



MAGIC  
COMPASS™  
License No. CIF 299/16 NAVIGATE YOUR TRADING

# DISCLOSURE & MARKET DISCIPLINE REPORT - 2017

April 2018

## Disclosure

*The Disclosure and Market Discipline Report for the year 2016 has been prepared by MAGIC COMPASS LTD as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive DI144-2014-14 issued by the Cyprus Securities and Exchange Commission.*

*MAGIC COMPASS 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.*

*MAGIC COMPASS LTD is regulated by the Cyprus Securities and Exchange Commission under License number 299/16.*

### CONTACT US:

<b>Address</b>	1 Iacovou Tombazi, Vashiotis Business Centre, 2 <sup>nd</sup> Floor, 3107 Limassol, Cyprus
<b>Telephone</b>	+357 25023880, +357 25030366
<b>Fax</b>	+357 25590300
<b>Website</b>	<a href="http://www.magiccompass.com">http://www.magiccompass.com</a>
<b>Email</b>	<a href="mailto:compliance@magiccompass.com">compliance@magiccompass.com</a>

*The Board of Directors is ultimately responsible for the risk management framework of the Company. 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 institutions profile and strategy.*

## Table of Contents

<b>1. INTRODUCTION .....</b>	<b>6</b>
1.1 PILLAR III REGULATORY FRAMEWORK AND SCOPE OF APPLICATION.....	6
1.2 INVESTMENT FIRM .....	8
1.3 REGULATORY (PRUDENTIAL) SUPERVISION .....	10
<b>2. RISK MANAGEMENT .....</b>	<b>12</b>
2.1 DEFINITION OF RISK MANAGEMENT .....	12
2.2 RISK MANAGEMENT POLICY AND OBJECTIVES .....	13
2.3 RISK APPETITE FRAMEWORK (RAF) .....	14
2.4 RISK CULTURE .....	15
2.5 STRESS TESTING.....	16
2.6 INTERNAL CAPITAL ADEQUACY ASSESSMENT.....	17
<b>3. REGULATORY PILLAR I RISK MANAGEMENT.....</b>	<b>18</b>
3.1 CREDIT RISK MANAGEMENT .....	18
3.2 MARKET RISK MANAGEMENT .....	21
3.3 OPERATIONAL RISK MANAGEMENT.....	22
<b>4. REFERENCE TO ADDITIONAL SIGNIFICANT RISKS .....</b>	<b>24</b>
4.1 LIQUIDITY RISK.....	24
4.2 MONEY LAUNDERING AND TERRORIST FINANCING RISK .....	24
4.3 COUNTERPARTY CREDIT RISK .....	25
<b>5. CORPORATE GOVERNANCE .....</b>	<b>29</b>
5.1 BOARD RECRUITMENT .....	29
5.2 DIVERSITY OF THE BOARD OF DIRECTORS .....	30
5.3 RISK MANAGEMENT COMMITTEE.....	31
5.4 REPORTING AND CONTROL.....	34
5.5 OTHER DIRECTORSHIPS HELD BY THE MEMBERS OF THE BOARD.....	35
<b>6. REGULATORY CAPITAL .....</b>	<b>37</b>
<b>7. CAPITAL REQUIREMENTS UNDER PILLAR I .....</b>	<b>39</b>
<b>8. CREDIT ASSESSMENT UNDER THE STANDARD APPROACH .....</b>	<b>41</b>
<b>9. REMUNERATION POLICY AND PRACTICES .....</b>	<b>42</b>
<b>10. LEVERAGE .....</b>	<b>45</b>
<b>Appendix – Specific Reference to CRR .....</b>	<b>46</b>

## List of Tables

Table 1: Corporate Information .....	8
Table 2: Company License Information .....	9
Table 3: Credit Appetite Areas .....	15
Table 4: Credit Risk Requirements.....	19
Table 5: Credit Risk by Industry.....	20
Table 6: Credit Risk by Residual Maturity .....	20
Table 7: Credit Risk by Country.....	20
Table 8: Position risk on Foreign Exchange .....	22
Table 9: Liquidity analysis.....	24
Table 10: Reporting Requirements for 2017.....	34
Table 11: Other Directorships.....	35
Table 12: Capital Structure under CRR .....	37
Table 13: Capital Requirements.....	40
Table 14: ECAI association with CQS.....	41
Table 15: Remuneration Figures for 2017 .....	43
Table 16: Leverage Ratio Analysis.....	45

## List of Figures

Figure 1: Risk Management Process.....	10
Figure 2: Credit Risk Exposures .....	16

## Abbreviations

AT1	Additional Tier 1
Basel II	BIS previously enforced global regulatory framework
Basel III	BIS current enforced global regulatory framework
BIS	Bank for International Settlements
Board	Board of Directors
CET 1	Common Equity Tier 1 Capital
CIF	Cyprus Investment Firm
CRD	Capital Requirements Directive – Directive 2013/36/EU
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation – Regulation (EU) No. 575/2013
CySEC	Cyprus Securities & Exchange Commission
EC	European Commission
ECAI	External Credit Assessment Institution
EU	European Union
ICAAP	Internal Capital Adequacy Assessment Process
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
T1	Tier 1 Capital
T2	Tier 2 Capital
UBO	Ultimate Beneficial Owner

## 1. INTRODUCTION & OVERVIEW

### 1.1. Pillar III Regulatory Framework and Scope of Application

The present report is prepared by MAGIC COMPASS LTD (hereinafter, the “Company”) a Cyprus Investment Firm (CIF) authorized and regulated by the Cyprus Securities and Exchange Commission (hereinafter, “CySEC”) under the license number 299/16 and operates in harmonisation with the Markets in Financial Instruments Directive (MiFID).

In accordance with Regulation (EU) No. 575/2013 (hereinafter, the “Capital Requirements Regulation” or “CRR”), which was introduced in late 2014, the Company is required to disclose information relating to its risk management, capital structure, capital adequacy, its risk exposures 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. The report has been prepared based and following Section 4 (Paragraph. 32) of the CySEC Directive DI144-2014-14 of 2014 (the “Directive”) for the prudential supervision of investment firms which implements the Regulation 575/2013 (the “Regulation” or “CRR”) and the European Directive 2013/36/EU (the “European Directive” or “CRD IV”), as well as the relevant provisions of Law 144(I)/2007, as amended (hereinafter, the “Law”). It is noted that the Law has been replaced by Law 87(I)/2017 for the purpose of harmonization with European Directive 2 2014/65/EU (“MIFID II”) which applies to Cypriot investment firms (CIFs), market operators, data reporting service providers (DRSP), and third-country firms providing investment services or activities through the establishment of a branch in the Republic as of 3rd January 2018.

