



Z E R I C H
Securities Limited

Zerich Securities Limited

Regulated by the Cyprus Securities and Exchange Commission License no. 115/10

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2019

July 2020

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2019 has been prepared by Zerich Securities Limited as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive DII44-2014-14 issued by the Cyprus Securities and Exchange Commission.

Zerich Securities Limited 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.

Zerich Securities Limited is regulated by the Cyprus Securities and Exchange Commission under License number 115/10.

Contact Us	
Address	<i>13-15 Grigory Afxentiou Street, I.D.E. Ioannou Building - Office 202, Mesa Yeidonia, CY-4003 Limassol</i>
Telephone	<i>+357 25 755 337</i>
Fax	<i>+357 25 755 336</i>
Web site	www.zerich.eu ;
Email	cyprus@zerich.eu

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.

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1. Introduction

1.1. Investment Firm

Table 1: Company information

Company name	Zerich Securities Ltd
CIF Authorization date	22/02/2010
CIF License number	115/10
Company Registration Date	23/07/2009
Company Registration Number	HE 252803
Investment Services	
Reception and transmission of orders in relation to one or more financial instruments	
Execution of orders on behalf of clients	
Portfolio management	
Ancillary Services	
Safekeeping and administration of financial instruments, including custodianship and related services	
Granting credits 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	
Investment services and activities as well as ancillary services where these are connected to the provision of investment or ancillary services	

1.2. Purpose

The present report is prepared by Zerich Securities Limited (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 115/10 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 (3) '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.zerich.eu, on an annual basis.

Furthermore, the Board of Directors ("BOD") 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

Zerich Securities Limited acts as a CIF and operates in Cyprus, offering Investment and Ancillary services and has 6 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 31st 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 2020, the Company faced material 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 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, who operates independently to the rest of the Company's functions. The Risk Manager reports to the Managing Director of the Company. 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 BoD, 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.

On 10th 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 30th 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.

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, the results of the Company's analysis suggest a **Pillar I** and **Pillar II** Capital allocation for the next year under the **Base Scenario** of **EUR265,132** and a total **Eligible Capital** of **EUR503,279** which creates a surplus of **EUR238,147**.

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 **15.19%** 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 three years.

Table 2: Capital allocation for Pillar I and Pillar II risks based on the Company's projections

In EUR		Pillar 1 Capital Allocation	Pillar 2 Capital Allocation
	Risk type		
Pillar I Risks	Credit Risk (Pillar I)	40,698	-
	Market Risk (Pillar I)	8,140	-
	Operational Risk (Pillar I)	73,406	-
Pillar II Risks	Counterparty risk		-
	Technology risk		28,578
	Liquidity risk (Funding)		-
	Liquidity risk (Asset)		-
	Business/Strategic risk		28,578
	Compliance/Regulatory risk		28,578
	Reputational risk		28,578
	Residual Risk		28,578

	Negative Balance Protection		-
Total Capital Allocation		122,244	142,888
Total Eligible Capital		503.279	
Capital Adequacy Ratio		32.94%	15.19% (adjusted)

$$\text{Adjusted capital adequacy ratio} = \frac{\text{total eligible capital}}{\text{Pillar I} + \text{Pillar II risk weighted exposure}}$$

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 in relation to the loss of key Clients, loss of key relationships, loss of key employees, drop in volume trading, IT problems, failure of major counterparties and to Company's best, base and worst operating circumstances, based on the Company's expectations for the next three years.

Furthermore, the Company will assess with a new stress scenario which will be included in the updated ICAAP, the changes in relation to the challenges faced due to the outbreak of the COVID-19 in order to evaluate the risks arising from this pandemic.

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 maintains 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 with 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 **100.00%** of the fixed component of the total remuneration for each individual.

