



**Independent Auditors' Report to the Cyprus Securities and Exchange Commission in respect of Tradernet Limited for the year ended 31 December 2017 pursuant to paragraph 32(1) of Part II of the Directive DI144-2014-14 of 2014 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms**

1. We report in relation to the fair presentation of the disclosures of Tradernet Limited (the "Company") for the year ended 31 December 2017, required by Part Eight of European Regulation (EU) 575/2013 (the "Disclosures") pursuant to paragraph 32(1) of Part II of the Directive DI144-2014-14 of 2014 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms (the "Directive"). The Disclosures, which are set out on the Company's website, are attached as an Appendix and have been initialled for identification purposes.

*Respective responsibilities*

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

*Scope of work performed*

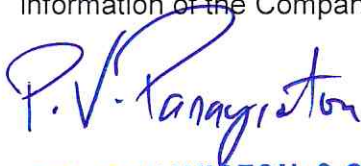
3. We conducted our work in accordance with International Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". This Standard requires that we plan and perform our work to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Disclosures are not fairly presented, in all material respects, in accordance with the requirements of the Directive. Our procedures included verifying, on a sample basis, the compliance of the Disclosures with the requirements of paragraph 32(1) of Part II of the Directive, as well as obtaining evidence supporting certain of the amounts and notifications included in the Disclosures. Our procedures also included an assessment of any significant estimates made by the Company's Board of Directors in the preparation of the Disclosures. We believe that our procedures provide a reasonable basis for our conclusion.

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

*Conclusion*

5. Based on our work described in this report, nothing has come to our attention that causes us to believe that the Disclosures for the year ended 31 December 2017 are not fairly presented, in all material respects, in accordance with the requirements of the Directive.

6. Our report is solely for the purpose as set out above and is not to be used for any other purpose or to be distributed to any other parties without our prior consent in writing. This report relates only to the Disclosures required pursuant to paragraph 32(1) of Part II of the Directive and does not extend to any financial statements or other financial information of the Company.



**P.V. PANAYIOTOU & CO**

Panicos Panayiotou

Certified Public Accountant and Registered Auditor

For and on behalf of

P.V. Panayiotou & Co

Certified Public Accountants and Registered Auditors

Lemesos, 21 May 2018

**TRADERNET LIMITED**

**Pillar III disclosure for the financial year ended**

**31 December 2017**

**Date: 8 May 2018**

Initialed for identification  
purposes only



P.V. Panayiotou & Co

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## Scope of risk reporting

Under the Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 relating to minimum capital requirements, (known as “Pillar III” requirements in the new Basel III Accord and its European transposition by the Capital Requirements Regulation (“CRR”) is required to disclose the information on Tradernet Limited (“the Company”) compliance with the public disclosures.

Pillar III disclosure requirements complement the minimum capital requirements (“Pillar 1”) and the supervisory review process (“Pillar 2”) and aim to encourage market discipline by allowing market participants to assess key pieces of information on the risk exposures and the risk assessment processes of the Company. The following disclosures are based on the audited Financial Statements of the Company as at 31 December 2017.

The directors of the Company have decided based on the size and complexity of the business of the Company to produce Pillar III disclosures on an annual basis. Furthermore the Directors have decided to publish the disclosures on the Company’s website within five months of each financial year end.

In assessing risk, the management of the company makes use of a number of internal reports or information relating to its activities such as external audit, internal audit, internal financial reports, capital adequacy returns and client information, new accounts opened and accounts closed, size of account.

## Purpose of the Disclosures

The purpose of these disclosures is to provide information on the basis of calculating Basel III capital requirements and on the risk governance and risk management arrangements of the Company.

The Company discloses information in relation to its capital requirements on an individual (solo) basis. As of 31 December 2017 the Company did not have any subsidiaries and thus the disclosures in this document relate solely to information of the Company.

These may differ from similar information in the Annual Report and Financial Statements, prepared in accordance with the International Financial Reporting Standards ("IFRS") and include balance sheet reconciliation information showing all items affecting regulatory own funds as disclosed in the audited financial statements, in accordance with the requirements of point (a) of Article 437(1) of Regulation (EU) No 575/2013.

The main differences for the Company are summarised below:

- Pillar 3 exposure values are derived from Balance Sheet values, net of provisions where appropriate, with specific off Balance Sheet exposures assigned credit conversion factors based on prescribed regulatory values; and
- Regulatory reporting rules require that the Company makes certain adjustments to own funds; the most material relate to intangible assets and dated Tier 2 capital instruments

## Introduction

Tradernet Limited ('the Company') is a regulated entity in the conduct of its activities by the Cyprus Securities and Exchange Commission ('the CySEC') under license number 219/13. The Company has activated its license, obtained from the CySEC on 30<sup>th</sup> October 2014.