The Capital Requirements Regulation (CRR) introduced significant changes in the prudential regulatory regime applicable to banks and investment firms including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018. The current regulatory framework comprises three pillars:

- **Pillar I** covers the calculation of risk weighted assets for credit risk, market risk and operational risk.
- **Pillar II** covers the Supervisory Review and Evaluation Process (SREP), which assesses the Internal Capital Adequacy Assessment Process (hereinafter, the “ICAAP”) and provides for the monitoring and self-assessment of an institution’s capital adequacy and internal processes. Pillar II requires firms and supervisors to take a view on whether a firm should hold additional capital against risks considered under Pillar I that are not fully captured by the Pillar I process (e.g. credit concentration risk); those risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk); and

factors external to the firm (e.g. business cycle effects). Pillar II connects the regulatory capital requirements to the Company's Internal Capital Adequacy Assessment Process ("ICAAP") and to the reliability of its internal control structures. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

- **Pillar III** covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

The 2017 Pillar III Disclosures report sets out both quantitative and qualitative information required in accordance with Articles 431 to 455 of Part 8 of the CRR, which set the requirements of the disclosures. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures has been made by the external auditors and sent to CySEC.

The information contained in the Pillar III Market Discipline and Disclosure report is audited by the Company's external auditors and published on the Company's website at [www.magiccompass.com](http://www.magiccompass.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 minimize adverse outcomes.

The Company's business effectiveness is appeared and based on the guidelines of the risk management policies and procedures. 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.

## 1.2. Investment Firm

**Table 1 Corporate Information**

Company name	MAGIC COMPASS LTD
CIF Authorization date	12/04/2016
CIF License number	299/16
Company Registration Number	HE 341562

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

Investment Services
<ul style="list-style-type: none"> <li>• Reception and transmission of orders in relation to one or more financial instruments</li> <li>• Execution of Orders on behalf of Clients</li> <li>• Dealing on own account</li> <li>• Portfolio Management</li> </ul>

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

Ancillary Services
<ul style="list-style-type: none"> <li>• Safekeeping and administration of financial instruments, including custodianship and related services</li> <li>• Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction</li> <li>• Foreign exchange services where these are connected to the provision of investment services</li> <li>• Investment research and financial analysis or other forms</li> </ul>

The Company was incorporated in the Republic of Cyprus on 16 OF March 015 as a private limited liability company with registration number HE 341562 and obtained a Cyprus Investment Firm (CIF) licence from the Cyprus Securities and Exchange Commission (CySEC), CIF licence No. 299/16 on the 12/04/2016 and it was activated on the September 2016.

Further than that, during the year under review the Company's licence was amended on 8th of August 2017 to include the investment service of "Dealing on Own".

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

**Table 2 - Company Licence Information (based on the Third Appendix of the Law 144(I)/2007, as**



amended)

		Investment Services/Activities									Ancillary Services						
		1	2	3	4	5	6	7	8	9	1	2	3	4	5	6	7
Financial Instruments	1	✓	✓	✓	✓	-	-	-	-	-	✓	✓			-		
	2	✓	✓	✓	✓	-	-	-	-	-	✓	✓			-		
	3	✓	✓	✓	✓	-	-	-	-	-	✓	✓			-		
	4	✓	✓	✓	✓	-	-	-	-	-	✓	✓			-		
	5	✓	✓	✓	✓	-	-	-	-	-	✓	✓			-		-
	6	✓	✓	✓	✓	-	-	-	-	-	✓	✓	-	✓	-	-	-
	7	✓	✓	✓	✓	-	-	-	-	-	✓	✓			-		-
	8	✓	✓	✓	✓	-	-	-	-	-	✓	✓			-		
	9	✓	✓	✓	✓	-	-	-	-	-	✓	✓			-		
	10	✓	✓	✓	✓	-	-	-	-	-	✓	✓			-		-
	11	-	-	-	-	-	-	-	-	-	-	-			-		

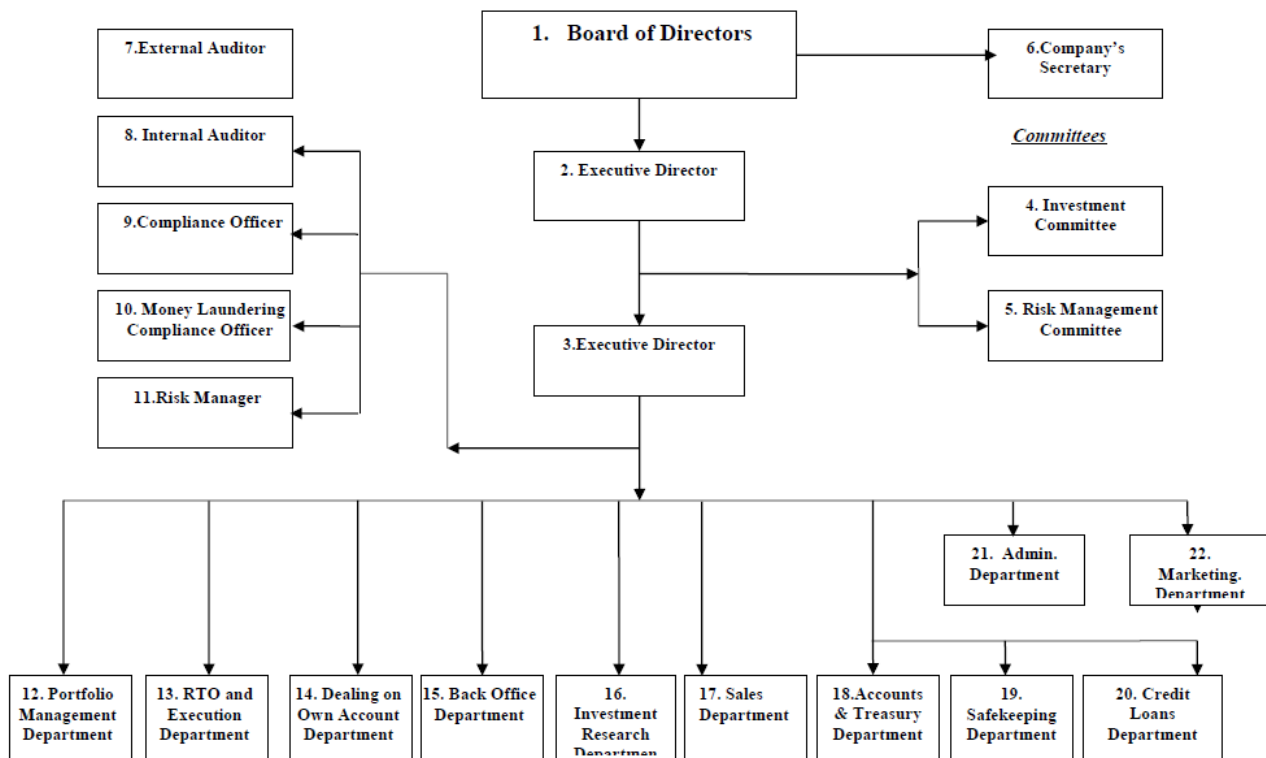
The Company is authorised to provide the aforementioned investment and ancillary services, as applicable for each service, for the following Financial Instruments, in accordance with Part III of the Third Appendix of the Law 144(I)/2007, as amended:

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

climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

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

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



**Figure 1: Organisational Structure**

### 1.3. Regulatory (Prudential) Supervision

The laws and regulations, published by the Cyprus Securities and Exchange Commission, that govern the operations of Cyprus Investment Firms and set out the obligations and requirements that shall be met in the aspect of capital adequacy and market discipline, are comprised by the following:

- Law 144(I)/2007: Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereinafter, 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.