Table 3: Aggregate Quantitative Information on Remuneration

<i>Figures in EUR</i>	No. of staff	Fixed	Variable	Total
Executive Directors and Non-Executive Directors	4	120,000	-	120,000
Head of Back Office	1	30,000	-	30,000
Head of Brokerage	1	-	24,000	24,000
Other staff whose actions have a material impact on the risk profile of the Institution	1	48,000	-	48,000
Grand Total	7	198,000	24,000	222,000

2.8. Directorships held by Members of the Management Body

As at 31st 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 Zerich Securities Limited):

Table 4: Directorships held by Members of the Management Body

Name	Position in the CIF	Directorships (Executive)	Directorships (Non-Executive)
Athos Demetriou	Non-executive Director	1	4
Georgios Ktoridis	Non-executive Director	-	1
Viktor Antokhov	Executive Director	1	-
Anna Frolova	Executive Director	3	-

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 own funds, which are **8.00%** and **EUR125,000**.

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 a 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
Regulatory Risk	Capital Adequacy	The Company monitors its Capital Adequacy Ratio and Own Funds on a quarterly basis in order to ensure that the Company complies with the relevant requirements (EUR125,000 and 8.00% , respectively). The Company's Capital Adequacy Ratio stood at 30.41% as at 31 December 2019, which is above the minimum requirement 8.00% . Additionally, the Company's own funds stood at EUR929,103 which is above the minimum requirement so as to comply with the minimum capital requirement of EUR125,000 .
Credit Risk	Concentration Risk	Credit Risk mainly emanates from Concentration Risk at the Company's bank accounts. 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.
Market Risk	Foreign Exchange Risk	The Company monitors these exposures on a quarterly basis and has policies and procedures in place to minimise its market risk exposures. The Company's market risk mainly arises from foreign exchange rates fluctuations which affect the Company's deposits in foreign currencies.
Operational Risk	Regulatory Compliance Risk	The Compliance Officer of the Company is responsible to monitor on an ongoing basis the regulatory requirements in order to be in compliance with the relevant regulation and legislation.

	Business Risk	The Company reviewed and updated its Business Continuity plan in accordance to the Circular C362 issued by CySEC on 12 th March 2020 to ensure business continuity in the case that the Company is affected by the pandemic.
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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
Annual Compliance Report	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	30/04/2020	31/07/2020
Annual Internal Audit Report	To inform the Senior Management & the BoD of the Company regarding the Internal Auditor during the year	Internal Auditor	Senior Management, BoD, CySEC	Annual	30/04/2020	31/07/2020
Annual Risk Management Report	To present the work undertaken by the Risk Manager during the year	Risk Manager	Senior Management, BoD, CySEC	Annual	30/04/2020	31/07/2020
Pillar III Disclosures (Market Discipline and Disclosure)	To disclose information regarding Company's risk management, capital structure, capital adequacy and risk exposures	Senior Management	BoD, CySEC, Public	Annual	30/04/2020	31/07/2020
Financial Reporting	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual	30/04/2020	31/07/2020
Suitability Report	It's a formal report, which is required to be provided to the retail clients of the CIF in order to make a personal	External Auditor	BoD, CySEC	Annual	30/04/2020	31/07/2020

	recommendation to the client.					
Audited Statement of Eligible Funds	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	10/05/2020	10/07/2020
Pillar III Disclosures (Market Discipline and Disclosure) based on the Audited figures	To disclose information regarding Company's risk management, capital structure, capital adequacy and risk exposures based on its Audited figures.	Senior Management	BoD, CySEC, Public	Annual	31/05/2020	31/08/2020
Capital Adequacy Reporting	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	11/05/2019 11/08/2019 11/11/2019 11/02/2020 31/05/2020	N/A N/A N/A N/A 31/07/2020

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 (3) 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 or were due for implementation in 2019 to strengthen institutions’ solvency were as follows:

- The complete revision and harmonisation of the definition of capital, particularly with the amendment of the deduction rules, the definition of a standardised Common Equity Tier 1 (or “CET1”) ratio, and new Tier 1 capital eligibility criteria for hybrid securities.
- 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 11th November 2019 onwards.

Inclusion of Interim Profits:

CySEC issued Circular C305 to provide further guidance to the CIFs regarding the inclusion of interim profits in CET1 Capital.

According to Article 26(2) of the CRR, CIFs may include interim profits in CET1 Capital (“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 0.60% 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 **12.50** for market risk and operational risk.

