RISK TRANSFERRING ARRANGEMENTS .....</b>	<b>48</b>
<b>11. MARKET ABUSE.....</b>	<b>50</b>
<b>12. COMPLIANCE, REPUTATIONAL AND LEGAL RISKS .....</b>	<b>51</b>
12.1. COMPLIANCE MONITORING .....	52
12.2. PREVENTION OF MONEY LAUNDERING AND TERRORISM FINANCING .....	52
<b>13. APPENDIX - SPECIFIC REFERENCES TO CRR.....</b>	<b>54</b>

## Tables

<b>TABLE 1: COMPANY INFORMATION</b> .....	6
<b>TABLE 2: CAPITAL ALLOCATION FOR PILLAR I AND PILLAR II RISKS</b> .....	15
<b>TABLE 3: AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION</b> .....	19
<b>TABLE 4: DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BODY</b> .....	19
<b>TABLE 5: MATERIAL RISKS</b> .....	21
<b>TABLE 6: PERIODIC REPORTING SUMMARY</b> .....	22
<b>TABLE 7: CAPITAL REQUIREMENTS</b> .....	29
<b>TABLE 8: REGULATORY CAPITAL</b> .....	29
<b>TABLE 9: OWN FUNDS DISCLOSURE TEMPLATE UNDER THE TRANSITIONAL AND FULL – PHASED IN DEFINITION</b> .	30
<b>TABLE 10: LEVERAGE RATIO COMMON DISCLOSURE</b> .....	32
<b>TABLE 11: SPLIT-UP OF ON BALANCE SHEET EXPOSURES</b> .....	32
<b>TABLE 12: ASSET CLASS BREAKDOWN OF NET CREDIT RISK EXPOSURE AND MINIMUM CAPITAL REQUIREMENT AS AT 31 DECEMBER 2019, EUR</b> .....	36
<b>TABLE 13: EXPOSURES POST VALUE ADJUSTMENTS (BEFORE APPLYING CREDIT RISK MITIGATION AND AFTER APPLYING CREDIT CONVERSION FACTORS) BY EXPOSURE CLASS, EUR</b> .....	36
<b>TABLE 14: EXPOSURES POST VALUE ADJUSTMENTS (BEFORE APPLYING CREDIT RISK MITIGATION AND AFTER APPLYING CREDIT CONVERSION FACTORS) BY SIGNIFICANT GEOGRAPHIC AREA AND MATERIAL EXPOSURE CLASS, EUR</b> .....	36
<b>TABLE 15: EXPOSURES POST VALUE ADJUSTMENTS (BEFORE APPLYING CREDIT RISK MITIGATION AND AFTER APPLYING CREDIT CONVERSION FACTORS) BY INDUSTRY AND EXPOSURE CLASS, EUR</b> .....	37
<b>TABLE 16: EXPOSURES POST VALUE ADJUSTMENTS (BEFORE APPLYING CREDIT RISK MITIGATION AND AFTER APPLYING CREDIT CONVERSION FACTORS) BY RESIDUAL MATURITY AND BY MATERIAL EXPOSURE CLASS, EUR</b> .....	37
<b>TABLE 17: CREDIT QUALITY CONCENTRATION, EUR</b> .....	38

# 1. Introduction

## 1.1. Investment Firm

Table 1: Company information

Company name	Royal Forex Ltd
CIF Authorization date	18/03/2015
CIF License number	269/15
Company Registration Date	10/10/2014
Company Registration Number	HE 336694
<b>Investment Services</b>	
Reception & Transmission of orders in relation to one or more financial instruments	
Execution of Orders on Behalf of Clients	
<b>Ancillary Services</b>	
Safekeeping and administration of financial instruments, including custodianship and related services	
Granting credit or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	
Foreign exchange services where these are connected to the provision of investment services	

## 1.2. Purpose

The present report is prepared by Royal Forex Ltd (the “Company”), a Cyprus Investment Firm (“CIF”) authorized and regulated by the Cyprus Securities and Exchange Commission (the “CySEC”, the “Commission”) under the license number 269/15 and operates in harmonisation with the Markets in Financial Instruments Directive (“MiFID II”).

In accordance with Regulation (EU) No. 575/2013 (the “Capital Requirements Regulation”, “CRR”) of the European Parliament and the Council of 26 June 2013 and the paragraph 32(1) of the Directive DI144-2014-14, the Company is required to disclose information relating to its risk exposure and management, capital structure, capital adequacy as well as the most important characteristics of the Company’s corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants.

These Pillar III Disclosures are made on a solo basis and are updated and published annually; it will, however, be published more frequently if there are significant changes to the business (such as changes to the scale of operations, range of activities, etc.). CySEC is responsible for

implementing and enforcing the European Capital Requirements Directive ('CRD'), a capital adequacy framework consisting of three 'pillars':

- **Pillar I** sets minimum capital requirements comprising of base capital resources requirements; credit and market risk capital requirements; and the operational risk requirement.
- **Pillar II** requires firms to undertake an overall internal assessment of their capital adequacy, taking into account all the risks which the firm is exposed to and whether additional capital should be held to cover risks not adequately covered by Pillar I requirements. This is achieved through the Internal Capital Adequacy Assessment Process ("ICAAP").
- **Pillar III** complements Pillars I and II and improves market discipline by requiring firms to disclose information on their capital resources and Pillar I capital requirements, risk exposures and their risk management framework.

The Pillar III Disclosures Report for 2019 sets out both quantitative and qualitative information required in accordance with Part 8 of the CRR and in particular articles 431 to 455, which set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure Report is audited by the Firm's external auditors and published on the Company's website at [www.royalforex.com](http://www.royalforex.com); [www.ROInvesting.com](http://www.ROInvesting.com) , on an annual basis.

Furthermore, the Board of Directors and the Senior Management have the overall responsibility for the internal control systems in the process of capital adequacy assessment and they have established effective processes to ensure that the full spectrum of risks faced by the Company is properly identified, measured, monitored and controlled to minimise adverse outcomes.

The Company's business effectiveness is based on the guidelines of the risk management policies and procedures put in place. The Board of Directors, Internal Audit, Risk Manager, Compliance and Anti-Money Laundering Officer control and supervise the overall risk system so that all units charged with risk management perform their roles effectively on a continuous basis.

As with all Investment Firms, the Company is exposed to a variety of risks and in particular to credit risk, market risk and operational risk. More information can be found in the sections below.

The Company is not preparing consolidated financial statements and is making the disclosures on an individual basis.

### 1.3. The Company

Royal Forex Ltd acts as a CIF and operates in **Cyprus**, as a Straight Through Processing (“STP”) broker providing high- level brokerage services in relation to financial instruments. In particular, the Company offers trading in Contract for Differences (“CFDs”) on the leading indices, commodities, stocks as well as on Foreign Exchange (“Forex”) currency pairs and on Virtual Currencies to the clients residing in the territory of EEA and Switzerland. The Company has **123** employees in Cyprus.

The Company has a stable business model and this is reflected in:

- A well-balanced capital allocation between the Company’s operations
- A geographically balanced model with a high percentage of revenues.

The Company’s growth strategy focuses on its existing areas of expertise and the quality of its customer base. The Company strives for sustainable profitability consistent with its cost of capital and a balanced business model. To this end, the Company:

- Seeks to contain the volatility of its results
- Calibrates its capital ratio to ensure a significant safety margin relative to the minimum regulatory requirements
- Monitors the stability and diversification of its funding sources
- Ensures sufficient resilience in scenarios of liquidity shortages
- Tightly controls its foreign-exchange risks

The Company aims to maintain a diversified customer base.

The Company ensures that compliance rules are rigorously respected, especially in the area of anti-money laundering and counterterrorism financing. The Company monitors the loyalty of the behaviour of its employees with regard to customers and all its stakeholders, as well as the integrity of its investment and financial practices.

The Company considers its reputation to be an asset of great value that must be protected to ensure its sustainable development. The prevention and detection of the risk of harm to its reputation are integrated within all the Company’s operating practices. The Company’s reputation is protected by making its employees aware of the values of responsibility, ethical behaviour and commitment.



## 1.4. Regulatory Supervision

The minimum capital requirements as at 31<sup>st</sup> December 2019 for the CRD IV were calculated in accordance with the ‘Pillar I’ rules as set out by the Laws and Regulations, published by the CySEC. All CIFs under CySEC’s authority must meet the requirements with respect to capital adequacy and market discipline, which are comprised by the following:

- Law L.87(I)/2017: Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereafter “the Law”).
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation.
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation.
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV.
- Directive DI144-2014-14: For the prudential supervision of Investment Firms.
- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013.

## 1.5. Major developments during the first quarter of 2020

During the first quarter of 2019, the Company's minimum Capital requirement changed from minimum Own Funds requirement of **EUR125,000** to TIER 1 minimum capital requirement equal to the **4.50%** of the Company's Risk Weighted Assets as at the reporting date plus the maximum between **EUR2,000,000** and **2.00%** of the Company's Risk Weighted Assets as at the reporting date, since the Company started collaborating and signed a LP Contractual Arrangement with an entity domiciled in a third country not listed in Annex I of the Commission Implementing Decision (EU) 2016/230, as amended by the Commission Implementing Decision (EU) 2019/536 as in force, or which is not a member of the G20 or which is not a European Economic Area regulated entity as per the CySEC's Policy Statement PS-01-2019.

The Company obtained CySEC's permission in order to include its interim profits as at 31<sup>st</sup> January 2019 as part of its Own Funds in accordance with Circular C305. The Company's profit as at 31 January 2019 amounted to **EUR1,882,027**. The Company's Own Funds after observing CySEC's permission to include its interim profits as at 31 January 2019 to its Own Funds stood at **EUR2,394,766**, which is above its minimum capital requirement, which is equal to **4.50%** of the Company's Risk Weighted Assets as at the 31 January 2019 plus the maximum between **EUR2,000,000** and **2.00%** of the Company's Risk Weighted Assets as at the reporting date as at 31 January 2019.