## 2. RISK MANAGEMENT (OBJECTIVES AND POLICIES)

## 2.1. Definition of Risk Management

Risk Management is the process of identification, analysis and evaluation of uncertainty in investment decision-making. As a result, it is treated accordingly: either accepted or mitigated.

Risk management occurs anytime a Client analyses and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction) given their investment objectives and risk tolerance.

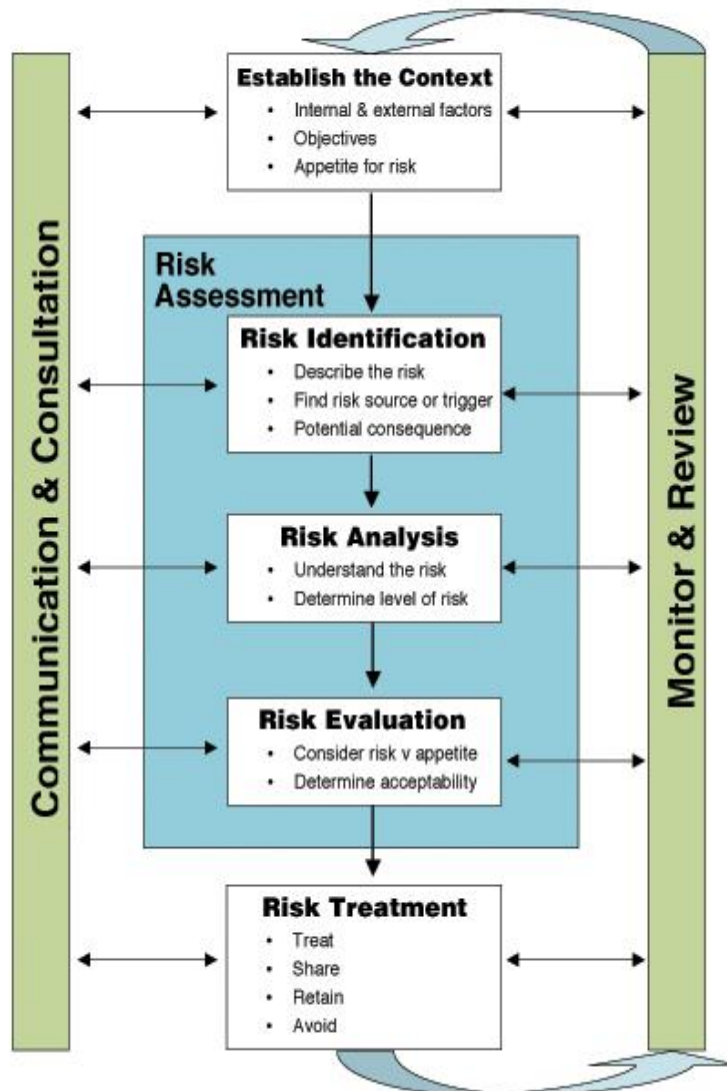
Risks should be continuously monitored and reviewed. In addition to that, outcomes and results should be properly reported while new objectives should be set.

Characteristics of a productive risk management process:

- A culture of risks adjusted in the organization. It embraces a series of values, attitudes and ways of acting towards risks, including taking decisions on change management and strategic, business planning.
- Complete approach to all risks: There are risks, which directly affect the Company, and risks that indirectly affect the Company. It is very important to report all kinds of risks and to assume and understand the interrelations between them. The overall calculation should be simplified without affecting the difference of nature, degree of evolution and real possibilities of management and control of each type of risk, adjusting the organization, processes, reports and tools to the features of each one.
- An organizational and control model, which is assigned to all risk types.
- Common management instruments among the different departments, without negatively affecting the regulations and requirements of supervisors and the degree of development of each department.

Lastly, it is very important that all risk assessment results should be communicated to all relevant departments with the appropriate consultation given.

## RISK MANAGEMENT PROCESS



**Figure 2:** Risk Management Process

### 2.2 Risk Management Policy and Objectives

The Company's Risk Management Policy was formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general.

It sets out the procedures and mechanisms regarding risks and it describes the roles and responsibilities of the Risk Manager. In addition to that, it identifies the main reporting procedures and outlines the process followed by the Senior Management in order to evaluate the effectiveness of the Company's internal control procedures.

The Risk Manager ensures that all different types of risks taken by the Company are monitored and

reported to the Senior Management and the Board of Directors (hereinafter, the “Board”). Moreover, the Risk Manager is responsible for making recommendations and indicating whether the appropriate remedial measures have been taken in the event of any deficiencies identified, as aforementioned.

The Senior Management bears the responsibility to monitor the adequacy and effectiveness of risk management policies and procedures that are in place, the level of compliance by the Company, and its relevant persons, with the policies and procedures adopted as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company’s relevant persons to comply with those policies and procedures.

The Company’s Board receives on a regular basis written reports, which contain a description of the implementation and effectiveness of the overall control environment for investment services and activities, ancillary services and other business, and a review of the risks that have been identified, analysed, planned as well as remedies undertaken or to be undertaken.

Processes are continuously being reviewed with the intent of further strengthening through the implementation of guidance provided by both the industry and new regulatory requirements. In addition, the entire risk management policy universe has been re-designed to define an updated comprehensive and coherent framework for risk management, linked to the Company’s risk appetite.

### **2.3 Risk Appetite Framework (RAF)**

Risk appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk.

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

The risk appetite of the Company, expresses its strategy through desirable and undesirable risk exposures. It is the aggregate level and types of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan. Thus, Risk Appetite and Strategic Plan occur and evolve in parallel. The Risk Appetite enables the organisation to demonstrate that the achievement of its strategic goals has not been the result of fortuitous circumstances.

Risk Appetite covers three primary areas:

**Table 3: Risk Appetite Areas**

Risk Area	Risk Types
<b>Financial</b>	Credit Risk Market Risk Liquidity Risk
<b>Reputational</b>	Conduct Risk Customer Risk Regulatory Risk External reputational Risk
<b>Operational &amp; People</b>	The risk associated with the failure of key processes or systems and the risks of not having the right quality and quantity of people to operate those processes

Furthermore, the Risk Capacity/Tolerance is the maximum amount of risk which the Company is technically able to assume before breaching one or more of its capital base, liquidity, reputational and regulatory constraints.