Since 1st 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).

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 31st December 2019, the Total Capital ratio of the Company was **30.41%** with total risk-weighted assets of **EUR 3,055,517**.

Table 7: Capital Requirements

In EUR	December 31, 2019 (Audited)	December 31, 2018 (Audited)	EUR	Δ %
CAR Ratio	30.41%	45.02%	-	(14.61%)
CAR Ratio surplus/(deficit)	22.41%	37.02%	-	(14.61%)
Capital Adequacy (CET1) ratio	30.41%	45.02%	-	(14.61%)
CET1 Capital	929,103	763,907	165,196	21.63%
Tier 1 Capital	929,103	763,907	165,196	21.63%
Tier 2 Capital	-	-	-	-
Total Own Funds	929,103	763,907	165,196	21.63%
Total Own Funds surplus/(deficit)	684,661	628,149	56,513	9.00%
Total Credit Risk exposure	1,792,530	1,503,553	288,978	19.22%
Total Market Risk Exposure	1,262,987	193,428	1,069,559	552.95%
Operational Risk Exposure (due to Additional Fixed Overheads)	-	-	-	-
Total Risk Exposure	3,055,517	1,696,981	1,358,536	80.06%
Leverage ratio	61.90%	72.39%	-	(10.49%)
Capital Conservation Buffer	-	-	-	-

Table 8: Regulatory Capital

In EUR	December 31, 2019 (Audited)	December 31, 2018 (Audited)	EUR	Δ %
Common Equity Tier 1 (CET 1) capital: instruments and reserves				
Capital instruments and the related share premium accounts	1,200,000	1,200,000	-	-
Retained earnings	(652,328)	(247,716)	(404,612)	163.34%
Accumulated other comprehensive income (loss), net of tax	(80,952)	(404,612)	323,660	(79.99%)
Other	557,167	307,167	250,000	81.39%
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	1,023,887	854,839	169,048	19.78%
Common Equity Tier 1 (CET 1) capital: regulatory adjustments			-	-
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	(575)	(726)	151	(20.76%)
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)	-		-	-
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)				
Other regulatory adjustments	(94,209)	(90,205)	(4,003)	4.44%
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	(94,784)	(90,931)	(3,852)	4.24%
Common Equity Tier 1 (CET 1) capital	929,103	763,907	165,196	21.63%
Additional Tier 1 Capital	-	-	-	-
Tier 1 Capital	929,103	763,907	165,196	21.63%
Tier 2 Capital	-	-	-	-
Total Capital	929,103	763,907	165,196	21.63%
Total risk-weighted assets	3,055,517	1,696,981	1,358,536	80.06%
Capital Ratios				
Common Equity Tier 1 (CET 1) capital ratio	30.41%	45.02%	-	(14.61%)
Tier 1 Capital ratio	30.41%	45.02%	-	(14.61%)
Total Capital ratio	30.41%	45.02%	-	(14.61%)

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

In EUR	Transitional Definition	Full – phased in Definition
Common Equity Tier 1 (CET 1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	1,200,000	1,200,000
Retained earnings	(652,328)	(652,328)
Accumulated other comprehensive income (loss), net of tax	(80,952)	(80,952)
Other	557,167	557,167
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	1,023,887	1,023,887
Common Equity Tier 1 (CET 1) capital: regulatory adjustments		
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	(575)	(575)
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)	-	-
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)	-	-
Other regulatory adjustments	(94,209)	(94,209)
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	(94,784)	(94,784)
Common Equity Tier 1 (CET 1) capital	929,103	929,103
Additional Tier 1 Capital	-	-
Tier 1 Capital	929,103	929,103
Tier 2 Capital	-	-
Total Capital	929,103	929,103
Total risk-weighted assets	3,055,517	3,055,517

Capital Ratios		
Common Equity Tier 1 (CET 1) capital ratio	30.41%	30.41%
Tier 1 Capital ratio	30.41%	30.41%
Total Capital ratio	30.41%	30.41%

Deductions from Own Funds:

The Company, in accordance with Article 36 of the CRR, deducted from CET 1 capital the amount of **EUR94,784** 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 for the year ended 31st December 2019 stood at **30.41%**, which is 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 10th 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 **61.90%** vs **72.39%** in 2018, which is above the **3.00%** minimum Pillar I requirement, as in force from mid of 2021 onwards, in accordance with the new Prudential Framework for Investment Firms.