The Company has terminated the operations of its branches in Germany and Lithuania on 28<sup>th</sup> February 2019 and 16<sup>th</sup> of January 2020 respectively.

Additionally, by the end of February 2020, the Company has submitted an application to the Commission in regard to the extension of its CIF authorisation with respect to the investment service of Investment Advice and Portfolio Management as well as the ancillary service of Investment Research. It is noted that the relevant approval of the Commission has been granted on the 7<sup>th</sup> of May 2020.

Further to the above, during the first quarter of 2020, the Company faced challenges in relation to its operations due to the outbreak of the coronavirus ("COVID-19"). In this respect the Company should take all necessary measures and actions so as to ensure that:

1. The Company's Business Continuity plan and Disaster Recovery plan are updated in accordance with Circular C362, in order to ensure that its operations will continue normally though the outbreak.
2. To identify all the key operation risks implement a plan to minimize the possible business disruptions.
3. Arrange for all staff members to have access to a laptop and ensure that everyone will be able to perform their duties from home if the Company in case of need.
4. Alternative communication channels are in place for all Company's employees.

5. Measures and procedures are in place in order to contribute to the slow of the spread of the illness. The Company has established the following measures in order to ensure that the virus is spread slowly:
  - a) Cancel all of the social and public gatherings, such as seminars and meetings.
  - b) Follow the instructions issued by the Ministry of Health, and required from its staff, who travelled recently to get quarantine.

## 2. Governance and Risk Management

Implementing a high-performance and efficient risk management structure is a critical undertaking for the Company, in all businesses, markets and regions in which it operates, as are maintaining a strong risk culture and promoting good corporate governance. The Company's risk management, supervised at the highest level is compliant with the regulations enforced by CySEC and the European regulatory framework.

The implementation of a high-performance and efficient risk management system is a critical undertaking for the Company, as well as the balance between strong risk culture and the development of its activities.

The Enterprise Risk Management programme ("ERM") is closely monitored at the highest level of the Company: it is supervised by Management body, with the participation of members of the Executive Committee, and is the subject of regular reporting to the BoD.

The first phase of the ERM programme was carried out between 2018 and 2019 (year-end). It has improved the consistency and effectiveness of the Company's risk management system by fully integrating risk prevention and management within the day-to-day management of the Company's operations. In particular, the Board of Directors ensures the adequacy of the Company's risk management infrastructure, monitoring changes in the cost of risk and approves the risk limits for market risks.

The Company operates a separate Risk Management function, which is responsible for the implementation of the Risk Management Policy, set by the BoD and the Risk Manager. The procedures set by the Company ensure that all risks are effectively managed and measured against the set level of risk tolerance.

The head of the Risk Management Function is the Risk Manager, which operates independently to the rest of the Company's functions. The Risk Manager reports to the Senior Management and Board of Directors of the Company. The Company's Risk Manager will head the Risk Management function which will operate independently and will be responsible for the implementation of the Risk Management Policy of the Company. The Risk Management Policy of the Company is set by the Board of Directors. The Risk Manager shall also submit reports to

the Senior Management and Board on a frequent basis, and at least annually, indicating whether the appropriate remedial measures have been taken in the event of any deficiencies.

The Risk Management function can report directly to the Board of Directors, independently from Senior Management, in order to raise concerns and warn where appropriate, if risks identified can affect the Company.

## 2.1. Types of Risks

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

- **Credit and Counterparty risk** (including Country risk): risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments. Credit risk includes Counterparty risk linked to market transactions (Replacement risk) and securitisation activities. In addition, Credit risk may be further amplified by Concentration risk, which arises from a large exposure to a given risk, to one or more counterparties, or to one or more homogeneous groups of counterparties; Country risk arises when an exposure (loan, security, guarantee or derivative) becomes liable to negative impact from changing political, economic, social and financial conditions in the country of exposure.
- **Market risk**: risk of loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets.
- **Operational risks** (including Accounting and Environmental risks): risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss.
- **Liquidity risk**: risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.
- **Compliance risk** (including Legal and Tax risks): risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company's activities.
- **Reputational risk**: risk arising from a negative perception on the part of customers, counterparties, shareholders, investors or regulators that could negatively impact the

Company's ability to maintain or engage in business relationships and to sustain access to sources of financing.

- **Strategic risk:** risks inherent in the choice of a given business strategy or resulting from the Company's inability to execute its strategy.
- **Business risk:** risk of lower than anticipated profits or experiencing losses rather than a profit.

## 2.2. Risk Appetite

The Company defines Risk Appetite as the level of risk, by type and by business that the Company is prepared to incur given its strategic targets. Risk Appetite is defined using both quantitative and qualitative criteria.

The Risk Appetite Framework takes into account earnings sensitivities to business cycles and credit, market and operational events. The Risk Appetite is one of the strategic oversight tools available to the Management bodies. It underpins the budgeting process and draws on the ICAAP, which is also used to ensure capital adequacy under stressed economic scenarios.

Furthermore, the positioning of the business in terms of risk/return ratio as well as the Company's risk profile by type of risk are analysed and approved by the BoD. The Company's risk appetite strategy is implemented by the Senior Management in collaboration with the BoD and applied by all divisions through an appropriate operational steering system for risks, covering:

- Governance (decision-making, management and supervisory bodies).
- Management (identification of risk areas, authorisation and risk-taking processes, risk management policies through the use of limits and guidelines, resource management).
- Supervision (budgetary monitoring, reporting, leading risk indicators, permanent controls and internal audits).

Essential indicators for determining the Risk Appetite and their adaptations are regularly supervised over the year in order to detect any events that may result in unfavourable developments on the Company's risk profile. Such events may give rise to remedial action, up to the deployment of the recovery plan in the most severe cases.

The Company is considering the time and requirements in order to initiate the establishment of a Risk Appetite Statement.

## 2.3. Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (“ICAAP”) requires institutions to identify and assess risks not adequately covered in Pillar I, maintain sufficient capital to face these risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward looking basis, i.e., internal capital supply to exceed internal capital demand.

The Company maintains compliance with the ICAAP as required under Pillar II of Basel III and its local implementation in Cyprus, through risk management and governance framework, methodologies, processes and infrastructure.

The results of these tests showed that the Company currently has adequate capital and liquidity reserves to absorb the impact of such risks if they were to materialize in line with the tests’ parameters. In particular, results of the Company’s analysis suggest a Pillar I and Pillar II Capital allocation for the next year under the Base Scenario of **EUR1,046,006** and a total Eligible Capital of **EUR1,909,369** which creates a surplus of **EUR863,363**.

The methods used to quantify the Company’s Pillar I capital requirements are in accordance with CRR, whereas for computing its Pillar II capital requirement, the Company uses a more sophisticated methodology to quantify and aggregate the capital requirements for the risks in total. With this in mind capital, should be allocated in order to absorb Pillar II risks, incorporating the assessment undertaken by the Company for the purpose of its ICAAP. All risks that are considered as material have been included in the analysis. Even when considering the capital allocation for Pillar II risks, the Company’s adjusted capital adequacy ratio for the next year is expected to stand at **14.60%** based on the Company’s financial projections. The following table provides a breakdown of the Company’s capital allocation for Pillar I and Pillar II risks for the next year.

**Table 2: Capital allocation for Pillar I and Pillar II risks**

<b>Capital Allocation (In EUR)</b>			
	<b>Risk type</b>	<b>Pillar 1 Capital Allocation</b>	<b>Pillar 2 Capital Allocation</b>
<b>Pillar I Risks</b>	<b>Credit Risk</b>	125,215	-
	<b>Market Risk</b>	21,704	-
	<b>Operational Risk</b>	723,439	-
<b>Material Risks</b>	<b>Counterparty</b>		-
	<b>Technology risk</b>		25,093
	<b>Business/Strategic risk</b>		50,185
	<b>Compliance/Regulatory risk</b>		25,093
	<b>Reputational risk</b>		25,093
<b>Other risks</b>	<b>Residual risk</b>		50,185
<b>Total Capital Allocation</b>		870,358	175,649
<b>Total Capital Allocation Pillar I+ Pillar II</b>		1,046,006	

<b>Total Eligible Capital</b>	1,909,369	
<b>Capital Adequacy Ratio</b>	17.55%	14.60% (adjusted)

Furthermore, the Company applies stress tests scenarios in its ICAAP in order to assess the Company's potential risks arising from such scenarios. In particular, the updated ICAAP includes stress test scenarios that relate to the Company's best, base and worst operating situations, based on the Company's expectations for the next three years. The Company will highlight the changes due to the outbreak of the COVID-19 with a new scenario in an updated ICAAP, so that to assess such risk if the Company is affected. The updated version of the Company's ICAAP will also assess the risks associated with the risk transferring arrangements.

In line with the Basel requirements, the key instruments to help the Company maintain adequate capitalisation on an ongoing and forward-looking basis are:

- A strategic planning process which aligns risk strategy and risk appetite with commercial objectives.
- A continuous monitoring process against approved risk and capital targets set.
- Regular risk and capital reporting to management.
- An economic capital and stress testing framework which also includes specific stress tests to underpin the Company's recovery monitoring processes.

On 10<sup>th</sup> July 2019, CySEC issued Circular C326 regarding the Prudential Supervision Information which will be required to be submitted ("Form 144-14-11") by all the Investment Firms by the 30<sup>th</sup> of June each year. Specifically, this particular form was addressed by CySEC in order to collect relevant information by the CIFs regarding the following areas:

- The assessment of ICAAP.
- The assessment of annual audited financial statements.
- The safeguarding of clients' money.

## 2.4. Stress Tests

Stress testing is a key risk management tool used by the Company to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- Understanding the risk profile of the Company.
- The evaluation of the Company's capital adequacy in absorbing potential losses under stressed conditions: This takes place in the context of the Company's ICAAP on an annual basis.