The risk capacity represents the upper limit beyond which a breach is likely to result in failure.

Taking into consideration the Company's size, services offered, complexity and operations, the risks that are considered significant and / or material for the Company are credit risk, market risk, operational risk, liquidity risk and large exposures.

In regards to the above, setting the corporate risk appetite without taking into account the risk capacity of the entity may have serious consequences. Risk capacity may be easy to quantify in terms of capital or required funding but it is more challenging to consider the point at which the Company's reputation is beyond repair.

The Board and Senior Management understand how the risk capacity impacts on the business and have taken the necessary steps to be in constant awareness, mitigating any potential threads.

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

## 2.4 Risk Culture

The Board has a critical role in strengthening risk governance, including setting the 'tone at the top', reviewing strategy, and approving the Risk Appetite Statement. It is the Board that is ultimately responsible and accountable for risk governance.

A robust risk culture is a substantial determinant of whether the Company will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that the Company wishes to build is reflected in its policies and procedures and these are closely aligned to its Risk Appetite.



Risk culture is manifested in the day-to-day decisions that indicate how risk is identified, understood, discussed, and acted upon.

The Company has focused primarily on the implementation of a firm-wide effective and pervasive risk culture. This is achieved through the following:

- Embedding the risk culture at all levels of the organisation with clear ownership and accountability of tasks.
- Conducting firm-wide risk assessments.
- Implementing formal risk education presentations.
- Changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions.
- Changes in key personnel.
- Training.

## 2.5 Stress Testing

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,
- 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. If the stress testing scenarios reveal vulnerability to a given set of risks, management should make recommendations to the Board for remedial 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.

## **2.6 Internal Capital Adequacy Assessment**

Further to the requirements of Pillar I, a more detailed approach on managing risks is achieved through the preparation of the Pillar II requirements and more precisely the internal capital adequacy assessment process (ICAAP) report which follows the requirements under Regulation (EU) No. 575/2013 and relevant guidelines issued by CySEC.

The ICAAP report is a key tool for both the Company and the regulator as it approaches the risk assessment from a holistic perspective enabling the Company to assess and match risks as much as possible, reducing its residual risk and enabling more precise future growth planning.

The Company, taking into consideration the requirements of the Law, will proceed with the preparation of its ICAAP Report during 2018.

## **3. REGULATORY PILLAR I RISK MANAGEMENT**

### 3.1. Credit Risk Management

#### ***Definition***

Credit Risk is the risk of loss that the Company would incur if the company fails to perform its contractual credit obligations. 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.

#### ***Risk identification, Measurement, Control and Reporting***

Credit Risk arises when failures by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets in hand, at the balance sheet date. The Company's credit risk mainly arises:

- By the Company's deposits in Financial institutions,
- By assets mainly held under debtors or prepayments.

The Company follows mitigation strategies 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, which then determines the Company'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 counterparty in compliance with the requirements of the Regulation (EU) No. 575/2013.

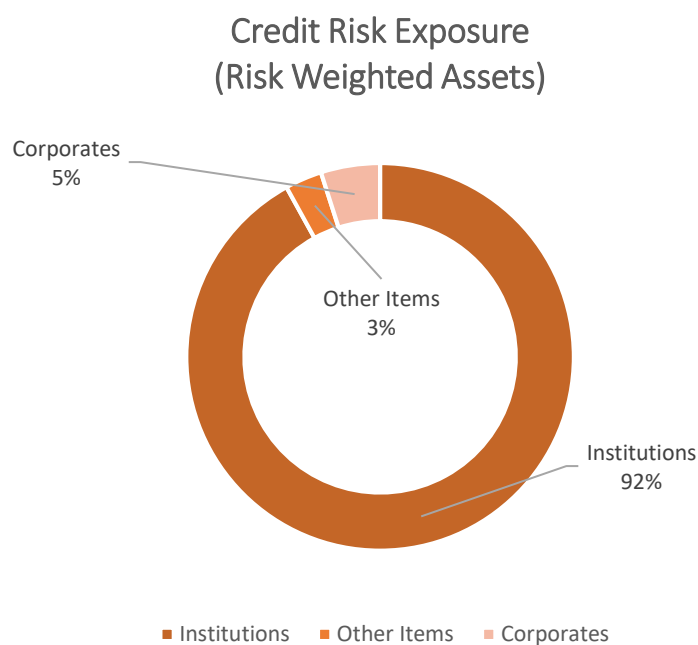
#### ***Credit Risk Analysis***

The tables below indicate the Company's Credit Risk exposure under Pillar I, as at the end of 2017 (Information has been based on the Audited Financial Statements as at 31/12/2017).

#### **a. Total Exposure / Credit Risk Capital Requirements**

**Table 4: Credit Risk Requirements**

Credit Risk Capital Requirements	31/12/2017
	USD '000
<b>Risk Weighted Assets</b>	
Institutions	390
Corporates	17
Other Items	245
Retail	/
Public Sector Entities	/
Total risk weighted assets	652



**Figure 2: Credit Risk Exposures**

## b. Industry Exposure

**Table 5: Credit Risk by Industry**

Credit Risk Capital Requirements by Industry	31/12/2017
	USD '000
<b>Risk Weighted Assets</b>	
Financial	390
Other/Non-financial	262
Total risk weighted assets	652

## c. Residual Maturity

**Table 6: Credit Risk by Residual Maturity**

Credit Risk Capital Requirements by Maturity	31/12/2017
	USD '000
<b>Risk Weighted Assets</b>	
Below 3 Months	390
Above 3 Months	262
Non-Applicable	/
Total risk weighted assets	652

## d. Country Spread

**Table 7: Credit Risk by Country**

Credit Risk Capital Requirements by Maturity	31/12/2017
	USD '000
<b>Risk Weighted Assets</b>	
Cyprus	629
United Kingdom	23
Total risk weighted assets	652

## 3.2 Market Risk Management

### ***Definition***

Market Risk is the risk of losses when the value of investments may decline over a given period as a result of economic changes or events that impact a large portion of the market.

In the context of Pillar I, market risk can be divided in the following categories:

- **Position Risk:** It refers to the probability of loss associated with a particular trading (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.
- **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.
- **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 currency pair as well as through the utilization of sensitivity analysis.

### ***Risk identification, Measurement, Control and Reporting***

The Company's market risk mainly arises from foreign exchange fluctuations which affect the Company's deposits in foreign currencies as well as from positions held during forex trading.

In line with the above, the Company has policies to minimize its market risk exposures which are in accordance with the CRR. In particular, it follows mitigation strategies in order to minimize the possibility of occurrence of this risk, such as:

- Active hedging strategy
- Stop Loss - Limits on trading
- Margin Calls

Furthermore, the Company follows CRR's Standardised Approach when it comes to calculating its capital requirements.