Table 10: Leverage ratio common disclosure

In EUR	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)	1,500,884
Derivative exposures	-
Securities financing transaction exposures	-
Other off-balance sheet exposures	-
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	-
Tier 1 capital	929,103
Total leverage ratio exposures	1,500,884
Leverage ratio	61.90%

Table 11: Split-up of on balance sheet exposures

In EUR	CRR leverage ratio exposures
Trading book exposures	-
Banking book exposures, of which:	1,500,884
Covered bonds	-
Exposures treated as sovereigns	-
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
Institutions	287,549
Secured by mortgages of immovable properties	-
Retail exposures	-
Corporate	134,615
Exposures in default	-
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,078,721
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	1,500,884

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 31st December 2019, the Company's capital usage for credit risk amounted to **EUR143,402**, while the risk weighted exposure was **EUR1,792,530** (compared to **EUR120,284** and **EUR1,503,553**, respectively, as at 31st 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	60,292	4,823
Corporates	134,615	10,769
<i>Of which: SMEs</i>	-	-
Retail	-	-
<i>Of which: SMEs</i>	-	-
Equity exposures	-	-
Exposures associated with particularly high risk	1,563,249	125,060
Other exposures	34,375	2,750
Total risk weighted assets	1,792,530	
<i>Total Credit Risk Capital Requirements</i>		143,402

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	60,292	60,292
Corporates	134,615	134,615
<i>Of which: SMEs</i>	-	-
Retail	-	-
<i>Of which: SMEs</i>	-	-
Equity exposures	-	-
Exposures associated with particularly high risk	1,563,249	1,563,249
Other exposures	34,375	34,375
Total risk weighted assets	1,792,530	1,792,530
<i>Total Credit Risk Capital Requirements</i>	143,402	143,402

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	China	Cyprus	Nigeria	Russia	United States	Total
Central governments or central banks	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Institutions	-	3,634	-	-	56,657	60,292
Corporates	32,148	27	11,083	91,357	-	134,615

<i>Of which: SMEs</i>	-	-	-	-	-	-
Retail	-	-	-	-	-	-
<i>Of which: SMEs</i>	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Exposures associated with particularly high risk	-	-	-	1,563,249	-	-
Other exposures	-	34,375	-	-	-	34,375
Total risk weighted assets	32,148	38,036	11,083	1,654,606	56,657	1,792,530
Total Credit Risk Capital Requirements	2,572	3,043	887	132,368	4,533	143,402

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	60,292	-	60,292
Corporates	20,375	114,239	134,615
<i>Of which: SMEs</i>	-	-	-
Retail	-	-	-
<i>Of which: SMEs</i>	-	-	-
Equity exposures	-	-	-
Exposures associated with particularly high risk	-	1,563,249	1,563,249
Other exposures	-	34,375	34,375
Total risk weighted assets	80,667	1,711,863	1,792,530
Total Credit Risk Capital Requirements	6,453	136,949	143,402

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/ Not Applicable	Total
Central governments or central banks	-	-	-
Public sector entities	-	-	-
Institutions	56,814	3,478	60,292

Corporates	52,523	82,091	134,615
<i>Of which: SMEs</i>	-	-	-
Retail	-	-	-
<i>Of which: SMEs</i>	-	-	-
Equity exposures	-	-	-
Exposures associated with particularly high risk	-	1,563,249	1,563,249
Other exposures	-	34,375	34,375
Total risk weighted assets	109,338	1,683,193	1,792,530
<i>Total Credit Risk Capital Requirements</i>	8,747	134,655	143,402

Table 17: Credit Quality Concentration, EUR

Credit Quality Step	Exposure before CRM	Exposure after CRM
1	-	-
2	-	-
3	-	-
4	-	-
5	3,634	3,634
6	-	-
<i>Unrated</i>	1,788,896	1,788,896
Total	1,792,530	1,792,530

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 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 mainly 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.