- The evaluation of the Company's strategy: Senior management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows senior management to determine whether the Company's exposures correspond to its risk appetite.
- The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

The ultimate responsibility and ownership of the Company's stress testing policy rests with the Board of Directors. If the stress testing scenarios reveal vulnerability to a given set of risks, the management should make recommendations to the Board of Directors for mitigation measures or actions. These may vary depending on the circumstances and include one or more of the following:

- Review the overall business strategy, risk appetite, capital and liquidity planning.
- Review limits.
- Reduce underlying risk positions through risk mitigation strategies.
- Consider an increase in capital.
- Enhance contingency planning.

The Company performs financial modelling and stress analysis on a frequent basis especially when year-end financial results are available or when it revises its business plan.

## 2.5. Diversity Policy

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success.

The Company recognizes the value of a diverse and skilled workforce and management body, which includes and makes use of differences in the age, skills, experience, background, race and gender between them. A balance of these differences will be considered when determining the optimum composition.

The Company is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practises in the Corporate Governance Code of many EU countries.

In line with the recent changes in the regulatory reporting framework, the Company is in the process of establishing a dedicated diversity policy in relation to the Management body.

## 2.6. Board Recruitment

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the BoD.

The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. The final approval of a member of the Management Body is given by CySEC.

Factors considered in the review of potential candidates include:

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subject.
- Knowledge of and experience with financial institutions (“fit-and-proper”).
- Integrity, honesty and the ability to generate public confidence.
- Knowledge of financial matters including understanding financial statements and financial ratios.
- Demonstrated sound business judgment.
- Clear criminal record.
- Risk management experience.

In line with the recent changes in the regulatory reporting framework, the Company is in the process of establishing a dedicated recruitment policy in relation to the BoD.

The Company's BoD is chosen to be specialists in various fields in order to be able to offer diversity and the expertise required to oversee its smooth operations.

## 2.7. Remuneration

Remuneration refers to payments or compensations received for services or employment. The remuneration system includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment and shall be appropriate to the CIF's size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the Directive DI144-2014-14.

During 2019, the Company's remuneration system is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management, members of the Board of Directors and the Heads of the Departments;

the said practices are established to ensure that the rewards for the ‘Executive Management’ provide the right incentives to achieve the key business aims.

The total remuneration of staff consists of fixed and variable components. Fixed and variable components are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component. The Company manages and controls the ratios between the fixed and the variable component of the total remuneration for each individual and ensures compliance with the requirements arising from Article 94(1)(g) of Directive 2013/36/EU. It shall be noted that the variable component does not exceed 100% of the fixed component of the total remuneration for each individual.

**Table 3: Aggregate Quantitative Information on Remuneration**

<i>Figures in EUR</i>	<b>No. of staff</b>	<b>Fixed</b>	<b>Variable</b>	<b>Total</b>
<b>Executive Directors</b>	6	96,956	6,000	102,956
<b>Non-Executive Directors</b>	4	16,662	-	16,662
<b>Heads of Back Office, Brokerage</b>	2	53,384	1,550	54,934
<b>Heads of Finance, Accounting &amp; IT</b>	3	26,821	-	26,821
<b>Other staff whose actions have a material impact on the risk profile of the Institution</b>	-	-	-	-
<b>Grand Total</b>	<b>15</b>	<b>193,823</b>	<b>7,550</b>	<b>201,373</b>

## 2.8. Directorships held by Members of the Management Body

As at 31<sup>st</sup> December 2019, the members of the Management body of the Company, given their industry experience, have been taking seats in other Company boards. In line with this, the following table indicates the number of positions that each member holds (including the one in the Royal Forex Ltd):

**Table 4: Directorships held by Members of the Management Body**

<b>Name</b>	<b>Position in the CIF</b>	<b>Directorships (Executive)</b>	<b>Directorships (Non-Executive)</b>
<b>Georgios Chimonides</b>	Non -executive director	<b>1</b>	<b>1</b>
<b>Andreas Samatas</b>	Executive director	<b>1</b>	<b>1</b>
<b>Marios Naziris</b>	Independent Non-Executive director	<b>0</b>	<b>3</b>
<b>Christos Spanos</b>	Independent Non-Executive director	<b>1</b>	<b>2</b>
<b>Pavel Shabanov</b>	Executive director	<b>1</b>	<b>0</b>

- The Company proceed with the following Board of Directors changes during the year-end 2019:
  - Mr. Gleb Tolstelov (resigned on 5 February 2019)

- Mr. Socrates Solomides (appointed on 18 January 2019 and resigned on 12 July 2019 )
- Mr. Maksoud Rassoulov (appointed on 29 March 2019, resigned on 31 August 2019)
- Mr. Matan Kelly (resigned on 29 March 2019)
- Mr. Andreas Samatas (appointed on 3 June 2019)
- Mr. Kleanthis Rousakis (appointed on 30 September 2019, resigned on 2 December 2019)
- Mr. Christos Spanos (appointed on 17 December 2019)
- Mr. Pavel Shabanov (appointed on 17 December 2019)

## 2.9. Board Risk Management Declaration

The Company's Risk Management Function is entitled to review and appropriately assess the effectiveness of the risk management strategies and procedures adopted by the Company.

The abovementioned procedures are designed in order to manage and mitigate any deficiencies that the Company might face during its operations.

The Company's Management Body ensures that the Company has adequate measures and procedures in place so as to prevent and mitigate any risk arising from its operations.

## 2.10. Risk Profile

The Company's management body is appropriately informed and acknowledge the necessity of taking all the appropriate actions for complying with the Company's minimum requirements for its capital adequacy ratio and its CET1 Capital, which are **8.00%** and **4.50%** of the Company's Risk Weighted Assets as at the reporting date plus the maximum between **EUR2,000,000** and **2.00%** of the Company's Risk Weighted Assets as at the reporting date respectively.

The Company applies adequate mechanisms and systems in order to detect the risks is exposed, arising from its operations.

The Company's material risks are assessed on quarterly basis via the use of a Risk Register and the results are communicated to the Company's BoD in order to decide which mitigating actions the Company should take.

The table below summarises the main risks identified and the controls the Company has already taken in order to manage and mitigate those risks.

Table 5: Material Risks

Risk Type	Specific Risk	Controls in place
<b>Regulatory Risk</b>	Capital Adequacy	<p>The Company's Capital Adequacy Ratio stood at <b>55.15%</b> as at 31<sup>st</sup> December 2019, which is above the minimum requirement <b>8.00%</b>. Additionally, the Company's own funds stood at <b>EUR2,192,501</b> which is above the minimum requirement of <b>EUR2,178,884</b> (<b>8.00%</b> Capital Adequacy ratio and <b>4.50%</b> of the Company's Risk Weighted Assets as at 31<sup>st</sup> December 2019 plus the maximum between <b>EUR2,000,000</b> and <b>2%</b> of the Company's Risk Weighted Assets as at 31<sup>st</sup> December 2019, since the Company collaborates and has in place LP contractual arrangements with entities domiciled in a third country not listed in Annex I of the Commission Decision (EU) 2016/230 as amended by the Commission Implementing Decision (EU) 2019/536 as in force, or which is not a member of the G20 or which is not a European Economic Area regulated entity as per the CySEC's Policy Statement PS-01-2019.</p> <p>The Company monitors its Capital Adequacy Ratio and Own Funds on a frequent basis.</p>
<b>Credit Risk</b>	Concentration Risk	<p>Credit Risk mainly emanates from Concentration Risk at the Company's bank accounts.</p> <p>The Company's main large exposures as at 31<sup>st</sup> December 2019 were its exposures to Safecharge, which amounted to <b>10.74%</b> of its Own Funds or <b>EUR235,469</b>, Wirecard Bank, which amounted to <b>14.30%</b> of its Own Funds or <b>EUR313,445</b>, OBR Investments Ltd, which amounted to <b>27.75%</b> of its Own Funds or <b>EUR608,494</b> and to Bayline Trading Limited, which amounted to <b>29.56%</b> of its Own Funds or <b>EUR648,024</b>.</p> <p>The Company has policies in place in order to diversify credit risk and to limit the amount of credit exposures to any particular counterparty in compliance with the provisions of the CRR.</p>
<b>Market Risk</b>	Foreign Exchange Risk	<p>The Company's market risk mainly arises from foreign exchange rates fluctuations which affect the Company's deposits in foreign currencies.</p> <p>As at 31<sup>st</sup> December 2019, the Company's net long and net short exposure in foreign currencies were <b>EUR10,977</b> and <b>EUR0</b>, respectively, or <b>0.50%</b> of the Company's Own Funds. Therefore, the Company is not exposed to Foreign Exchange Risk as at 31<sup>st</sup> December 2019, in accordance to Article 351 of the EU Regulation 575/2013 since the Company's Foreign Exchange Exposure did not exceed the <b>2.00%</b> of its Own Funds.</p> <p>The Company monitors these exposures on a frequent basis and has policies in place to minimise its market risk exposures.</p>
<b>Operational Risk</b>	Compliance/Regulatory Risk	<p>The Compliance Officer is monitoring on an ongoing basis all regulatory requirements and acts in line with the internal policies, promoting others in the Company to do the same.</p>

	Business Risk	The Company has in place a Business Continuity plan to ensure business continuity in case that the Company is affected by a natural disaster or an external event (e.g. pandemic, terrorism). During the first quarter of 2020, the Company faced challenges in relation to its operations due to the outbreak of COVID-19. Key measures were implemented in order to ensure business continuity in the case that the Company is affected.
	Reputational Risk	The Company's management and compliance function are closely monitoring news related to the Company.