Under its CIF license the Company is entitled to provide the following investment and ancillary services:

- Investment services:
- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients

### Ancillary Services:

- Safekeeping and administration of financial instruments, including custodianship and related services such as cash/collateral management
- 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 of the type included under Parts I and II of the Investment Services and Activities and Regulated Markets Law of 2007 (L144(I)/2007), related to the underlying of the derivatives included under paragraphs 5, 6, 7 and 10 of Part III where these are connected to the provision of investment or ancillary services



The current information on services and activities is summarized as follows:

		Investments services and activities								Ancillary Services						
		I(1)	I(2)	I(3)	I(4)	I(5)	I(6)	I(7)	I(8)	II(1)	II(2)	II(3)	II(4)	II(5)	II(6)	II(7)
Financial Instruments	III(1)	√	√	-	-	-	-	-	-	√	√	-	√	-	-	√
	III(2)	√	√	-	-	-	-	-	-	√	√			-		
	III(3)	√	√	-	-	-	-	-	-	√	√			-		
	III(4)	√	√	-	-	-	-	-	-	√	√			-		
	III(5)	√	√	-	-	-	-	-	-	√	√			-		√
	III(6)	√	√	-	-	-	-	-	-	√	√			-		√
	III(7)	√	√	-	-	-	-	-	-	√	√			-		√
	III(8)	√	√	-	-	-	-	-	-	√	√			-		
	III(9)	√	√	-	-	-	-	-	-	√	√			-		
	III(10)	√	√	-	-	-	-	-	-	√	√			-		√

## Risk Management

### Overview

Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the Company's business objectives.

Risk Management is the process of systematically identifying, quantifying and managing all risks that can affect achievement of the Company's strategic and financial goals. Risk Management is a systematic process for the identification and evaluation of pure loss exposures faced by an organization and for the selection and administration of the most appropriate technique for treating such exposures.

The guiding philosophy of risk management in the Company is for the management to adopt a prudent and conservative approach to the taking and management of risk. The maintenance of reputation is a fundamental driver of risk appetite and of risk management. The protection of reputation guides the type of clients and businesses with which the Company will involve itself.

Risk Management constitutes an integral part of the Company's internal controls and corporate governance. The Board of Directors, which consists of both Executive, non-executive and independent members, as well as the Risk Management Committee, have the overall responsibility for the establishment and oversight of the Company's risk management framework, including aligning business strategy with risk appetite, and ensuring that all key risks are controlled and managed via robust risk management framework.

The Company allocates resources towards the management of its risks with purpose of increasing the efficiency of its operations and its capital utilization, reducing financial losses, maximizing income, maintaining stability and enhancing growth.

The Company recognizes that Risk management is a continuous and developing process which runs throughout the Company's strategy and the implementation of that strategy. It addresses methodically all the risks surrounding the Company's activities past present and in particular, future.

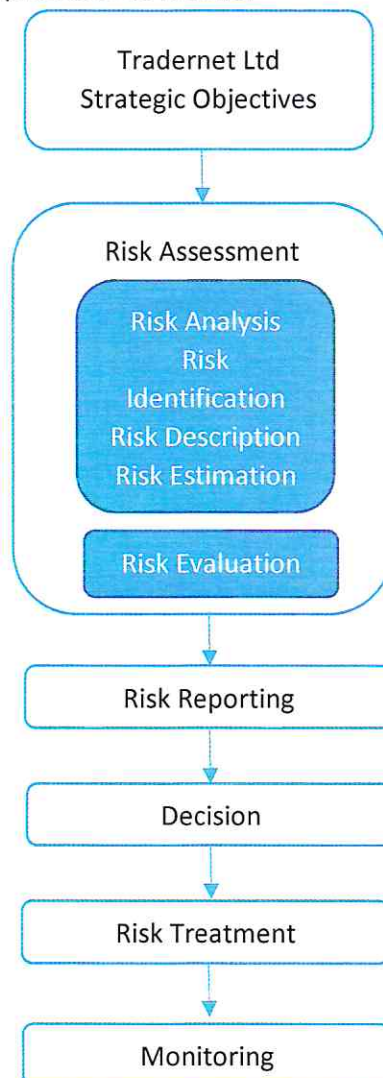
Risk management is integrated into the culture of the Company with effective policy and a program led by the most senior management. It translates the strategy into tactical and operational objectives, assigning responsibility throughout the Company with each manager and employee responsible for the management of risk as part of their job description. It supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels.

The role of the Company's Risk Management can be summarised as follows - Risk Management is to ensure that:

- The individuals who take or manage risks clearly understand it;
- Appropriate systems are in place to identify the material risks facing the Company;
- The Company's Risk exposure is within limits established by Board of Directors;
- The potential financial impact of identified risks is ascertained;
- Appropriate controls and strategies are adopted to manage exposure to those risks;
- Appropriate responsibilities are delegated to control identified risks effectively;
- Risk taking decisions are in line with the business strategy and objectives set by Board of Directors;
- Risk taking decisions are explicit and clear.