## Foreign Exchange Risk Analysis

**Table 8: Position Risk on Foreign Exchange**

Foreign Exchange Capital Requirements	31/12/2017
	USD '000
<b>Currency</b>	
EUR	162
USD*	936
Total risk weighted assets	162

As per the table above, the Company shows that it has foreign exchange risk only in EUR Dollar, as USD\* is the reporting currency hence does not carry any risk.

## 3.3 Operational Risk Management

### Definition

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external factors. Operational Risk includes legal risk but excludes strategic and reputational risk.

The following list presents some event types, included in Operational Risk, with some examples for each category:

- Internal Fraud – misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees,
- External Fraud – theft of information, hacking damage, third – party theft and forgery,
- Compliance – Brand impairment, Complaint handling, third country regulator retaliation, E-commerce global taxation matters,
- Clients, Products & Business Practice – market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.

### Risk identification, Measurement, Control and Reporting

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, in 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-eyes" 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 and a Risk Management Committee. The Board further reviews any decisions made by the Management while monitoring their activities,
- Detection methods are in place 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

For the calculation of Operational Risk, in relation to the capital adequacy returns, the Company uses the Fixed Overhead approach. Based on the relevant calculations, the figures calculated show that the Company's Risk Weighted Assets (RWA) for operational risk, as at 31st December 2017, was USD \_\_\_\_\_.

## 4. REFERENCE TO ADDITIONAL SIGNIFICANT RISKS

### 4.1 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. In periods of abnormal fluctuations in market conditions or financial crisis, liquidity risk can expose the Company to a shortfall of liquidity and limit its access to the capital markets resulting to damages. Liquidity shortages expose the Company to the risk of not having enough cash to fulfil its duties against creditors/debtors that can eventually cause regulatory sanctions and loss of business/reputation.

#### **Mitigation Strategies**

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

- Regular analysis & reporting to the Board 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

#### **Liquidity Analysis**

**Table 9: Liquidity Analysis**

Available Liquidity	31/12/2017
	USD '000
Cash at hand	0
Cash at bank	732

### 4.2 Money Laundering and Terrorist Financing Risk

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/involved in terrorism financing.

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. 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),

- d. 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 Business Relationship or an Occasional Transaction,
- e. Monitoring and reviewing the business relationship or an occasional transaction with Clients and potential Clients of high risk countries,
- f. Ensuring that the Company's personnel receive the appropriate training and assistance

The Company has reviewed its policies, procedures and controls with respect to money laundering and terrorist financing to ensure compliance with the applicable legislation.

The Company is in the process of incorporating any new information issued / available in this respect.

#### **4.3 Counterparty Credit Risk**

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

The company's Counterparty Credit Risk for the year was zero.

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

Wrong-way risk occurs when the exposure to a particular counterparty is positively correlated with the PD of the counterparty itself or where there is an adverse correlation between counterparty's PD and the mark-to-market value of the underlying transaction. A wrong-way trading situation can be defined as the condition where the exposure to the counterparty increases, while the counterparty's financial situation and its ability to pay on the transaction diminishes.

As part of the credit review process, basic assumptions are established regarding correlations for a given trading product.

The management of wrong-way risk is integrated within the Company's overall credit risk assessment approach and is subject to a framework for identification and treatment of wrong-way risk, which includes governance, processes, roles and responsibilities, methodology, scenarios, reporting, review and escalation.

A conservative treatment for the purpose of calculating exposure profiles is applied to material trades with wrong-way risk features. The wrong-way risk framework applies to OTC, securities financing transactions and centrally cleared trades. If material correlation is identified, the collateral is deemed ineligible for regulatory risk calculations and risk is measured on an

uncollateralised basis.

## ADDITIONAL SIGNIFICANT RISKS

### a. Concentration Risk

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

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

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

### b. Reputation Risk

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

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

### c. Strategic Risk

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

### d. Business Risk

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

### e. Capital Risk Management

Capital Risk is the risk that the Company will not comply with capital adequacy requirements.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company. Such procedures are explained in the Procedures Manual of the Company.

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

**f. Regulatory Risk**

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

**g. Legal and Compliance Risk**

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

**h. IT Risk**

IT risk could occur as a result of inadequate information technology and processing, or arise

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

**i. Risk Reporting**

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

## **5. CORPORATE GOVERNANCE and RISK MANAGEMENT**

### 5.1.Board Recruitment

One of the Board'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 Board.

The Company keeps records of all information and documents received during the recruitment process. These documents shall be available for inspection at any time by CySEC. The company shall be in the position to demonstrate to CySEC upon request that the employees providing investment services, possess the necessary knowledge and competence to fulfil their obligations under the Law

The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the Board and must be able to commit the necessary time and effort to fulfil their responsibilities.

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,
- Risk management experience.
- Recruitment into the Board combines an assessment of both technical capability and competency skills and leadership abilities.
- Criminal record certificate from the competent authorities of the country of residence of the person for the last five years, attesting that the person has no criminal records;
- Good knowledge of the Greek or/and English languages. Particularly, when considering the appointment of a member of the Board, special attention shall be given to the potential member's skills review which aims to assess the specific experience and skills needed to ensure the optimum blend of the potential individual and the aggregate capability having regard to the Company's long term strategic plan. Members of the Board and Senior Management appointment are subject to the approval of the Chief Executive Officer and the Board. Regulatory approval is co-ordinated through the Compliance Officer. The majority of the members of the Board shall be residents of Cyprus.

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

The Company has in place the Internal Operations Manual which lays down the activities, processes,

duties and responsibilities of the Board, Committees, Senior Management and staff of the Company.

## **5.2.Diversity of the Board of Directors**

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how we do business and imperative to commercial success. The Company recognizes the value of a diverse and skilled workforce and 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.

The Company recognizes the benefits of having a diverse Board which includes and makes use of differences in the skills, experience, background, race and gender between directors.

A balance of these differences will be considered when determining the optimum composition of the Board.

In line with the recent changes in the regulatory reporting framework (CRR), the Company is in the process of establishing a dedicated diversity policy in relation to the Board.

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

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

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

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

### ***Independence***

The Board includes a composition of Executive and Non-executive Directors so that there is a strong element of independence in the Board. The Independent Non-executive Directors shall be of sufficient caliber and stature for their views to carry weight. Each member of the board must act with independence of mind to properly assess and challenge the decisions of the senior management where necessary and to effectively oversee and monitor management decision- making.

### **Skills and Experience criteria**

The Board should possess a balance of skills appropriate for the requirements of the business of the Company, in order for the Company to benefit from its directors' experience in a range of activities including varied industries, education, government, investment and the professions.



### ***Gender and age criteria***

The Company is committed to maintaining an environment of respect for people regardless of their gender in all business dealings and achieving a workplace environment free of harassment and discrimination on the basis of gender, physical or mental state, race, nationality, religion, age or family status.