## 2.11. Reporting and Control

In line with the requirements set out in the Cyprus Investment Firms Law and subsequent Directives, the Company has been able to maintain a good information flow to the Management body, as it can be seen below:

Table 6: Periodic Reporting Summary

Report Name	Report Description	Owner	Recipient	Frequency	Deadlines	
					Initial	Extended due to COVID-19 outbreak
<b>Annual AML/TF report</b>	To inform the Senior Management & the BoD of the Company regarding the Performance of AML function during the year.	Anti -Money Laundering Compliance officer	Senior Management, BoD, CySEC	Annual	<b>31/03/2020</b>	<b>30/06/2020</b>
<b>Annual Compliance Report</b>	To inform the Senior Management & the BoD of the Company regarding the Performance of Compliance function during the year	Compliance Officer	Senior Management, BoD, CySEC	Annual	<b>30/04/2020</b>	<b>31/07/2020</b>
<b>Annual Internal Audit Report</b>	To inform the Senior Management & the BoD of the	Internal Auditor	Senior Management, BoD, CySEC	Annual	<b>30/04/2020</b>	<b>31/07/2020</b>

	Company regarding the Internal Auditor during the year					
<b>Annual Risk Management Report</b>	To present the work undertaken by the Risk Manager during the year	Risk Manager	Senior Management, BoD, CySEC	Annual	<b>30/04/2020</b>	<b>31/07/2020</b>
<b>Pillar III Disclosures (Market Discipline and Disclosure)</b>	To disclose information regarding Company's risk management, capital structure, capital adequacy and risk exposures	Senior Management	BoD, CySEC, Public	Annual	<b>30/04/2020</b>	<b>31/07/2020</b>
<b>Financial Reporting</b>	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual	<b>30/04/2020</b>	<b>31/07/2020</b>
<b>Suitability Report</b>	It's a formal report, which is required to be provided to the retail clients of the CIF in order to make a personal recommendation to the client.	External Auditor	BoD, CySEC	Annual	<b>30/04/2020</b>	<b>31/07/2020</b>
<b>Audited Statement of Eligible Funds</b>	A measure of the CIF's ICF. It is expressed based on a risk based approach taking into account the reliability of the statement of eligible funds and financial instruments.	External Auditor	BoD, CySEC	Annual	<b>10/05/2020</b>	<b>10/07/2020</b>
<b>Pillar III Disclosures (Market Discipline and Disclosure) based on the Audited figures</b>	To disclose information regarding Company's risk management, capital structure, capital adequacy and risk exposures based	Senior Management	BoD, CySEC, Public	Annual	<b>31/05/2020</b>	<b>31/08/2020</b>

	on its Audited figures.					
<b>Capital Adequacy Reporting</b>	A measure of the CIF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world	Risk Management Function/Financial Department / Accounting	Senior Management, CySEC	Quarterly plus Audited	<b>11/05/2019</b> <b>11/08/2019</b> <b>11/11/2019</b> <b>11/02/2020</b> <b>31/05/2020</b>	<b>N/A</b> <b>N/A</b> <b>N/A</b> <b>N/A</b> <b>31/07/2020</b>



## 3. Capital Management and Adequacy

### 3.1. The Regulatory Framework

In response to the financial crisis of recent years, the Basel Committee, mandated by the G20, has defined the new rules governing capital and liquidity aimed at making the financial sector more resilient. The new Basel III rules were published in December 2010. They were translated into European law by a directive (CRDIV) and a regulation (CRR) which entered into force on 1st January 2014.

The general framework defined by Basel III is structured around three pillars, as in Basel II:

- Pillar I sets the minimum solvency requirements and defines the rules that institutions, that are required to comply with the regulation, must use to measure risks and calculate associated capital requirements, according to standard or more advanced methods.
- Pillar II relates to the discretionary supervision implemented by the competent authority, which allows them – based on a constant dialogue with supervised credit institutions – to assess the adequacy of capital requirements as calculated under Pillar I, and to calibrate additional capital requirements with regard to risks.
- Pillar III encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to make a better assessment of a given institution’s capital, risk exposure, risk assessment processes and, accordingly, capital adequacy.

In terms of capital, the main new measures introduced to strengthen institutions’ solvency were as follows:

- The set-up of capital buffers that can be mobilised to absorb losses in case of difficulties. The new rules require institutions to create a conservation buffer and a countercyclical buffer to preserve their solvency in the event of adverse conditions.
- Requirements related to capital buffers gradually entered into force as from 1st January 2016, for full application by January 2019.

### 3.2. Regulatory Capital

According to the International Financial Reporting Standards (“IFRS”), the Company’s regulatory capital consists of Common Equity Tier 1 and Tier 2 Capital.

#### **Common Equity Tier 1 Capital (“CET1 Capital”)**

According to CRR/CRDIV regulations, Common Equity Tier 1 capital is made up primarily of the following:

- Ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts.
- Retained earnings.
- Other reserves.
- Minority interest limited by CRR/CRDIV.

Deductions from CET1 capital essentially involve the following:

- Estimated dividend payment.
- Goodwill and intangible assets, net of associated deferred tax liabilities.
- Unrealised capital gains and losses on cash flow hedging.
- Deferred tax assets on tax loss carry forwards.
- Deferred tax assets resulting from temporary differences beyond a threshold.
- Any positive difference between expected losses on customer loans and receivables, risk-weighted using the standardised approach, and the sum of related value adjustments and collective impairment losses.
- Expected loss on equity portfolio exposures.
- Value adjustments resulting from the requirements of prudent valuation.
- The Investors Compensation Fund (“ICF”) contributions as per Circular C162 of the CySEC dated 10 October 2016.
- According to paragraph 11(6) of the Directive DI87-07, the members of ICF are required to keep a minimum cash buffer of 3 per thousand of the eligible funds and financial instruments of their clients as at the previous year in a separate bank account in case there is need for an extraordinary contribution and this should not be used for any other purpose. Therefore, CIFs should deduct the additional cash buffer of 3 per thousand of the eligible funds and financial instruments of their clients from the Common Equity Tier 1 capital. CIFs are expected to reflect the above in their submissions of the Form 144-14-06.1 (calculation of own funds and capital adequacy ratio) from the 11<sup>th</sup> November 2019 onwards.

### **Inclusion of Interim Profits:**

The CySEC issued Circular C305 to provide further guidance to the CIFs regarding the inclusion of interim profits in Common Equity Tier 1 Capital.

According to Article 26(2) of the CRR, CIFs may include interim profits in CET1 Capital, before the CIF has taken a formal decision confirming its final profits for the year, only if they get the prior permission of CySEC.

CIFs should apply for a permission from CySEC in order to include interim profits in CET1 Capital. In their application, CIFs are required to demonstrate that the conditions, as set out in Article 26(2) of CRR, are met.

The verification of interim financial information by the external auditor of the CIF for the purpose of Art. 26(2) shall be at least the ‘Independent auditors’ report on review of interim financial statements’ based on the international standard “International Standard on Review Engagements 2410, ‘Review of interim financial information performed by the independent auditor of the Entity’.

CIFs that apply to CySEC for a permission to include their interim profits in CET1 Capital should submit to CySEC, via portal and under the section “Application for permission as per Art. 26(2) of CRR for interim profits”, the following:

- a. A confirmation letter from the CIF stating the below information:
  - The reporting period for which the CIF wishes to recognise as CET1 Capital the verified profits.
  - Profits as verified.
  - Foreseeable charges/deductions (e.g. dividends).
  - The total CET1 prior and after the inclusion of verified profits
- b. The independent auditor’s verification report with regards to the interim profits that the permission is requested.

It was clarified that interim profits, for which the permission of CySEC has not been granted, will not be eligible to be included in CET1 Capital.

It should be noted that CySEC’s permission is not needed for losses, whether interim or final. Losses must be deducted in full from own funds as soon as they are incurred.

## **Tier 2 Capital**

Tier 2 capital includes:

- Dated subordinated notes.
- Any positive difference between (i) the sum of value adjustments and collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardised approach and (ii) expected losses, up to **0.6%** of the total credit risk-weighted assets using the Internal Ratings Based approach.
- Value adjustments for general credit risk related to collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardised approach, up to **1.25%** of the total credit risk-weighted assets.

Tier 2 capital shall be less or equal to one third of Tier 1 Capital.

Deductions of Tier 2 capital essentially apply to the following:

- Tier 2 hybrid treasury shares.
- Holding of Tier 2 hybrid shares issued by financial sector entities.
- Share of non-controlling interest in excess of the minimum capital requirement in the entities concerned.

### 3.3. Solvency Ratio (Capital Ratio or Capital Adequacy Ratio)

The solvency ratio is set by comparing the institutions' equity with the sum of risk-weighted assets for credit risk and the capital requirement multiplied by 12.5 for market risk and operational risk.

Since 1<sup>st</sup> January 2014, the new regulatory framework sets minimum requirements to be met for the CET1 ratio and the Tier 1 ratio. For 2015, the minimum requirement for CET1 was **4.00%** and that of Tier 1 **5.50%**, excluding the Pillar II requirement. The total equity requirement, including CET1, AT1 and Tier 2 equity, was set at **8.00%**. In 2016, the minimum requirement for CET1 was **4.50%**, and that of Tier 1 **6.00%** with an overall ratio of **8.00%** (including Tier 2).

Additionally, the Company is required to hold an additional TIER 1 capital at least equal to the maximum between **EUR2,000,000** and **2.00%** of the Company's RWA as at the reporting date, since the Company collaborates and has in place LP contractual arrangements with entities domiciled in a third country not listed in Annex I of the Commission Decision (EU) 2016/230, as in force or which is not a member of G20, according to CySEC's communication on 01/08/2018.

### 3.4. Capital Management

Capital management is implemented by the Senior Management. As part of managing its capital, the Company ensures that its solvency level is always compatible with the following objectives:

- Maintaining its financial solidity and respecting the Risk Appetite targets.
- Preserving its financial flexibility to finance organic growth.
- Adequate allocation of capital among the various business lines according to the Company's strategic objectives.
- Maintaining the Company's resilience in the event of stress scenarios.
- Meeting the expectations of its various stakeholders: supervisors, debt and equity investors, rating agencies, and shareholders.

The Company determines its internal solvency targets in accordance with these.