### Risk Management Process

The Company's risk management process is as follows:





## Roles and Responsibilities

The Board of Directors as well as the Risk Management Committee have the overall responsibility for the establishment and oversight of the Company's risk management framework, but the Internal Audit, Risk Manager, Compliance and Anti-money Laundering Officer have the responsibility to control and supervise Company's risk management system.

### Board of Directors and Risk Management Committee

The Board of Directors (the "BoD") and the Risk Management Committee (the "RMC") have the overall responsibility for the establishment and oversight of the Company's risk management framework.

The BoD has the responsibility to adopt and maintain risk management policies, which identify the risks relating to the Company's activities, processes and systems and sets the level of risk tolerated by the Company.

Also the BoD, through the Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of the 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 BoD has the responsibility for the development of an internal risk management framework and its integration with the Company's decision making process, covering the whole spectrum of the Company's activities and units. In particular, it has the responsibility to ensure that the Company has clear policy in respect of the assumption, follow up and management of risks duly notified to all interested parties or departments of the Company. This policy shall ensure that all parties involved in the provision of investment services are aware of: (a) the particular features of each investment service, financial instrument, and risk inherent in the provision of the services and (b) the interrelation between the volume of the projected returns and the gravity of the risks undertaken by the Company.

### Risk Management Department

The Company's Risk Management Department (the "RMD") is responsible to ensure proper application of risk management procedures for the identification, assessment and management of all financial and nonfinancial risks of the Company. It has the responsibility to perform frequent

assessment of all kinds of the Company's risks and submit relevant reports to Company's departments, senior management and the BoD.

Risk Management conducts routine assessment of all kind of Company's risks and submits reports to senior management and the BoD as well as to Business Units. Different levels within the Company need different information from the risk management department.

The BoD should:

- Know about the most significant risks facing the Company
- Know the possible effects on shareholder value of deviations to expected performance ranges
- Ensure appropriate levels of awareness throughout the Company
- Know how the Company will manage a crisis
- Know the importance of stakeholder confidence in the Company
- Know how to manage communications with the investment community where applicable
- Be assured that the risk management process is working effectively
- Publish a clear risk management policy covering the risk management philosophy and responsibilities

Business Units/Departments should:

- Be aware of risks which fall into their area of responsibility, the possible impacts these may have on other areas and consequences other areas may have on them
- Have performance indicators, which allow them to monitor the key business and financial activities, progress towards objectives and identify developments, which require intervention (e.g. forecasts and budgets)
- Have systems, which communicate variances in budgets and forecasts at appropriate frequency to allow action to be taken
- Report systematically and promptly to senior management any perceived new risks or failures of existing control measures

Individual employees should:

- Understand their accountability for individual risks
- Understand how they can enable continuous improvement of risk management response
- Understand that risk management and risk awareness are a key part of the Company's culture



- Report systematically and promptly to senior management any perceived new risks or failures of existing control measures

#### Internal Auditor

The Internal Auditor evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures with respect to risk management and issue recommendations to senior management and the BoD.

The Internal Auditor is independent and is not subject to any supervision by the Company nor has to report to any of the Heads of the Departments of the Company. The Internal Auditor has the authority to discuss with the Heads of each Department issues of concern with regards to Internal Audit matters that may or would encompass a risk cause and/or may affect the operations of each specific Department.

The Internal Auditor's duty is the constant review and evaluation of the operations and activities of the Company in all aspects, by exploiting its independence and autonomy. Moreover, it is the Internal Auditor's responsibility to offer recommendations and advice in order to ensure that the Company operates at the highest standards, in accordance with best practice and in compliance with the legal framework as formulated by the competent authorities.

#### Compliance - AML - External Audit

The Company has designed its risk management framework to be proportionate to the scale, nature and complexity of its business. Apart from the above described functions - the BoD, the RMC, the RMD and Internal Audit function - other functions involved in Company's risk management framework are the Compliance function, the Anti-Money Laundering Compliance Function and the External Audit function.

## Risk Types

### Approach Adopted for Capital Requirements Calculation

The CRD IV Directive takes into account the diversity of investment firms and provides different approaches to the calculation of minimum capital requirements. The different approaches provide a flexible structure in which investment firms, subject to supervision, adopt approaches that most suitably fit their level of sophistication and risk profile.

According to the CRD IV requirements, the Company's BoD has decided that the most appropriate approach for calculating Company's capital requirements are standardised approach for Credit and Market Risk and applying the CySEC reporting requirements - own funds calculation based on Fixed Overheads.

### Regulatory Ratios

During the year ended 31 December 2017, the Company complied with all of the externally imposed capital requirements to which they were subject.