The Company's total capital usage for market risk as at 31st December 2019 amounted to **EUR101,039**, while the market risk risk-weighted exposure amounted to **EUR1,262,987** (compared to **EUR15,474** and **EUR193,428**, respectively, as at 31st December 2018).

Table 18: Foreign Exchange risk capital requirements in EUR

	RWAs	Capital Requirements
Foreign exchange risk		
<i>RUB</i>	1,086,666	86,933
<i>USD</i>	176,320	14,106
Total	1,262,987	101,039

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 31st December 2019, was **EUR0.00**, while the operational risk risk-weighted exposure was **EUR0.00** since the sum of the Credit and Market risk exposure exceeded the Company’s Risk exposure due to the Fixed Overheads (compared to **EUR0.00** and **EUR0.00** respectively as at 31st 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 31st December 2019, the Company held **EUR307,924** in its bank accounts.

Furthermore, the client assets held in fiduciary capacity (in segregated accounts) were **EUR7,659,615**. 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 27th 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 1st June 2018 and were renewed for last time on 1st May 2019 and 2nd 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 27th 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 27th 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. 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, does not have sufficient systems and procedures in place for preventing market manipulation or insider dealing. The Company shall have policies and procedures in place in order to minimise this risk. Additionally, the Company needs to ensure 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 should ensure 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 is recommended to monitor 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 is required to have 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 should proceed with the establishment of proper arrangements for reporting to CySEC identified suspicious transactions without any delay. The Company shall conduct periodic assessments on its procedures and arrangements to identify instances that potential market abuse may not be detected. Additionally, the Company should provide proper trainings to the relevant employees on a frequent basis. Finally the Company is suggested to keep 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.

10. 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.

10.1. 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.

10.2. 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 shall enhance its KYC procedures, so that to prevent unlawful activities. 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".

11. 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

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	3.4
437 (1)		3.4
437 (1) (a)		3.4
437 (1) (b)		3.4
437 (1) (c)		3.4
437 (1) (d) (i)		3.4
437 (1) (d) (ii)		3.4
437 (1) (d) (iii)		3.4
437 (1) (e)		3.4
437 (1) (f)		3.4
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.	2.3
438(b)	Result of ICAAP on demand from competent authority.	2.3
438(c)	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	4
438(d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class.	N/A
438(d) (i)		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.	5.1
438(f)	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>		
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
<i>Credit Risk Adjustments</i>		
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.	4.2
442(d)	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
442(e)		4.2
442(f)	Exposures post value adjustments by residual maturity and by material exposure class.	4.2
442(g)		N/A
442(g) (i)	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) (ii)		N/A
442(g) (iii)		N/A
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	N/A
442(i)	Reconciliation of changes in specific and general credit risk adjustments.	N/A
442(i) (i)		N/A
442(i) (ii)		N/A
442(i) (iii)		N/A
442(i) (iv)		N/A
442(i) (v)		N/A

442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately.	N/A
<i>Unencumbered assets</i>		
443	Disclosures on unencumbered assets.	N/A
<i>Use of ECAI's</i>		
444(a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	4.1
444(b)	Exposure classes associated with each ECAI.	4.1
444(c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	4.1
444(d)	Mapping of external rating to credit quality steps.	4.1
444(e)	Exposure values pre- and post-credit risk mitigation, by credit quality step.	4.1
<i>Exposure to market risk</i>		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	5
<i>Operational Risk</i>		
446	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>		
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
<i>Exposure to interest rate risk on positions not included in the trading book</i>		
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
<i>Remuneration Disclosures</i>		
450	Remuneration Policy	2.7
<i>Leverage</i>		
451(1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	3.5
451(1) (b)		3.5
451(1) (c)		3.5

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
<i>Use of Credit Risk mitigation techniques</i>		
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
<i>Use of the Advanced Measurement Approaches to operational risk</i>		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	N/A