### **5.3 Risk Management Committee and Other Governance Functions**

The Company, due to its large and complex organisational structure, its license and investment services as well as broad range of products and countries which serves has established a Risk Management Committee to better handle the risks that arise from its operations.

The Risk Management Committee is a committee appointed by the Board to review the Company's system of risk management. The Risk Management Committee is formed with the purpose of ensuring the efficient management of the risks inherent in the provision of the investment services to Clients as well as the risks underlying the operation of the Company.

The Risk Management Committee, which reports directly to the Board, consists of 5 participants and during 2017 held two (2) meetings

The role of the Risk Management Committee is essential to:

- a. Ensure the efficient management of the risks inherent in the provision of the investment services to Clients,
- b. Monitor the risks underlying the operation of the Company,
- c. Be responsible for monitoring and controlling the Risk,
- d. Meet regularly in the offices of the Company, or via conference call.

The Risk Management Committee is dedicated primarily to managing the credit, market and operational risks of the Company, resulting from the its operations, and as part of its responsibilities it has to set out, approve and regularly update the policies, arrangements and procedures, which form the risk strategy, as well as to monitor all risks on an ongoing basis. The Risk Management Committee provides the Board with status updates and recommendations on risk management policies and guidelines.

### **Risk Management Committee in 2017**

- Ms. Olga Soloveva Osipova – Risk manager (ex officio and without any voting rights)\*
- Mr. Chen Binying - Shareholder (ex officio and without any voting rights))
- Mr. George Skordis - Non-Executive Director (on a conference call)
- Mr. Christophoros Tengeris - Non-Executive Director

- Mr. Leonidas Petrou - Head of Dealing on Own Account Department

*\*Replacing Mr. Thomas Papantoniou as from April 2017, Mr. Wei Zhang as from June 2017*

The primary function of the Risk Management Committee shall be to monitor the Risk Manager in the performance of her duties. Towards this direction, the Company shall adopt and maintain diversity risk management policies, which identify the risks relating to the Company's activities, processes and systems and set the risk tolerance levels of the Company. The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of such risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

The Risk Management Committee meets at least annually, unless the circumstances require extraordinary meetings. Hence according to IMO Risk Management Committees shall take place at least on a quarterly basis. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager.

### **Internal Audit**

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

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

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

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

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



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

### ***Compliance Officer***

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

The Compliance Officer is independent and has the necessary authority, resources, expertise and access to all relevant information. The objectives of the Compliance officer are:

- a. to prohibit the realization for the Customers of Company of any operations which may infringe the existing legislation
- b. to decrease the probability of appearance of any problem situations connected with any tax and legal limitations of the Customers of the Company
- c. to ensure compliance with the current and any new laws, regulations and directives at times issued by CySEC

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

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

Scope and objectives of the AMLCO:

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

relevant authorities

#### 5.4. Reporting and Control

In line with the requirements set out in 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 10: Reporting Requirements for 2017**

Report Name	Report Description	Owner	Recipient	Frequency	Due Date
Annual Compliance Report	To inform the Senior Management & the Board of the Company regarding the Performance of Compliance function during the year	Compliance Officer	Board, CySEC	Annual	30/04/2018
Annual Internal Audit Report	To inform the Senior Management & the Board of the Company regarding the Internal Auditor during the year	Internal Auditor	Board, CySEC	Annual	30/04/2018
Annual Risk Management Report	Represents the work & activities undertaken by the Risk Manager during the year	Risk Manager	Board, CySEC	Annual	30/04/2018
Pillar III Disclosures (Market Discipline and Disclosure)	The Company is required to disclose information regarding its risk management, capital structure, capital adequacy and risk exposures	Risk Manager	Board, CySEC, Public	Annual	30/04/2018
Financial Reporting	It is a formal record of the financial activities of the CIF	External Auditor	Board, CySEC	Annual	30/04/2018
Capital	A measure of the	Risk	Senior	Quarterly	11/05/2018

Adequacy Reporting	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	Manager / Accounting	Management, CySEC	11/08/2018 11/11/2018 11/02/2018
--------------------	---	----------------------	-------------------	--

## 5.5 Other Directorships held by the members of the Board

In 2017, the members of the Board of Directors 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:

Table 11 Other Directorships

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

**Table 11** Number of Directorships of the members of the Board of Directors

Director	Function	Number of Executive Directorships	Number of Non-Executive Directorships
Mrs. Olga Soloveva Osipova <sup>1</sup>	Executive director	1	1
Ms. Anna Ilyukhina <sup>1</sup>	Executive director	1	0
Mr. George Skordis	Independent, Non-Executive	0	3
Mr. Christophoros Tengeris <sup>2</sup>	Independent, Non-Executive	0	2

- Mrs. Olga Soloveva Osipova appointed in April 2017, Mrs. Tatiana Inouchkina appointed in June 2017, Ms. Anna Ilyukhina appointed in December 2017. Were appointed as Executive Directors in replacing Mr. Thomas Papantoniou, Mr. Wei Zhang, Mrs. Tatiana Inouchkina
- Mr. Christophoros Tengeris were appointed as non-Executive Directors in July 2017, replacing Mr. George Sardos.

The above table provides the number of directorships held by each member of the management body of the Company at the same time in other CIFs. Directorships in non-CIF entities are not included in this table.

## 6. REGULATORY CAPITAL

### OWN FUNDS

In 2017, the Company has been able to maintain a good business environment and develop in line

with its strategic planning. The Company's key resources that comprise its prudential regulatory capital (Own Funds) have been stable throughout the year.

In line with CRR, the Company's own funds for prudential purposes do not differ from the financial accounting breakdown of equity therefore there is no need to provide further reconciliation on the amounts presented in the composition below.

**Table 12: Capital Structure under CRR**

Capital Structure	31 December 2017
	USD '000
Share Capital	140
Share Premium	2.198
Reserves	(1.137)
Deductions (Intangible Assets, ICF)	(101)
<b>Total Common Equity Tier 1</b>	<b>1.098</b>
Additional Tier 1 Capital	-
<b>Total Tier 1 Capital</b>	<b>1.098</b>
Tier 2 (Loan)	-
<b>Total Own Funds</b>	<b>1.098</b>

The Company's linear capital structure, as it can be observed above, has not been disrupted by the changes in the new EU regulatory framework, therefore there was no need to use any failsafe transitional provision and furthermore its current structure enables constant resource monitoring, reducing any liquidity risk.

## Compliance with the Regulation and the overall Pillar II Rule

### Internal Capital

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

### Recovery and Resolution plans

The Company is in the process to prepare a recovery plan according to the Law 20(I)/2016 for the recovery of CIFs and other entities under the supervision of CySEC and pursuant to the Directive 2014/59/EU of the European Parliament and the Council establishing a framework for the recovery and resolution of credit institutions and investment firms ("BRRD"). The BRRD establishes a three-stage mechanism (Preparation, Early Intervention and Resolution) for the management of insolvency situations.