The following table provides a breakdown of capital requirements, together with regulatory ratios, at 31 December 2017 (in compliance with Basel 3):

€ 000's	31 December 2017 Basel III
Tier 1 Capital / CET 1	556
Tier 2 Capital	-
<b>Total Regulatory Capital</b>	<b>556</b>
Credit Risk	246
Market Risk	-
Fixed Overheads – additional risk	1,220
Total Risk Weighted Assets	1,466
Tier 1 Capital / CET 1	37.93%
Total Capital Ratio	37.93%

Under European Banking Authority ("EBA") transitional rules for 2017, the Tier 1 ratio with the Capital Conservation Buffer ("CCB") must exceed 7.25% and the Global ratio including CCB must exceed 9.25%. On a fully loaded Basel III basis, the Tier 1 ratio with CCB must exceed 8.5% and the Global ratio including CCB must exceed 10.5%. During 2017, the Capital Adequacy ratio never fell below the required limit.

The table below reconciles the composition of regulatory capital for the Company as at 31 December 2017

€ 000's	31 December 2017
<b>Shareholders' equity including year-end loss</b>	<b>614</b>
Shareholder's equity	2,200
Accumulated losses	(1,586)
<b>Deductions</b>	
Goodwill and other intangible assets	(14)
Contributions to the Investors Compensation Fund	(44)
Deferred tax assets on losses carried forward	-
Proposed dividend	-
<b>Core Tier 1 capital</b>	<b>556</b>
<b>Tier 2 capital</b>	<b>-</b>
<b>Total capital base</b>	<b>556</b>

As at 31st December 2017, the Company's eligible own funds consisted entirely of Common Equity Tier 1 ("CET1") capital. The Company's CET1 capital comprises of share capital, share premium and reserves, less intangible assets and contribution to the Investors Compensation Fund. Share Capital includes the Company's paid up capital and share premium and Reserves include retained earnings.

As at 31st December 2017, the Company's issued share capital amounted to EUR 1,000,240, divided into 1,000,000 issued and fully paid shares with a par value of EUR 1 per share and 240 issued and fully paid shares with a par value of EUR 1 issued at a share premium for the total amount of EUR 1,200,000.

#### Risk Weighted Assets and Capital Requirements

The CySEC sets out the minimum capital requirement for Cypriot regulated financial institutions under CRR rules. CRR sets out the minimum regulatory capital to meet credit and market risk. At 31 December 2017, the Company total capital requirements by risk type were as follows:

Pillar 1 Requirement - € 000's	Risk Weighted Assets	Capital Requirement
<b>Total Pillar 1 Requirement</b>	<b>246</b>	<b>20</b>
Credit Risk	246	20
Market Risk	-	-
<b>Fixed Overheads Requirement</b>	<b>1,220</b>	<b>98</b>



### Credit and Counterparty Risk

Credit risk is the risk of loss resulting from exposure to customer or counterparty default. The Company has adopted the Standardised Approach for calculating Pillar 1 capital requirements for credit risk.

Credit risk is monitored by the Risk Manager and senior management on an ongoing basis. The following processes, measures and techniques have been established and implemented by the Company:

- Maintain a diversified client portfolio thus avoiding high concentration and exposure to a small number of clients
- Deposit Company's own funds and clients' funds only in highly rated banking institutions
- Deposit Company's own funds and clients' funds in more than one jurisdiction for diversification and further mitigation
- Conduct regular credit review, assessment of counterparties (credit institutions and financial institutions)
- Unless credit is provided, the Company has established a policy to ensure that clients cannot begin to trade unless money has been deposited into clients' accounts

The Company exercise all due skill, care and diligence in the selection, appointment and periodic review of the credit institution or financial institution, where own and client's funds are placed, and the arrangements for the holding of those funds.

The Company takes into account the expertise and market reputation of such institutions with a view to ensuring the protection of own and clients' rights, as well as any legal or regulatory requirements or market practices related to the holding of client funds that could adversely affect clients' rights. A review process will be performed in order to identify the following information:

- a) expertise;
- b) market reputation;
- c) authorizations/licenses;
- d) supervisory authority;
- e) credit ratings;
- f) ability to maintain segregation of assets between Clients and the Company.

## Capital Requirements for Credit Risk by Exposure Class

For calculating its regulatory capital requirements for credit risk the Company adopts the standardised approach and has elected to use Moody's Rating as a preferred External Credit Assessment Institution ("ECAI") for all classes of exposures. The Company has used the Credit Quality Step matching principles established by the Directive.

No credit mitigation technics were used by the Company as at 31 December 2017.

The table below provides information on the Company's credit risk exposure, risk weighted asset ("RWA") and capital requirements as at 31 December 2017 broken down by exposure class:

Asset Class - € 000's	Exposure	Risk Weighted Assets	Capital Requirement
Corporates	132	132	10
Institutions	417	83	7
Public Sector Entities	-	-	-
Other items	25	20	2
Retail	14	11	1
Equity exposures	-	-	-
Covered Bonds	-	-	-
High risk categories	-	-	-
<b>Total</b>	<b>588</b>	<b>246</b>	<b>20</b>

## Residual Maturity by Exposure Class

The table below sets out an analysis of credit risk by maturity as at 31 December 2017. Residual maturity of exposures is based on contractual maturity dates.