In line with the above, the Company is obligated to calculate and report on a quarterly basis (see section on *Reporting and Control*), under CRD, its credit risk, market risk and the operational risk requirements the result of which, i.e. solvency/capital ratio, needs to be above **8.00%** (Calculated based on the section above) at all times.

At 31<sup>st</sup> December 2019, the Total Capital ratio of the Company was **55.15%** with total risk-weighted assets of **EUR3,975 thousand**.

Table 7: Capital Requirements

EUR	2019 increase (decrease) from 2018			
	December 31 2019 (Audited)	December 31 2018 (Audited)	In EUR	In %
<b>CAR Ratio</b>	55.15%	11.97%		43.18%
<b>CAR Ratio surplus/(deficit)</b>	47.15%	3.97%		43.18%
<b>Capital Adequacy (CET1) ratio</b>	55.15%	11.97%		43.18%
<b>CET1 Capital</b>	2,192,501	539,607	1,652,894	306.31%
<b>Tier 1 Capital</b>	2,192,501	539,607	1,652,894	306.31%
<b>Tier 2 Capital</b>	-	-	-	-
<b>Total Own Funds</b>	2,192,501	539,607	1,652,894	306.31%
<b>Total Own Funds surplus/(deficit)</b>	13,617	179,030	(165,413)	(92.39%)
Total Credit Risk exposure	2,092,182	1,721,994	370,187	21.50%
Total Market Risk Exposure	-	688,218	(688,218)	(100.00%)
Operational Risk Exposure (due to Additional Fixed Overheads)	1,883,014	2,097,000	(213,986)	(10.20%)
Total Risk Exposure	3,975,196	4,507,212	(532,016)	(11.80%)
<b>Leverage ratio</b>	70.01%	16.70%		53.31%
<b>Capital Conservation Buffer</b>	-	-	-	-

Table 8: Regulatory Capital

EUR	2019 increase (decrease) from 2018			
	December 31 2019 (Audited)	December 31 2018 (Audited)	In EUR	In %
Common Equity Tier 1 (CET 1) capital: instruments and reserves				
<b>Capital instruments and the related share premium accounts</b>	1,270,000	1,270,000	-	-
<b>Retained earnings</b>	(733,081)	(727,213)	(5,868)	0.81%
<b>Accumulated other comprehensive income (loss), net of tax</b>	1,728,020	406,022	1,321,998	325.60%
<b>Other</b>	-	(339,350)	339,350	(100.00%)
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	2,264,939	609,459	1,655,480	271.63%
Common Equity Tier 1 (CET 1) capital: regulatory adjustments	-	-	-	-
<b>Goodwill and other intangible assets (net of related tax liabilities) (negative amount)</b>	-	-	-	-
<b>Deferred tax assets that rely on future profitability excluding those arising from</b>	-	-	-	-

<b>temporary differences (net of related tax liabilities where the conditions in Art. 38 (3) CRR are met) (negative amount)</b>				
<b>Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 15 % threshold and net of eligible short positions) (negative amount)</b>			-	-
<b>Other regulatory adjustments</b>	<b>(72,438)</b>	(69,852)	(2,586)	3.70%
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	<b>(72,438)</b>	(69,852)	(2,586)	3.70%
Common Equity Tier 1 (CET 1) capital	<b>2,192,501</b>	539,607	1,652,894	306.31%
Additional Tier 1 Capital	-	-	-	-
Tier 1 Capital	<b>2,192,501</b>	539,607	1,652,894	306.31%
Tier 2 Capital	-	-	-	-
Total Capital	<b>2,192,501</b>	539,607	1,652,894	306.31%
Total risk-weighted assets	<b>3,975,196</b>	4,507,212	(532,016)	(11.80%)
Capital Ratios				
Common Equity Tier 1 (CET 1) capital ratio	<b>55.15%</b>	11.97%	-	43.18%
Tier 1 Capital ratio	<b>55.15%</b>	11.97%	-	43.18%
Total Capital ratio	<b>55.15%</b>	11.97%	-	43.18%

**Table 9: Own funds disclosure template under the Transitional and Full – phased in definition**

EUR	Transitional Definition	Full – phased in Definition
Common Equity Tier 1 (CET 1) capital: instruments and reserves		
<b>Capital instruments and the related share premium accounts</b>	1,270,000	1,270,000
<b>Retained earnings</b>	(733,081)	(733,081)
<b>Accumulated other comprehensive income (loss), net of tax</b>	1,728,020	1,728,020
<b>Other</b>	-	-
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	2,264,939	2,264,939
Common Equity Tier 1 (CET 1) capital: regulatory adjustments		
<b>Goodwill and other intangible assets (net of related tax liabilities) (negative amount)</b>	-	-
<b>Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities where the conditions in Art. 38 (3) CRR are met) (negative amount)</b>	-	-
<b>Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 15 % threshold and net of eligible short positions) (negative amount)</b>	-	-
<b>Other regulatory adjustments</b>	(72,438)	(72,438)

Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	(72,438)	(72,438)
Common Equity Tier 1 (CET 1) capital	2,192,501	2,192,501
Additional Tier 1 Capital	-	-
Tier 1 Capital	2,192,501	2,192,501
Tier 2 Capital	-	-
Total Capital	2,192,501	2,192,501
Total risk-weighted assets	3,975,196	3,975,196
Capital Ratios		
Common Equity Tier 1 (CET 1) capital ratio	55.15%	55.15%
Tier 1 Capital ratio	55.15%	55.15%
Total Capital ratio	55.15%	55.15%

## Share Capital:

### Authorised capital

As at 31<sup>st</sup> December 2019, the Company's share capital and share premium amounted to **EUR24,000** and **EUR1,246,000** respectively.

### Deductions from Own Funds:

The Company, in accordance with Article 36 of the CRR, deducted from CET 1 capital the amount of **EUR72,438** representing the Investors Compensation Fund ("ICF") contributions as per Circular C162 of the CySEC dated 10 October 2016, the additional cash buffer of 3 per thousand of the eligible funds and financial instruments of Company's clients as per the paragraph 11(6) of the Directive DI87-07 and the Intangible assets.

### Capital Adequacy Ratio

The Capital Adequacy Ratio as reported to CySEC as at 31<sup>st</sup> December 2019 was **55.15%**, above the minimum regulatory requirement of **8.00%**.

## 3.5. Leverage Ratio

The Company steers its leverage effect according to the CRR leverage ratio rules, as amended by the Article 1 of the Delegated Regulation (EU) 2015/62 of 10<sup>th</sup> October 2014. Steering the leverage ratio means both calibrating the amount of Tier 1 capital (the ratio's numerator) and controlling the Company's leverage exposure (the ratio's denominator) to achieve the target ratio levels that the Company sets for itself.

The leverage ratio is a simple non-risk adjusted capital measure, defined as a measure of Tier 1 capital percentage of the total exposures. The leverage ratio intends to constrain leverage and bring

institution's assets more in line with their capital, in order to help the Company mitigate the destabilizing deleveraging process in downturns situations.

The Company aims to maintain a leverage ratio that is significantly higher than the **3.00%** minimum in the Basel Committee's regulatory requirement as determined in the EU Regulation 2019/876 (the "Capital Regulatory Requirements Regulation II" or "CRR II") as in force from mid of 2021 onwards. The leverage ratio is in an observation phase in order to set the minimum requirements. Once they have been set, the Company's target will be adjusted as needed.

At the end of 2019 the Company's leverage ratio was **70.01%** vs **16.70%** in 2018, which is above the **3.00%** minimum Pillar I requirement, that will come into force as of June 2021 onwards, in accordance with the new Prudential Framework for Investment Firms.

**Table 10: Leverage ratio common disclosure**

EUR	CRR leverage ratio exposures
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>	3,131,555
<b>Derivative exposures</b>	-
<b>Securities financing transaction exposures</b>	-
<b>Other off-balance sheet exposures</b>	-
<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)</b>	-
Tier 1 capital	2,192,501
Total leverage ratio exposures	3,131,555
Leverage ratio	70.01%

**Table 11: Split-up of on balance sheet exposures**

EUR	CRR leverage ratio exposures
Trading book exposures	-
Banking book exposures, <i>of which:</i>	3,131,555
Covered bonds	-
Exposures treated as sovereigns	-
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
Institutions	1,663,465
Secured by mortgages of immovable properties	-
Retail exposures	-
Corporate	661,582
Exposures in default	-
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	806,508



Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	3,131,555
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## 4. Credit Risk

Credit risk corresponds to the risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments.

The Company's credit risk mainly arises:

- By the Company's deposits in credit and financial institutions
- By assets mainly held from debtors or prepayments made

The Company follows the Standardized Approach under Pillar I for calculating its Credit Risk Capital Requirements, as specified in CRR. It categorizes the assets in respect to their exposure class and uses the Credit Step methodology to determine its respective Risk Weights ("RW").

The Company follows both regulatory and compliance-oriented credit risk mitigation ("CRM") strategies in order to minimize the possibility of occurrence of this risk, such as:

- All Client funds are held in segregated accounts, separated from Company's funds.
- The Company maintains regular credit review of counterparties, identifying the key risks faced and reports them to the Board of Directors, which then determines the firm's risk appetite and ensures that an appropriate amount of capital is maintained.
- In order to maintain its Credit risk to the minimum, the Company is using EU credit institutions for safekeeping of funds and always ensures that the banks it cooperates with have high ratings based on top credit rating agencies (Moody's, S&P or Fitch), it frequently monitors their compliance with the EU regulatory framework and diversifies the funds over several credit institutions thus mitigating the risk exposure efficiently.

Further to the above, the Company has policies to diversify credit risk and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Regulation (EU) No. 575/2013.

### Concentration Risk

Concentrations are measured using a standardised model and individual concentration limits are defined for large exposures. Any concentration limit breach is managed over time by reducing exposures.