All CIFs that are categorised as “Full Scope” are required to establish a recovery plan in order to be prepared for possible financial difficulties and restore their viability in a timely manner during periods of financial distress. These Recovery Plans are included in the first step of preparation, which needs to include a range of recovery options to deal with severe financial stress scenarios.

## **7. CAPITAL REQUIREMENTS UNDER PILLAR I**

The primary objective of the Company with respect to its capital management is to ensure that it complies with the capital requirements regulation imposed by the European Union and regulated by CySEC. Under this framework, the Company needs to monitor its capital base, as mentioned in

previous chapter, and maintain a strong capital adequacy ratio to be able to promote itself as a healthy Company, fully compliant with the legislation, to support its business and maximize shareholders' value. In this respect, the capital requirements should not be a restriction of business but rather as proactive risk management imposed to help both the Company and its Client base.

The fundamental pillar of the capital adequacy framework, Pillar I, is based on the fact that the Company must have own funds which are at all times more than or equal to the sum of its capital requirements.

In line with CRR, Pillar I sets out the minimum regulatory capital requirements of firms to cover credit, market and operational risk. The minimum total capital adequacy ratio an investment firm is required to maintain is set at 8%. Moreover, with the introduction of Basel III/CRR, the minimum capital adequacy ratio has been further defined and fragmented providing more rigorous monitoring of core equity ratio which is set at 4.5% in contrast with the total ratio at 8% and within a period of 2-3 years the transitional introduction of capital buffers (as per the chart below) will provide more capital requirements and also enhanced security.

The Board as well as the Risk Manager monitor the reporting requirements and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company.

The Company manages its capital structure and adjusts it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

The Company's Own Funds, Capital Requirements and Capital Adequacy Ratio as at 31st of December 2017, are presented below:

**Table 13: Capital Requirements**

Capital Requirements - Pillar 1	31 December 2017
	USD '000
Core Equity Tier 1 (CET 1)	1.098

Additional Tier 1 Capital (AT 1)	-
Total Tier 1 Capital	1.098
Tier 2	-
<b>Total Own Funds</b>	<b>1.098</b>
Risk Weighted Assets	
Credit Risk	652
Market Risk	162
Additional Fixed Overhead Requirement	2.361
Total Risk Exposure Amount	3.175
<b>CET1 Capital Ratio</b>	<b>34.59%</b>
<b>T1 Capital Ratio</b>	<b>34.59%</b>
<b>Total Capital Ratio</b>	<b>34.59%</b>

## 8. CREDIT ASSESSMENT UNDER THE STANDARDISED APPROACH

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



- Exposures to central governments or central banks.
- Exposures to institutions.
- Exposures to corporates.

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

**Table 14:** ECAI association with CQS

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 ECAIs are applied in the following priority:

1. Issue/Exposure.
2. Issuer/Counterparty.
3. Sovereign.

For exposures to central governments or central banks and corporates the ECAIs are applied in the following priority:

1. Issue/Exposure.
2. Issuer/Counterparty.

The ECAIs are not considered where exceptions or discretions, as per the CRR, apply.

## 9. REMUNERATION POLICY AND PRACTICES

Further to the application of enhanced corporate governance arrangements in relation with the Board, the Company's remuneration system has also been enhanced in respect to its disclosure to promote further transparency.

Remuneration refers to payments or compensations received for services or employment.

Based on the above, the Remuneration policy 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 Company's size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the Directive DI144-2014-14.

This kind of remuneration is not guaranteed and the BoD has determined a maximum percentage of variable remuneration relative to the fixed remuneration in order to ensure a compliant ratio between these two kinds of remuneration. Although, the maximum limit on variable remuneration set at 100% of fixed salary, the limit could be set at 200% upon shareholders' approval according to the Article 21 of Directive DI144-2014-14.

The Company recognizes that its remuneration system has some features that increase the low-selling risk. Therefore, the Company applies effective mitigation controls for each part of the remuneration system.

During 2017, 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 and members of the Board of Directors; 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 remuneration mechanisms employed are well known management and human resources tools that take into account the following factors in order to determine the remuneration of each staff member:

- a. knowledge and skills,
- b. the added value to the business,
- c. the demands (physical and mental) of the job,
- d. amount of training and/or experience needed,
- e. working conditions,
- f. the importance and the amount of responsibility,

- g. market dynamics such as the supply and demand for labour,
- h. financial viability of the Company,
- i. economic performance of the country in which the Company operates,
- j. employee's personal goals and performance evaluation in relation to the objectives set up at the beginning of the period,
- k. employee's professional conduct with clients.

### Performance Appraisal

The Company has in place a performance appraisal method, which is based on a set of Key Performance Indicators. Each business unit indicate its target to promote the healthy competition amongst personnel, personal interviews in regards to identification of weak and strong sides of each employee performance-based and give feedback to the staff member in order to motive them to be improved. The performance appraisal takes place several times a year in order to ensure that the appraisal process assess employee's long-term performance.

### Remuneration of Senior Management Personnel and Directors

The remuneration of the senior management is intended to ensure that the Company will attract and retain the highly qualified Executive Board members.

The remuneration of the Company's non-executive directors is fixed and it is set at a level that is market aligned and reflects the qualification and competencies required based on the Company's size and complexity, the responsibilities and the time that the non-executive directors are expected to consume in order to serve the Company.

**Table 15: Remuneration Figures for 2017**

Aggregate quantitative information on Remuneration broken down by					
(EUR)	No. of staff	Fixed	Variable	Non-cash	Total
Senior Management and staff whose <b>actions have a material impact on the risk profile</b> of the Institution	4	95	-	-	95

Companies are required to disclose the number of natural persons that are remunerated €1mIn or more per financial year, in pay brackets of €1mIn, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. Nevertheless, currently there are no natural persons at the Company that are remunerated €1mIn or more per financial year and as such the above disclosure is not applicable to the Company. No sign-on payments have been awarded during 2017, while no severance payments were paid during the year.

Furthermore, aggregate remuneration analyzed by business area is presented below:

**Aggregate remuneration analysis by business area for 2017**

	Aggregate Remuneration
	€
Control Functions*	186
Admin Dept, Marketing Dept, Sales Dept	82
Execution, R&T, Dealing Dept	81
Total	307

*\*Control functions include the Executive and Non-Executive Directors, Compliance Department, the AML Department and the Risk Manager.*

## 10. LEVERAGE

According to Article 429 of the CRR, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposure measure and is expressed as a percentage. The Company shall disclose the Leverage Ratio and how it applies the definition of Tier 1 Capital.

The leverage ratio of the Company is calculated using the fully phased in definition of Tier 1 capital and the monitoring by the regulator will end in 2018, when a minimum ratio will be established. Currently, a 3% minimum limit is being in place for monitoring purposes.