Maturity band - € 000's	<3 month	>3 month	Total
Corporates	132	-	132
Institutions	417	-	417
Public Sector Entities	-	-	-
Other items	5	20	25
Retail	14	-	14
Equity exposures	-	-	-
Covered Bonds	-	-	-
High risk categories	-	-	-
<b>Total</b>	<b>568</b>	<b>20</b>	<b>588</b>

## Exposure by Credit Quality

The Company uses external credit assessments provided by Moody's ratings agency for all exposure classes. These are used, where available, to assign exposures a credit quality step and calculate

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credit risk capital requirements under the standardised approach. Credit quality steps are provided by the regulator and are used to weight asset classes based on the external rating. The following tables provide, by asset class, an analysis of exposures by credit quality steps as at 31 December 2017:

Credit Quality - € 000's	CQ Step 1	CQ Step 2	CQ Step 3	CQ Step 4	CQ Step 5	CQ Step 6	Unrated	Total
Corporates	-	-	-	-	-	-	132	132
Institutions	-	-	-	-	-	407	10	417
Public Sector Entities	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	25	25
Retail	-	-	-	-	-	-	14	14
Equity exposures	-	-	-	-	-	-	-	-
Covered Bonds	-	-	-	-	-	-	-	-
High risk categories	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	<b>407</b>	<b>181</b>	<b>588</b>

Credit quality steps correspond to the following external ratings:

Counterparty quality step	Moody's	S&P
1	Aaa to Aa3	AAA to AA-
2	A1 to A3	A+ to A-
3	Baa1 to Baa3	BBB+ to BBB-
4	Ba1 to Ba3	BB+ to BB-
5	B1 to B3	B+ to B-
6	≤Caa1	≤CCC+

#### Exposure Value by Risk Weight

The following table presents the exposure of the Company per risk weight. We note that the Company does not keep any collateral in relation to its credit risk exposures.

Exposure Value - € 000's	0%	20%	50%	75%	100%	150%
Corporates	-	-	-	-	132	-
Institutions	-	417	-	-	-	-
Public Sector Entities	-	-	-	-	-	-
Other items	5	-	-	-	20	-
Retail	-	-	-	14	-	-
Equity exposures	-	-	-	-	-	-
Covered Bonds	-	-	-	-	-	-
High risk categories	-	-	-	-	-	-
<b>Total</b>	<b>5</b>	<b>417</b>	<b>-</b>	<b>14</b>	<b>152</b>	<b>-</b>

### Definitions

**Impaired exposure:** A financial asset or a group of financial assets is impaired, and impairment losses are recognized, only if there is an objective evidence of impairment as the result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated.

The determination of impaired exposures requires significant judgment. In making this judgement, the Company evaluates among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near-term business outlook for an investee, including factors such as industry and sector performance, changes in market, economic or legal environment, changes in technology and operational and financing cash flow.

**Past due exposures:** A financial asset is past due when a counterparty has failed to make a payment when contractually due.

### Market Risk

Market risk is the risk of loss caused by adverse market conditions, such as movements in the prices of traded financial instruments. Adverse movements in the level of interest rates, in the rate of exchange between currencies and the current prices of securities, commodities and other financial instruments may affect Company's profitability. Market risk comprises of foreign exchange risk, interest rate risk, equity price and other price risk.

Market risk focuses on the way, in which changes in traded values in major markets such as bonds, equities, foreign exchange, or commodities, affect Company's revenues.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fluctuations of market interest affect the prices of securities.

We can say that interest rate risk is the probability of an adverse impact on profitability or asset value as the result of interest rate changes.

Usually the price of shares increase if the interest rate falls and vice-versa. Factors that influence the level of market interest rates include:

- Expected levels of inflation
- General economic conditions
- Monetary policy and the stance of the central bank
- Foreign exchange market activity
- Levels of sovereign debt outstanding
- Financial and political stability

The adverse economic impact may be due to an increase in interest rates if the company wishes to borrow money. On the other hand, if the company has surplus cash that it intends to place on deposit, an adverse economic impact would be represented by a fall in interest rates.

When identifying interest rate risk, an institution has to look at both the mismatches between assets and liabilities. If every loan made, were offset by a borrowing, which referenced the same interest rate basis, there would be no risk. By contrast, a fundamental type of risk generated when an asset has interest calculated on a variable basis, while an associated liability has interest calculated on a fixed basis (or vice versa).

#### Foreign Exchange Risk

Foreign exchange risk is the risk of loss (or gain) from unforeseen changes in exchange rates (the prices at which currencies trade for each other). Foreign exchange risk arises when financial instruments are recognized in a currency that is not the Company's basic currency.

#### Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk and currency risk). The Company is not exposed to price risk, as it does not maintain its own portfolio invested in financial instruments.