#### 4.1. External Ratings

For the purpose of calculating the capital requirements of the Company, mainly under the credit risk requirement, the external credit ratings from **Moody's Analytics** have been applied for the exposure classes listed below:

- Exposures to central governments or central banks.

- Exposures to institutions.
- Exposures to corporates.

The general association with each credit quality step complies with the standard association published by CySEC as follows:

Credit Quality Step	Moody's Rating	Institution Risk Weight (Below 3 months)	Institution Risk Weight (Above 3 months)	Sovereigns Risk Weight	Corporate Risk Weight
1	Aaa to Aa3	20%	20%	0%	20%
2	A1 to A3	20%	50%	20%	50%
3	Baa1 to Baa3	20%	50%	50%	100%
4	Ba1 to Ba3	50%	100%	100%	100%
5	B1 to B3	50%	100%	100%	150%
6	Caa1 and below	150%	150%	150%	150%

For exposures to regional governments or local authorities, public sector entities and institutions, the external ratings are applied in the following priority (i) Issue/Exposure (ii) Issuer/Counterparty (iii) Sovereign.

For exposures to central governments or central banks and corporates the external ratings are applied in the following priority (i) Issue/Exposure (ii) Issuer/Counterparty.

*Please note that the external ratings are not taken into account where exceptions or discretions as per the CRR apply.*

## 4.2. Quantitative Information

The credit exposures in this section are measured using the standardized approach. Exposures are broken down by sectors and obligor ratings.

As at 31<sup>st</sup> December 2019, the Company's capital usage for credit risk amounted to **EUR167 thousand**, while the risk weighted exposure was **EUR2,092 thousand** (compared to **EUR138 thousand** and **EUR1,722 thousand**, respectively, as at 31<sup>st</sup> December 2018). The tables below indicate the Company's credit risk exposure.

**Table 12: Asset Class Breakdown of Net Credit Risk Exposure and Minimum Capital Requirement as at 31 December 2019, EUR**

Asset Class	Net value of exposures at the end of the period	Minimum capital requirement
Central governments or central banks	-	-
Public sector entities	-	-
Institutions	624,187	49,938
Corporates	661,582	52,927
<i>Of which: SMEs</i>	-	-
Retail	-	-
<i>Of which: SMEs</i>	-	-
Equity exposures	-	-
Other exposures	806,413	64,513
<b>Total risk weighted assets</b>	<b>2,092,182</b>	
<b>Total Credit Risk Capital Requirements</b>	-	<b>167,375</b>

**Table 13: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Exposure Class, EUR**

Asset class	Exposure before CRM	Exposure after CRM
Central governments or central banks	-	-
Public sector entities	-	-
Institutions	624,187	624,187
Corporates	661,582	661,582
<i>Of which: SMEs</i>	-	-
Retail	-	-
<i>Of which: SMEs</i>	-	-
Equity exposures	-	-
Other exposures	806,413	806,413
<b>Total risk weighted assets</b>	<b>2,092,182</b>	<b>2,092,182</b>
<b>Total Credit Risk Capital Requirements</b>	<b>167,375</b>	<b>167,375</b>

**Table 14: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Significant Geographic Area and Material Exposure Class, EUR**

Asset class	Belize	Cyprus	Germany	Lithuania	Netherlands	United Kingdom	Total
Central governments or central banks							-
Public sector entities							-
Institutions		467,546	120,288	750	34,572	1,031	624,187
Corporates	648,024	13,558					661,582
<i>Of which: SMEs</i>							-
Retail							-

<i>Of which: SMEs</i>							-
<b>Equity exposures</b>							-
<b>Other exposures</b>		789,058		17,355			806,413
<b>Total risk weighted assets</b>	648,024	1,270,161	120,288	18,105	34,572	1,031	2,092,182
<b>Total Credit Risk Capital Requirements</b>	51,842	101,613	9,623	1,448	2,766	832	167,375

Table 15: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Industry and Exposure Class, EUR

Asset class	Financial Services	Other Industry	Total
Central governments or central banks	-	-	-
Public sector entities	-	-	-
Institutions	624,187	-	624,187
Corporates	-	661,582	661,582
<i>Of which: SMEs</i>	-	-	-
Retail	-	-	-
<i>Of which: SMEs</i>	-	-	-
Equity exposures	-	-	-
Other exposures	-	806,413	806,413
<b>Total risk weighted assets</b>	624,187	1,467,995	2,092,182
<b>Total Credit Risk Capital Requirements</b>	49,935	117,440	167,375

Table 16: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Residual Maturity and by Material Exposure Class, EUR

Asset class	Up to 3 months	More than 3 months	Total
Central governments or central banks	-	-	-
Public sector entities	-	-	-
Institutions	210,410	413,777	624,187
Corporates	648,024	13,558	661,582
<i>Of which: SMEs</i>	-	-	-
Retail	-	-	-
<i>Of which: SMEs</i>	-	-	-
Equity exposures	-	-	-
Other exposures	-	806,413	806,413
<b>Total risk weighted assets</b>	858,434	1,233,748	2,092,182
<b>Total Credit Risk Capital Requirements</b>	68,675	98,700	167,375

**Table 17: Credit Quality Concentration, EUR**

<b>Credit Quality Step</b>	<b>Exposure before CRM</b>	<b>Exposure after CRM</b>
<b>1</b>	-	-
<b>2</b>	-	-
<b>3</b>	56,160	56,160
<b>4</b>	-	-
<b>5</b>	42,276	42,276
<b>6</b>	-	-
<i>Unrated</i>	1,993,746	1,993,746
<b>Total</b>	2,092,182	2,092,182

**Large Exposures:**

An institution's exposure to a Counterparty shall be considered as a large exposure if its value exceeds the **10.00%** of its Own Funds.

The Company is not obligated to report its large exposures as at 31<sup>st</sup> December 2019 according to article 388 of EU Regulation 575/2013.

## 5. Market Risk

Market risk corresponds to the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include, but are not limited to, exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets.

As mentioned above, in the context of Pillar I, market risk mainly arises through:

**Position Risk:** It refers to the probability of loss associated with a particular trading/security (long or short) position due to price changes.

**Interest rate risk:** The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. However, due to their short residual maturity, the resulting capital requirement is zero.

**Commodities Risk:** It refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. These commodities may be oil, metals, gas, electricity etc.

**Equity Risk:** It refers to the risk of loss resulting from fluctuations in the price of stocks or changes that relate to the issuer of a share or the stock market in general. A company is exposed to Equity risk through its positions in equity CFDs and stock index CFDs which are booked in the Trading Book.

**Foreign Exchange Risk:** It is a financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the Company. The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

In 2019, the Company's market risk only emanated from foreign exchange rates fluctuations which affect the Company's deposits in foreign currencies.

### 5.1. Quantitative Information

The Company's capital requirements related to market risk are mainly determined using the standardized approach.

As at 31<sup>st</sup> December 2019, the total Net Long and Short in all the non-reporting currencies amounted to **EUR10,976.70** and **EUR0** respectively, or **0.50%** of the Company's Own Funds. Therefore, the Company is not exposed to Foreign Exchange Risk as at 31<sup>st</sup> December 2019, in accordance to Article 351 of the EU Regulation 575/2013 since the Company's Foreign Exchange Exposure did not exceed the **2.00%** of its Own Funds (compared to **EUR55 thousand** capital requirement and **EUR688 thousand**, Risk Weighted Assets, as at 31<sup>st</sup> December 2018).



## 6. Operational Risk

Operational risks (including accounting and environmental risks) correspond to the risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss. This section describes the monitoring of the Company's operational risk, in addition to providing an analysis of the Company's operational risk profile and regulatory capital requirements.

The Company has developed processes, management tools and a control infrastructure to enhance the Company-wide control and management of the operational risks that are inherent in its various activities. These include, among others, general and specific procedures, permanent supervision, business continuity plans and functions dedicated to the oversight and management of specific types of operational risks, such as fraud, risks related to external service providers, legal risks, information system security risks and compliance risks.

In order to control the exposure to operational risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance.

To that effect, the management of operational risk is geared towards:

- Maintaining a strong internal control governance framework.
- Managing operational risk exposures through a consistent set of processes that drive risk identification, assessment, control and monitoring.

The Company implements the below Operational Risk Mitigation Strategies in order to minimize its Operational Risk Exposure:

- The development of operational risk awareness and culture.
- The provision of adequate information to the Company's management, at all levels, in order to facilitate decision making for risk control activities.
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives.

- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.
- Established a “four-eye” structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management. The Board further reviews any decisions made by the Management while monitoring their activities.
- Detection methods are in place in order to detect fraudulent activities.
- Comprehensive business contingency and disaster recovery plan.

The Senior Management employs specialized tools and methodologies to identify, assess, mitigate and monitor operational risk. These specialized tools and methodologies assist operational risk management to address any control gaps. To this effect, the following are implemented:

- Incident collection.
- Key Risk Indicators.
- Business Continuity Management.
- Training and awareness.

The Company calculates its capital requirement for its Operational risk in accordance with the Fixed Overheads approach.

## 6.1. Quantitative Information

The operational risk capital usage, as at 31<sup>st</sup> December 2019, was **EUR151 thousand**, while the operational risk risk-weighted exposure was **EUR1,883 thousand** (compared to **EUR168 thousand** and **EUR2,097 thousand** respectively as at 31<sup>st</sup> December 2018).

## 7. Liquidity risk

Liquidity risk corresponds to the risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.

The Company's primary objective is to ensure the funding of its activities in the most cost-effective way by managing liquidity risk and adhering to regulatory constraints. The liquidity system aims at providing a balance sheet framework with assets and liabilities target structure that is consistent with the risk appetite defined by the Board of Directors:

- The assets structure should allow the businesses to develop their activities in a way that is liquidity-efficient and compatible with the target liabilities structure.
- The liabilities structure is based on the ability of the businesses to collect financial resources from customers and the ability of the Company to sustainably raise financial resources on the markets, in accordance with its risk appetite.