As at 31st of December 2017, the leverage ratio of the Company was equal to 98.84% using a fully phased-in definition of Tier 1 Capital, as per the table below:

**Table 14:** Leverage Ratio Analysis

Leverage Ratio	31 December 2017
	USD '000
Exposure Values (Risk Weighted Exposures = EUR -)	1.111
Tier 1 Capital (No transitional provisions – Fully phased-in definition)	1.098
<b>Leverage Ratio</b>	<b>98.84%</b>

## Appendix - Specific References to CRR

CRR Ref	High Level Summary	Compliance Reference
<b><i>Scope of disclosure requirements</i></b>		
431(1)	Requirement to publish Pillar III disclosures.	Point 1.1
431(2)	Disclosure of operational risk information.	Point 3.3
431(3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	To be established within 2018
431(4)	Explanation of ratings decisions to SMEs upon request.	N/A
<b><i>Frequency of disclosure</i></b>		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements.	Point 1.1
<b><i>Means of disclosures</i></b>		
434(1)	To include disclosures in one appropriate medium, or provide clear cross-references to other media.	Point 1.1
434(2)	Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate.	Point 1.1
<b><i>Risk management objectives and policies</i></b>		
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	Point 2 and 3.1
435(1) (b)		Point 2 and 3.1
435(1) (c)		Point 2 and 3.1
435(1) (d)		Point 2 and 3.1
435(1) (e)	Declaration approved by the Board on adequacy of risk management arrangements	Beginning of the report
435(1) (f)	Concise risk statement approved by the Board	Point 2.3 Completing in 2018
435(2)	Information, once a year at a minimum, on governance arrangements.	Point 5.4
435(2) (a)	Number of directorships held by members of the Board.	Point 5.5
435(2) (b)	Recruitment policy of Board members, their experience and expertise.	Point 5.1 (To be established in 2018)
435(2) (c)	Policy on diversity of Board members, its objectives and results against targets.	Point 5.2 (To be established in 2018)
435(2) (d)	Disclosure of whether a dedicated risk committee is in	Point 5.3

	place, and number of meetings in the year.	
435(2) (e)	Description of information flow on risk to the Board.	Point 5.4

#### **Scope of application**

436(a)	Name of institution.	Point 1.2
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	N/A
436 (b) (i)	Fully consolidated;	N/A
436 (b) (ii)	Proportionally consolidated;	N/A
436 (b) (iii)	Deducted from own funds;	N/A
436 (b) (iv)	Neither consolidated nor deducted.	N/A
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	N/A
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any).	N/A
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities.	N/A

#### **Own Funds**

437 (1)	Requirements regarding capital resources table	Points 6 & 7
437 (1)		Points 6 & 7
437 (1) (a)		Points 6 & 7
437 (1) (b)		Points 6 & 7
437 (1) (c)		Points 6 & 7
437 (1) (d) (i)		Points 6 & 7
437 (1) (d) (ii)		Points 6 & 7
437 (1) (d) (iii)		Points 6 & 7
437 (1) (e)		Points 6 & 7
437 (1) (f)		Points 6 & 7
437(2)	EBA shall develop implementation standards for points (a), (b), (d) and (e) above	N/A

#### **Capital Requirements**

438(a)	Summary of institution's approach to assessing adequacy of capital levels.	Included in individual risk assessments
438(b)	Result of ICAAP on demand from competent authority.	Point 2.6
438(c)	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	Point 3.1



438(d)	Capital requirements amounts for credit risk for each	N/A
438(d) (i)	Internal Ratings Based approach exposure class.	N/A
438(d) (ii)		N/A
438(d) (iii)		N/A
438(d) (iv)		N/A
438(e)	Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits.	N/A
438(f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	Point 3.3

#### ***Exposure to counterparty credit risk (CCR)***

439(a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	N/A
439(b)	Discussion of policies for securing collateral and establishing reserves.	N/A
439(c)	Discussion of policies as regards wrong-way exposures.	N/A
439(d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	N/A
439(e)	Derivation of net derivative credit exposure.	N/A
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	N/A
439(g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	N/A
439(h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	N/A
439(i)	Estimation of alpha, if applicable.	N/A

#### ***Credit Risk Adjustments***

442(a)	Definitions for accounting purposes of 'past due' and 'impaired'.	N/A
442(b)	Approaches for calculating credit risk adjustments.	N/A
442(c)	Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by different types of exposures.	N/A
442(d)	Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors)	N/A

442(e)	by significant geographic areas and material exposure classes.	N/A
442(f)	Exposures post value adjustments by residual maturity and by material exposure class.	N/A
442(g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	N/A
442(g) (i)		N/A
442(g) (ii)		N/A
442(g) (iii)		
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	N/A
442(i)		N/A
442(i) (i)	Reconciliation of changes in specific and general credit risk adjustments.	N/A
442(i) (ii)		N/A
442(i) (iii)		N/A
442(i) (iv)		N/A
442(i) (v)		N/A
442	Specific credit risk adjustments recorded to income statement are disclosed separately.	N/A

#### **Unencumbered assets**

443	Disclosures on unencumbered assets.	Point 8
-----	-------------------------------------	---------

#### **Use of ECAI's**

444(a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	Point 8
444(b)	Exposure classes associated with each ECAI.	Point 8
444(c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	Point 8
444(d)	Mapping of external rating to credit quality steps.	Point 8
444(e)	Exposure values pre- and post-credit risk mitigation, by credit quality step.	Point 8

#### **Exposure to market risk**

445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Point 3.2
-----	---	-----------

#### **Operational Risk**

446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and	Point 3.3
-----	--	-----------

external factors considered.

***Exposures in equities not included in the trading book***

447(a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	N/A
447(b)	Recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value.	N/A
447(c)	Types, nature and amounts of the relevant classes of equity exposures.	N/A
447(d)	Cumulative realised gains and losses on sales in the period.	N/A
447(e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	N/A

***Exposure to interest rate risk on positions not included in the trading book***

448(a)	Nature of interest rate risk and key assumptions in measurement models.	N/A
448(b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	N/A

***Remuneration Disclosures***

450	Remuneration Policy	Point 9
Leverage		
451(1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Point 10
451(1) (b)		N/A
451(1) (c)		N/A
451(1) (d)	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
451(1) (e)		N/A
451(2)	EBA shall develop implementation standards for points above.	N/A

***Use of Credit Risk mitigation techniques***

453(a)	Policies and processes, and an indication of the extent to which the CIF makes use of on- and off-balance sheet netting.	N/A
453(b)	Policies and processes for collateral valuation and management.	N/A
453(c)	Description of types of collateral used by the CIF.	N/A

453(d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	N/A
453(e)	Information about market or credit risk concentrations within the credit mitigation taken.	N/A
453(f)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure value covered by eligible collateral.	N/A
453(g)	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>		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	N/A