#### Market Risk Mitigation

The Company implements policies and processes for the measurement and management of all material sources and effects of market risks. The management get timely data and information on the Foreign exchange risks of the Company and take appropriate action required. The Company employs a Risk Manager who is responsible for the monitoring of the Company's risk exposure and any deviation identified is brought to the attention of the Risk Management Committee for immediate action. The Company has established the Risk Management Committee that reports directly to the Board of Directors. The trading activity is recorded so, as to allow the Risk Manager to



review and monitor the Company's exposure. Aggregate net exposures are monitored as they develop from the opening and/or closing positions by clients. If risk exceeds desired levels, appropriate actions are taken to hedge risk until intended levels are achieved. The Company uses the standardised approach for managing market risk.

Based on the Company's size, internal organization and the nature, scale and complexity of activities, the Risk Manager identified that the Company is currently exposed to foreign exchange risk only.

Market Risk - € 000's	Risk Weighted Asset	Capital Requirements
FX risk	-	-
Interest Rate risk	-	-
Equity risk	-	-
Other	-	-
<b>Total</b>	-	-

### Operational Risk

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

Operational risk is associated with human error, system failures and inadequate procedures and controls. It is the risk of loss arising from the potential that inadequate information system, technology failures, breaches in internal control, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses or reputation problems. Operational risk exists in all products and business activities.

Operational risk event types that have the potential to result in substantial losses includes among others, internal fraud, external fraud, employment practices and workplace safety, clients, products and business practices, business disruption and system failures, damage to physical assets, marketing and advertising and finally execution, delivery and process management.

The Company has put in place an appropriate set of systems and procedures for identifying, measuring, monitoring and controlling its operational risk.

The Company has established systems and procedures to identify the operational risk inherent in all types of transactions, products, activities, processes and systems. It can also ensure that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subjected to adequate assessment procedures.

The Company has ensured that its operational risk identification process is robust and is capable of considering potential risks.

Business continuity, fraud (internal and external), dealing errors, administrative errors, IT failures and regulatory action can be identified as the key elements of operational risk to which the Company is exposed. Not all of these risks can be effectively eliminated, however these risks are adequately controlled by key personnel and a rigorous control framework.

### Operational Risk Management Principles

The Company adopts 6 fundamental principles to address its approach to operational risk management:

- Ultimate accountability for operational risk management rests with the board, and the level of risk that the Company accepts, together with the basis for managing those risks, is driven from the top down by those charged with overall responsibility for running the business
- The board and executive management should ensure that there is an effective, integrated operational risk management framework. This should incorporate a clearly defined organizational structure, with defined roles and responsibilities for all aspects of operational risk management/monitoring and appropriate tools that support the identification, assessment, control and reporting of key risks
- Board and executive management should recognise, understand and have defined all categories of operational risk applicable to the Company. Furthermore, they should ensure that their operational risk management framework adequately covers all of these categories of operational risk, including those that do not readily lend themselves to measurement
- Operational risk policies and procedures that clearly define the way in which all aspects of operational risk are managed should be documented and communicated. These operational risk management policies and procedures should be aligned to the overall business strategy and should support the continuous improvement of risk management
- All business and support functions should be an integral part of the overall operational risk management framework in order to enable the institution to manage effectively the key operational risks facing the institution
- Line management should establish processes for the identification, assessment, mitigation, monitoring and reporting of operational risks that are appropriate to the needs of the Company, easy to implement, operate consistently over time and support an organizational view of operational risks and material failures



The Company has established various techniques for the mitigation of operational risk. These techniques include the following:

- Maintaining a four eye structure and implementing board oversight. The Board of Directors reviews significant strategic decisions made by management and monitors their activities
- The Compliance Officer must ensure the accuracy of any statements made during the marketing and advertising processes and ensure that the information addressed to the client is fair, clear and not misleading. Relevant risk warnings are included on any marketing campaign. Marketing materials should be carefully reviewed by the Compliance Officer prior of their dissemination to the public
- The Compliance Officer ensures that proper information/reports are sent on time to CySEC
- Management formally communicates duties and responsibilities to employees through regular meetings, seminars and trainings
- The Company outsources the internal audit function to an experience firm. Internal audit visits are implemented to ensure that employees comply with the Company's internal procedures
- Several policies and procedures have been established and followed in an attempt to identify and minimise any fraudulent activities
- The Company has developed a business contingency plan (disaster recovery plan) with recovery procedures and actions to be followed in the case of damage to any vital part of the Company's structure. This includes Business contingency centre in case of any nature's catastrophic incidents. It should be communicated to all personnel
- The Company obtains legal advice from its legal advisors for all its official documents and before it enters into new markets
- Company's financial accounts are audited by an experience and reliable audit firm so, as to eliminate the risk of the Company statement manipulation or tax evasion
- Segregation in respect of those responsibilities and functions whose exercise by one and the same individual might result in inadequate control, in the concealment of any errors or malpractices or in any abuse of powers or abusive practices apt to expose the Company or its customers to unreasonable and unacceptable risks
- The Company ensures that premises and fixtures and fitting are maintained on a regular basis