The principles and standards applicable to the management of liquidity risks are defined by the Company's governing bodies, whose duties in the area of liquidity are listed below:

- The Company's Board of Directors (i) establishes the level of liquidity risk tolerance as part of the Risk Appetite exercise, (ii) meets regularly to examine the Company's liquidity risk situation, on a quarterly basis.
- The Senior Management (i) sets budget targets in terms of liquidity (ii) allocates liquidity to the pillars.

To minimize its exposure to liquidity risk, the Company implements the below Liquidity Risk Mitigation Strategies:

- Regular analysis & reporting to the Board of Directors on the funding needs of the Company.
- Monitoring of the Company's exposures and diversification to avoid rise of concentration risk as per the internal policies.
- Cash Management.

The Company has undertaken a specific review of its liquidity risks and believes that it is able to meet its upcoming maturities. As at 31<sup>st</sup> December 2019, the Company held **EUR1,664 thousand** in its accounts in credit institutions (PSPs, LPs, Banks etc.).

Furthermore, the client assets held in fiduciary capacity (in segregated accounts) were **EUR2,151 thousand**. The Company is taking due care in safeguarding these assets and performs the following mitigation strategies:

- These assets are held by the Company in a fiduciary capacity and are not included in the Company's funds nor its financial statements.

- The funds are held in client segregated bank accounts.
- Frequent reconciliations are performed internally and also from the External Auditors which also are tasked to verify and submit to CySEC annual reports.

## 8. Product Intervention Measures

On the 27<sup>th</sup> March 2018, ESMA agreed on temporary product intervention measures on the provision of Contracts for Differences and Binary Options to retail clients, which were formally adopted by ESMA on the 1<sup>st</sup> June 2018 and were renewed for last time on 1<sup>st</sup> May 2019 and 2<sup>nd</sup> April 2019, respectively.

ESMA decided not to renew its product intervention measures relating to the binary options and CFDs, since most of the NCAs have taken permanent national product intervention measures, which are at least as stringent as ESMA's measures.

On 27<sup>th</sup> September 2019, CySEC issued a Policy Statement ("PS-04-2019") and permanently introduced ESMA measures into national law pursuant to Article 42 of Regulation EU No 600/2014 or MiFIR. The purpose of this policy was to publish the relevant rules that restrict the sale, marketing and distribution of contract for differences ("CFDs") in or from Cyprus in line with ESMA's temporary product intervention measures. On 27<sup>th</sup> September 2019, ESMA published an Opinion concluding that overall CySEC's national measures are justified and proportionate, with the exception for CySEC's decision to define the Territorial Scope of Cyprus National Product Intervention Measures ("CyNPIMs").

### *National Intervention Measures:*

CySEC replicated ESMA's Product Intervention measures:

- Leverage requirements/ initial margin requirements.
- Margin close out rule.
- Negative Balance Protection.
- Restriction on the incentives offered to the trade CFDs.
- Standardised risk warnings with minor amendment as defined below:

For new CFD providers or with CFD providers without any trades during the last twelve months, the specific percentage range of retail client accounts that lose money shall not be mentioned.

- 1) For the durable medium and webpage specific risk warning and the abbreviated specific risk warning: "... ***The vast majority of retail investor accounts*** ...".
- 2) For the reduced character specific risk warning: "***Retail client accounts generally lose money***".

The Company is up to date in relation to the Product Intervention measures and has amended its procedures so as to comply with the Product Intervention measures which are into force.

## 9. Negative Balance Protection Risk Management

‘Negative Balance Protection’ is a precautionary measure that firms take in order to safeguard their clients.

The negative balance protection aims at protecting retail clients in exceptional circumstances where there is a price change in the underlying that is sufficiently large and sudden to prevent the CFD provider from closing out the position as required by the margin close-out protection, resulting to a negative account value.

Large market events can cause gapping, preventing the automatic margin close-out protection from being effective.

The purpose of a negative balance protection is to ensure that an investor's maximum losses from trading CFDs, including all related costs, are limited to the total funds related to trading CFDs that are in the investor's CFD trading account.

The Company ensures that it maintains appropriate arrangements with its Liquidity Providers (the “LPs”) so as to ensure that the market risk is covered by its Liquidity Providers, in order to comply with the Negative Balance Protection.

## 10. Risk Transferring Arrangements

“Risk transfer arrangement” is defined as the transferring of risk and liability to a third party.

The Company started collaborating and signed a Liquidity Provider contractual agreement with an entity domiciled in a third country not listed in Annex I of the Commission Implementing Decision (EU) 2016/230 as amended by the Commission Implementing Decision (EU) 2019/536, as in force, or which is not a member of the G20 or which is not a European Economic Area regulated entity, according to CySEC Policy Statement PS-01-2019.

Therefore, during the first quarter of 2019, since the Company collaborates and has in place LP Contractual Arrangements with entities domiciled in a third country not listed in Annex I of the Commission Implementing Decision (EU) 2016/230 as amended by the Commission Implementing Decision (EU) 2019/536, as in force, or which is not a member of the G20 or which is not a European Economic Area regulated entity, according to CySEC Policy Statement PS-01-2019 is required to have an additional buffer of CET 1 Capital of at least:

- **EUR2,000,000** or
- Equal to **2.00%** of their total risk exposure,

whichever is the higher.

The Company assesses the risks associated with their risk transferring arrangements in the context of its ICAAP or SREP.

As of 31<sup>st</sup> December 2019, the Company’s Own Funds amounted to **EUR2,192,501**, with a surplus of **EUR13,617** above the minimum regulatory requirement as it can be observed from the table below.

	Amount in EUR
<i>Minimum Common Equity Tier 1 Capital:</i>	
<b>Common Equity Tier 1 Capital to meet Art. 92 of CRR</b>	178,884
<b>Combined buffer capital requirement</b>	-
<b>Pillar 2 adjustment</b>	-
<b>Highest of EUR2m or 2.00% RWA</b>	2,000,000
<b>Total Minimum Common Equity Tier 1 capital required at the reporting date</b>	2,178,884



<i>Actual Common Equity T1 Capital (in euro) at the reporting date</i>	2,192,501
<i>Additional Capital required at the reporting date</i>	-

## 11. Market Abuse

As per Article 16(2) of the Regulation 596/2014 the Company is required to establish and maintain effective arrangements, systems and procedures in order to detect and report suspicious orders and transactions that may constitute insider dealing or market manipulation. The Company's measures and procedures shall be in line with the measures and procedures required to be established (as applicable) by the Delegated Regulation 2016/957.

The Company has policies and procedures in place in order to minimise this risk. Additionally, the Company ensures that the compliance function has sufficient knowledge, understanding, skills and authority to assess such procedures as well as that the responsible staff for trading is capable for monitoring the clients' trading activity and identify potential suspicions of market abuse. Further to the above, the Company ensures that all employees who are involved in trading are adequately trained, in order to be able to identify orders, which may give rise to market abuse. The Company monitors the trading activities of its individuals/algorithms and its clients, and keep records of the submitted orders, the modified, the cancelled and the executed transactions in order to be able to perform efficient live monitoring. The Company has effective systems in place (i.e. automatic software), which will trigger alerts or flags depending on the parameters and indications of potential market abuse designed by the Company in order for these to be further investigated. Moreover, the Company has proper arrangements in place for reporting to CySEC identified suspicious transactions without any delay. The Company conducts periodic assessments on its procedures and arrangements to identify instances that potential market abuse may not be detected. Finally the Company keeps for at least 5 years detailed records of the followed arrangements and procedures, to identify conduct, that may involve market abuse, including how each alert of possible suspicious behaviour is dealt and whether or not a report to CySEC is made.

## 12. Compliance, Reputational and Legal Risks

Compliance risk (including legal and tax risks) corresponds to the risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company's activities.

Compliance means acting in accordance with applicable regulatory rules, as well as professional, ethical and internal principles and standards. Fair treatment of customers, with integrity, contributes decisively to the reputation of the Company.

By ensuring that these rules are observed, the Company works to protect its customers and, in general, all of its counterparties, employees, and the various regulatory authorities to which it reports.

### **Compliance System and Department**

Independent compliance structures have been set up within the Company's different business lines to identify and prevent any risks of non-compliance.

The Compliance Officer verifies that all compliance laws, regulations and principles applicable to the Company's services are observed, and that all staff respect codes of good conduct and individual compliance. The Compliance Officer also monitors the prevention of reputational risk and provides expertise for the Company, performs controls at the highest level and assists with the day-to-day operations. The Compliance Officer is responsible for:

- The Company's financial security (prevention of money laundering and terrorism financing; know-your-customer obligations; embargoes and financial sanctions).
- Developing and updating consistent standards for the function, promoting a compliance culture, coordinating employee training and managing Company regulatory projects.
- Coordinating a compliance control mechanism within the Company (second-level controls), overseeing a normalised Compliance process, oversight of personnel operations and, finally, managing large IT projects for the function.
- Preventing and managing conflicts of interest.
- Proposing ethical rules to be followed by all Company employees.
- Training and advising employees and raise their awareness of compliance issues.
- Building and implementing steering and organisational tools for the function: Compliance and Reputational Risk dashboards, forums to share best practices, meetings of functional compliance officers.
- Generally monitoring subjects likely to be harmful to the Company's reputation.

## 12.1. Compliance Monitoring

In light with the new regulatory requirements introduced during 2019, , the Company’s compliance function has adopted the compliance monitoring plan for the reference year which was appropriate to the size and the organization of the Company as well as the nature, scale and complexity of its business so as to be able to detect any risk of failure by the Company to comply with its obligations under the relevant legislation, as well as the associated risks.

It targets the continued enhancement of priority functions, the central tools for monitoring regulatory application (including training, harmonisation, and regulatory oversight), financial security, constant oversight, customer protection, market integrity (including preventing conflicts of interest), and reporting quality.

The Company intends to uphold the strictest rules in order to ensure high ethical and professional standards.