- The Company has in place an employer's and public liability insurance, covering costs of a potential injury of personnel or a third party visitor to its premises
- The Company follows an open policy where the employees can freely communicate with the management any concerns or improvements in regards to employment practices and workplace safety
- Staff appraisals are conducted on an annual basis by the Human Resources department and topics such as compensation or other benefits or complaints are discussed
- The Company performs appropriateness and suitability test
- The Company has proper KYC/CDD procedures in place
- The Company provides regular AML training to relevant staff
- The Company regularly reviews and updates (if needed) its AML manual
- The Company monitors Client's transaction to identify activities, which are inconsistent with Client's financial profile
- The Company maintains trading back-up servers to ensure continuity of business in case of any failure

#### Capital Requirements for Operational Risk

The Company does not apply Operational Risk Indicator approaches to calculate the amount of capital required under the minimum regulatory capital requirements. Instead of this, under 95 (1) of Regulation (EU) No575/2013 the Company is using Fixed Overheads Calculation Method.

#### Fixed Overheads

Fixed Overhead is a set of costs that do not vary as the result of changes in activity. They are needed in order to operate the business. Fixed overheads do not change greatly, they are easy to predict.

CIFs should be aware of the total amount of fixed overhead costs that a business incurs, so that management can plan to generate a sufficient amount of contribution margin from services to, at least, balance the amount of fixed overhead. Otherwise it is impossible to generate a profit.

Investment firms are required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year, or projected fixed overheads in case of an investment firm not having completed business for one year. The approach for calculating fixed overheads is a subtractive approach, whereby variable cost items are deducted from the total expenses as calculated according to the applicable accounting framework.

Under Article 95(1) of Regulation (EU) No575/2013, CIFs which are not authorised to provide

- Dealing on own account
- Underwriting of financial instruments and/or placing of financial instruments on firm commitment basis

apply the following formula: higher of total risk exposure amount (excluding operational risk) and Fixed Overheads of the preceding year multiplied by 12.5 and 25% applied.

The calculation is based on the EBA's Final Draft Regulatory Technical Standards on own funds requirements for investment firms based on Fixed Overheads under the Article 97(4) of Regulation (EU) No575/2013.

#### **Fixed Overheads - € 000's**

Total expenses (after distribution of profits)	505.02
Fully discretionary staff bonuses	-
Fees, brokerage and other charges paid	36.04
Other	-
<b>Fixed Overheads</b>	<b>468.98</b>
<b>Fixed Overheads Requirement (25% * Fixed Overheads)</b>	<b>117.25</b>
<b>Fixed Overheads risk exposure amount</b>	<b>1,465.55</b>
<b>Total risk exposure amount (excluding Fixed Overheads risk)</b>	<b>246.13</b>

#### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting payment obligations and potential payment obligations as and when they fall due without incurring unacceptable losses. Liquidity risk also arises from the inability to find buyers on the terms desired. Infrequently traded securities/assets bear higher liquidity risk. The imbalance between the number of buyers and sellers or because the securities/assets are not traded very often cause this liquidity risk. The liquidity risk is usually reflected in a wide bid-ask spread or large price movements. Furthermore, liquidity risk arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

#### Liquidity Risk Mitigation

An effective measurement system is essential for adequate management of liquidity risk. Consequently, the Company has instituted systems that enable it to capture liquidity risk ahead of time so that appropriate remedial measures could be prompted to avoid any significant losses. Some commonly used liquidity measurement techniques used by the Company is the regular Cash Flow projections and calculation of Liquidity Ratios and Limits. Furthermore:



- The Company prepares monthly budgets to ensure that it meets its obligations on time
- The liquidity position is monitored on a regular basis, with regular management information provided to senior management and the BoD
- The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of its financial obligations as and when they fall due
- The Company, if possible, maintains bank balances, which are adequate to cover its liquidity needs

## Other Risks

### Reputational Risk

Reputational risk is defined as the potential that adverse publicity regarding Company's business practices, whether accurate or not, will cause a loss of confidence in the integrity of the Company.

Reputation risk is the current and prospective impact on earnings and capital arising from negative public opinion. This affects Company's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the Company to litigation, financial loss, or a decline in its customer base.

Reputational risk poses a major threat to the Company, since the nature of its business requires maintaining the confidence of investors and the general marketplace. The Company and Investment firms in general are especially vulnerable to reputational risk because they can so easily become a vehicle for or a victim of illegal activities perpetrated by their customers.

The Company considers Reputational risk as the most critical risk, as reputation is becoming a key source of competitive advantage as products and services become less differentiated.

Loss of reputation is systemic in nature. Once germinated, it is difficult to manage and eradicate and other elements of business begin to suffer. Re-establishing reputation takes a long time. Loss of reputation arises as a reaction to the failure of detailed processes and procedures in risk management, business continuity, consolidation and compliance.

The Company protects itself against reputational risk by means of continuous vigilance through an effective KYC programme and by establishing policies and procedures for handling customer's complaints.