## 12.2. Prevention of Money Laundering and Terrorism Financing

Money laundering and terrorist financing risk mainly refers to the risk where the Company may be used as a vehicle to launder money and/or assist/be involved in financing terrorism.

The Company has in place, and is updating as applicable, certain policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks, based on the Prevention and Suppression of Money Laundering and Terrorist Financing Laws of 2007-2018, as amended during the year by the Amending Laws 158(I)/2018 and 81(I)2019 (“AML Law”). Among others, these policies, procedures and controls include the following:

- The adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing risks faced by the Company.
- The adoption of adequate Client due diligence and identification procedures in line with the Clients’ assessed Money Laundering and Terrorist Financing risk.
- Setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents from independent and reliable sources, third party information).
- Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction.
- Monitoring and reviewing the business relationship or an occasional transaction with clients and potential clients of high-risk countries.
- ensuring that the Company’s personnel receive the appropriate training and assistance.

The Company is frequently reviewing its policies, procedures and controls with respect to money laundering and terrorist financing to ensure compliance with the applicable legislation and incorporated, as applicable, any new information issued/available in this respect.

During the first quarter of 2020, the Company faced AML challenges due to COVID-19 pandemic. It shall be taken into consideration that, periods of extreme external scenarios materialising, such as the COVID-19 pandemic, which could result into a significant reduction in business, cause operational issues and puts the key personnel under a lot of pressure, may give rise to activities which are out of the norm. Additionally, such circumstances may urge business to become involved in unlawful activities in order to survive. Additionally, such extreme situations can characterised as great opportunities for money launderers and terrorist financiers to take advantage of limited or decreased resources and proceed with their “business” activities uninterrupted. Therefore, it is urgent for the Company to be alert of red flags and risk factors, which may arise during this period. In this respect the Company enhanced its KYC procedures, so that to prevent unlawful activities. In particular the Company applied the below actions for both new and existing clients in order to monitor the increase of the AML risk due to the COVID-19:

1. Use where possible online background screening tools, sanction lists and perform research through internet on a daily basis for new information.
2. Be sceptical and critical regarding the available information, since there is an increasing trend for fake news.
3. Avoid using social media for providing or accepting instructions to give access to sensitive information.
4. Enforce enhanced procedures and risk mitigating controls where needed.
5. Assess the validity of any changes and transactions and consider whether they are suspicious.
6. Keep an open communication line with its AML Compliance Officer and communicate any case of a suspicious transaction or behaviour of the client, without alerting the client of this to avoid “tipping-off”.

## 13. Appendix - Specific References to CRR

CRR Ref	High Level Summary	Compliance Reference
<i>Scope of disclosure requirements</i>		
431(1)	Requirement to publish Pillar III disclosures.	1.2
431(2)	Disclosure of operational risk information.	6
431(3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	1.2
431(4)	Explanation of ratings decisions to SMEs upon request.	N/A
<i>Frequency of disclosure</i>		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements.	1.2
<i>Means of disclosures</i>		
434(1)	To include disclosures in one appropriate medium, or provide clear cross-references to other media.	1.2
434(2)	Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate.	1.2
<i>Risk management objectives and policies</i>		
435(1) (a)	Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation/hedging policies	2, 4, 5 and 6
435(1) (b)		2, 4, 5 and 6
435(1) (c)		2, 4, 5 and 6
435(1) (d)		2, 4, 5 and 6
435(1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements	Preface
435(1) (f)	Concise risk statement approved by the BoD	Preface
435(2)	Information, once a year at a minimum, on governance arrangements.	2
435(2) (a)	Number of directorships held by members of the BoD.	2.8
435(2) (b)	Recruitment policy of BoD members, their experience and expertise.	2.6
435(2) (c)	Policy on diversity of BoD members, its objectives and results against targets.	2.5
435(2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	N/A
435(2) (e)	Description of information flow on risk to BoD.	2.9
<i>Scope of application</i>		
436(a)	Name of institution.	1.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	N/A

<b>436 (b) (i)</b>	Fully consolidated;	N/A
<b>436 (b) (ii)</b>	Proportionally consolidated;	N/A
<b>436 (b) (iii)</b>	Deducted from own funds;	N/A
<b>436 (b) (iv)</b>	Neither consolidated nor deducted.	N/A
<b>436 (c)</b>	Impediments to transfer of funds between parent and subsidiaries.	N/A
<b>436 (d)</b>	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any).	N/A
<b>436 (e)</b>	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities.	N/A
<b>Own Funds</b>		
<b>437 (1)</b>	Requirements regarding capital resources table	3.4
<b>437 (1)</b>		3.4
<b>437 (1) (a)</b>		3.4
<b>437 (1) (b)</b>		3.4
<b>437 (1) (c)</b>		3.4
<b>437 (1) (d) (i)</b>		3.4
<b>437 (1) (d) (ii)</b>		3.4
<b>437 (1) (d) (iii)</b>		3.4
<b>437 (1) (e)</b>		3.4
<b>437 (1) (f)</b>		3.4
<b>437(2)</b>	EBA shall develop implementation standards for points (a), (b), (d) and (e) above	N/A
<b>Capital Requirements</b>		
<b>438(a)</b>	Summary of institution's approach to assessing adequacy of capital levels.	2.3
<b>438(b)</b>	Result of ICAAP on demand from competent authority.	2.3
<b>438(c)</b>	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	4
<b>438(d)</b>	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class.	N/A
<b>438(d) (i)</b>		N/A
<b>438(d) (ii)</b>		N/A
<b>438(d) (iii)</b>		N/A
<b>438(d) (iv)</b>		N/A
<b>438(e)</b>	Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits.	5.1
<b>438(f)</b>	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	6.1

<i>Exposure to counterparty credit risk (CCR)</i>		
<b>439(a)</b>	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	N/A
<b>439(b)</b>	Discussion of policies for securing collateral and establishing reserves.	N/A
<b>439(c)</b>	Discussion of policies as regards wrong-way exposures.	N/A
<b>439(d)</b>	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	N/A
<b>439(e)</b>	Derivation of net derivative credit exposure.	N/A
<b>439(f)</b>	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	N/A
<b>439(g)</b>	Notional value of credit derivative hedges and current credit exposure by type of exposure.	N/A
<b>439(h)</b>	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	N/A
<b>439(i)</b>	Estimation of alpha, if applicable.	N/A
<i>Credit Risk Adjustments</i>		
<b>442(a)</b>	Definitions for accounting purposes of 'past due' and 'impaired'.	N/A
<b>442(b)</b>	Approaches for calculating credit risk adjustments.	N/A
<b>442(c)</b>	Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by different types of exposures.	4.2
<b>442(d)</b>	Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by significant geographic areas and material exposure classes.	4.2
<b>442(e)</b>		4.2
<b>442(f)</b>	Exposures post value adjustments by residual maturity and by material exposure class.	4.2
<b>442(g)</b>		N/A
<b>442(g) (i)</b>	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	N/A
<b>442(g) (ii)</b>		N/A
<b>442(g) (iii)</b>		N/A
<b>442(h)</b>	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	N/A
<b>442(i)</b>	Reconciliation of changes in specific and general credit risk adjustments.	N/A
<b>442(i) (i)</b>		N/A
<b>442(i) (ii)</b>		N/A
<b>442(i) (iii)</b>		N/A
<b>442(i) (iv)</b>		N/A
<b>442(i) (v)</b>		N/A



<b>442 endnote</b>	Specific credit risk adjustments recorded to income statement are disclosed separately.	N/A
<i>Unencumbered assets</i>		
<b>443</b>	Disclosures on unencumbered assets.	N/A
<i>Use of ECAI's</i>		
<b>444(a)</b>	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	4.1
<b>444(b)</b>	Exposure classes associated with each ECAI.	4.1
<b>444(c)</b>	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	4.1
<b>444(d)</b>	Mapping of external rating to credit quality steps.	4.1
<b>444(e)</b>	Exposure values pre- and post-credit risk mitigation, by credit quality step.	4.1
<i>Exposure to market risk</i>		
<b>445</b>	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	5
<i>Operational Risk</i>		
<b>446</b>	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	6
<i>Exposures in equities not included in the trading book</i>		
<b>447(a)</b>	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	N/A
<b>447(b)</b>	Recorded at fair value and actual prices of exchange traded equity where it is materially different from fair value.	N/A
<b>447(c)</b>	Types, nature and amounts of the relevant classes of equity exposures.	N/A
<b>447(d)</b>	Cumulative realised gains and losses on sales in the period.	N/A
<b>447(e)</b>	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	N/A
<i>Exposure to interest rate risk on positions not included in the trading book</i>		
<b>448(a)</b>	Nature of interest rate risk and key assumptions in measurement models.	N/A
<b>448(b)</b>	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	N/A
<i>Remuneration Disclosures</i>		
<b>450</b>	Remuneration Policy	2.7
<i>Leverage</i>		
<b>451(1) (a)</b>	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	3.5
<b>451(1) (b)</b>		3.5
<b>451(1) (c)</b>		3.5

<b>451(1) (d)</b>	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	N/A
<b>451(1) (e)</b>		N/A
<b>451(2)</b>	EBA shall develop implementation standards for points above.	N/A
<b><i>Use of Credit Risk mitigation techniques</i></b>		
<b>453(a)</b>	Policies and processes, and an indication of the extent to which the CIF makes use of on- and off-balance sheet netting.	N/A
<b>453(b)</b>	Policies and processes for collateral valuation and management.	N/A
<b>453(c)</b>	Description of types of collateral used by the CIF.	N/A
<b>453(d)</b>	Types of guarantor and credit derivative counterparty, and their creditworthiness.	N/A
<b>453(e)</b>	Information about market or credit risk concentrations within the credit mitigation taken.	N/A
<b>453(f)</b>	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure value covered by eligible collateral.	N/A
<b>453(g)</b>	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	N/A
<b><i>Use of the Advanced Measurement Approaches to operational risk</i></b>		
<b>454</b>	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	N/A