Legal and Compliance Risk is the risk of financial loss arising from violations of, or non-compliance with laws, regulations, internal policies and procedures or ethical standard.

In case of non-compliance with existing legislation, there is a risk that the regulatory authority will impose a sanction, either upon the Company or one of its officers, for failing to comply with the regulatory standards applicable in the financial services sector. A variety of different forms of sanction can be applied, including:

- The imposition of conditions upon a license
- Fines
- Withdrawal of a license

Also the Company faces the risk of possible enforcement action against it, by the competent authority, if determine that the Company had:

- Failed to take reasonable care to establish and maintain effective systems and controls to offset the risk that criminals might use the Company to launder money
- Failed to check that employees understood the anti-money laundering training they were receiving
- Failed to ensure that staff understood their AML responsibilities for the recognition and reporting of suspicions

Furthermore legal risk is the possibility that lawsuits, adverse judgments or contracts that turn out to be unenforceable can disrupt or adversely affect the operations or condition of the Company. The Company may become subject to lawsuits resulting from the failure to observe mandatory KYC/AML standards or from the failure to practice adequate due diligence. Consequently, the Company can for example, suffer fines, criminal liabilities and special penalties imposed by supervisors.

The Company has minimised the possibility of Legal and Compliance risks by establishing and implementing internal policies and procedures for proper implementation of existing legislation, which are monitored and reviewed by the Compliance Officer and the internal auditor who propose remedy purposes only measures/actions in case of identification of non-compliances and provide relevant advice and training to the company's employees.

Also, no transactions are initiated unless all the required documents have been signed. The agreements and all future amendments are scrutinised and approved by the Company's legal advisors. The clauses of the agreements are clearly explained to the customers before entering in



relationship. A disclaimer statement and the source of information are included on reports and documents. All the Company staff must strictly follow the internal procedures.

#### 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.

#### 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 forecasts are conducted with a view to minimize the Company's exposure to Business Risk.

#### Regulatory Risk

Regulatory Risk is the risk the Company faces by not complying with the relevant Laws and Directives issued by its supervisory authority, the CySEC. 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 the relevant Laws and Directives. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditor and Compliance Officer and suggestions for improvement are implemented by management. The Internal Auditor evaluates and tests the effectiveness of the Company's control framework at least annually.

#### IT Risk

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

## Remuneration Policy Disclosures

### Overview

In accordance with the requirements of the regulator, the Company has adopted a formal disclosure policy to publicly disclose the information regarding the remuneration policy and practices for those categories of staff whose professional activities have a material impact on the risk profile of the Company. According to the Company's Remuneration Policy, HR maintains a list with information on employees, which includes senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the Company's risk profile.

The members of staff to be included in the Company's employee list is determined at by the senior management with reference to managerial responsibility and impact on Company's overall risk profile. At the discretion of the CEO other individuals may be included in the list if it is felt that their role or their activities have a material impact on the Company's risk profile. A bi-annual review of Company's risk profile and individuals impacting on these risks is conducted in order to allow the CEO to review and agree the final list of employees for each year.

### Remuneration Policy

The Company's Remuneration Policy, which is reviewed/updated at least on an annual basis, supports the business objectives and corporate values of the Company to promote prudent risk management and to avoid excessive risk taking by attracting, retaining and motivating the key talent needed to achieve these outcomes.

The Company's remuneration arrangements represent a combination of salary, bonuses and long term incentive schemes that are designed to align the interest of the Company and its employees with those of its clients and other stakeholders to ensure the Company's continued long term performance and profitability. Non-salary remuneration plans are completely variable, based on the Company's performance and individual performance.

The Company does not currently use a pre-set formulaic matrix to determine either basic remuneration or variable remuneration. The determination of remuneration is a fully discretionary process informed by various performance metrics including individual performance measured against standard Company's competencies and qualitative annual goal attainment, industry

remuneration levels and affordability. The Company ensures that the variable remuneration bonus pool is a conservative percentage of Company's net income. This means that staff remuneration is dependent upon Company's profitability and it allows its capital prudently.

Staff is one of the key assets of the organisation and it is its policy to attract and retain the best people.

In light of the above, when fixing the remuneration policies and packages for current and future periods the Company will have the following in mind:

- the need to attract, retain and motivate staff of the quality required
- what comparable companies are doing, taking into account relative performance

By paying due regard to the above 2 mentioned factors, the Company believes it can attract and retain the best quality staff, thereby ensuring that its long term interests are best addressed.

#### Aggregate Quantative Information

The table below presents the total amount of remuneration during the financial year, split into fixed and variable.

#### **Remuneration - € 000's**

Total fixed remuneration senior management staff	194
Total fixed remuneration non-executive directors	12
Total variable remuneration senior management staff	-
Total variable remuneration non-executive directors	-
<b>Total remuneration</b>	<b>206</b>
<b>Total number of Senior Management</b>	<b>7</b>