



INITIAL MERIT SECURE LTD

RISK MANAGEMENT DISCLOSURES

YEAR ENDED 31 DECEMBER 2019

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

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1. Introduction

1.1 Corporate Information

Initial Merit Secure Limited ("the Company") is authorised and regulated by the Cyprus Securities and Exchange Commission ("CySEC" or "Commission") as a Cyprus Investment Firm ("CIF") to offer Investment and Ancillary Services under license number 229/14, dated 21 March 2014. The Company was incorporated in Cyprus on 09 August 2011 as a private limited liability company under the Cyprus Companies Law, Cap. 113. The Company was authorized to provide investment firm services by the CYSEC on 21 March 2014.

The Company has the licence to provide the following services:

| Investment Services | Ancillary Services |
|--|---|
| Receipt and transmission of orders. | Safekeeping and administration of financial instruments, including custodianship and related services |
| Execution of Orders on Behalf of Clients | 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 Research and financial analysis or other forms |

1.2 Pillar III Regulatory Framework

On 26 June 2013, the European Parliament and the Council released a legislative package known as "CRDIV" to strengthen the regulation of the financial sector. The "CRDIV" package replaces the previous European Capital Requirements Directives (2006/48 and 2006/49) and CySEC's Directives DI144-2007-05 and DI144-2007-05, commonly known as Basel II, in relation to capital requirements and large exposures, with a European Directive (2013/36/EU) and a European Regulation (575/2013). The Regulation (EU) 575/2013 ("the Regulation") is directly applicable as a Single Rule book by all Member State institutions whereas the Directive 2013/36/EU need to be transposed by all member state regulatory authorities. The transposed Directive of CySEC is named as Directive DI144-2014-14 ("the Directive"). The main purpose of the Basel II revisions was to make the framework more risk sensitive and representative of actual risk management practices.

The regulatory framework (also called, “Basel III”) consists of three Pillars:

- Pillar I sets out the minimum capital requirements firms are required to meet;
- Pillar II requires firms to assess their capital requirements in light of any specific risks not captured or not adequately captured in the Pillar I calculations; and
- Pillar III seeks to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management practices.

The Company has prepared these disclosures in accordance with the requirements of Part Eight of the Regulation.

The Regulation provides that an investment firm may omit one or more of the disclosures if it believes that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, it has stated this in the document.

The Regulation also permits investment firms to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The European Banking Authority ("EBA") defines proprietary as "...if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an investment firm's investments therein less valuable." Confidential information is defined as: "Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an investment firm to confidentiality." Where the Company has omitted information for either of these two reasons, it has stated this in the relevant section and the reasons for this.

Basis and frequency of disclosure

This document is prepared according to the Company's Pillar III Disclosure Policy. The Company intends to make its Pillar III disclosures annually in a document other than the financial statements.

The disclosures will be uploaded on the website of the Company, on the following location <https://imsmarkets.com/en/about#legal-documents> where they will be publicly available to view and download.

These disclosures are based on the position of the Company after the completion of the audit for the financial statements as at 31/12/2019.

The Company has commissioned independent auditors (AGH AUDIT LTD) to review its Pillar III Disclosures. The Company is required by the Directive DI144-2014-14 to provide a copy of the auditor's verification report to CySEC within five months of each financial year-end.

1.3 Scope of Application

The Management of Initial Merit Secure Ltd (hereinafter the "Company"), in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter

the “Regulation”) and paragraph 32(1) of DI144-2014-14 of the “CySEC” for the prudential supervision of investment firms, has an obligation to publish information relating to risks and risk management on an annual basis at a minimum.

The information provided in this report is based on procedures followed by the management to identify and manage risks for the year ended 31 December 2019.

The Company is making the disclosures on an individual basis.

2. Risk Management Objectives and Policies

2.1 Strategies and Processes to Manage Risks

2.1.1 Risk Management Framework and Governance

Risk management is considered to be an integral part of the Company's internal controls and corporate governance arrangements. As such it is acknowledged and approved by the Board of Directors (“Board”) of the Company. The Risk Management department has the responsibility for overseeing risk management within the Company as a whole and thus, risk management policies and systems are reviewed regularly to reflect changes in market conditions and Company's activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company. Their purpose is to set appropriate risk limits and controls, to monitor risks and adherence to limits, to manage the Company's financial risk and to minimize the effects of fluctuations in financial markets on the value of the Company's financial assets and liabilities. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's Board reviews the written reports prepared by the Risk Manager, identifies the risks faced by the Company, decides in respect to risk management and monitors whether all the Company's risk management procedures are followed.

2.1.2 Risk Management Function

The Board of the Company has appointed a Risk Manager to head the Risk Management function which operates independently and is responsible for implementing the Risk Management Policy of the Company set by the Board and ensuring that is properly followed under the supervision and control of the Risk Manager. The Risk Manager submits 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 Manager has the following responsibilities:

- Identify and evaluate the fundamental risks faced by the Company;

- Adopt and implement effective arrangements and procedures to manage all types of risks that arise due to the Company's operations in respect of the level of risk tolerance;
- Monitor the adequacy and effectiveness of the Company's risk management policies and procedures;
- Monitor the level of compliance by the Company and the persons employed to the measures and arrangements set for the managing of the risk exposures of the Company;
- Monitor the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons of the Company to comply with such arrangements, processes and mechanisms or follow such policies and procedures;
- Produce all the required reports related to the risks the Company is exposed as well as the documents that are required by the Law to be submitted to CySEC, and keep records of these reports. Furthermore, where applicable and required, the Risk Manager should provide advice to the Senior Management of the Company in relation to any potential deficiencies and suggest remedial measures so as to be in full compliance with the Law;
- Undertake a frequent review of effectiveness of the system of internal control and provide a report to the Senior Management.

2.1.3 *Internal Audit Function*

The Company, taking into consideration the nature, scale and complexity of its operations, as well as the investment services and activities provided, has established, implemented and maintained internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the Company. The Internal Audit function is separated and independent from other functions of the Company.

The Internal Audit function has the following responsibilities:

- Audits within the Departments covering the business cycle of the Company by implementing and maintaining an annual audit plan evaluating the adequacy and effectiveness of the systems, internal control mechanisms and arrangements
- Audits to ensure compliance with the Laws and Regulations governing the business of the Company
- Audits to ensure the compliance with the Code of Conduct and the Policies and Procedures Manuals of the company
- Recommend possible measures and actions to be taken to prevent mistakes, errors, incidents of non-compliance
- Verify the existence and proper implementation of the procedures aimed at the prevention and identification of activities or practices to the legislation of funds from money laundering activities
- Report in relation to the internal audit matters to the senior management indicating whether the appropriate remedial measures have been taken in the event of any deficiencies

The Company appointed an Internal Auditor, through an outsourcing agreement.

2.1.4 Money Laundering Compliance Officer ("MLCO")

The MLCO is in charge of the Company's Anti-Money Laundering Compliance procedures and processes. The Company's employees report their knowledge and/or suspicion of transactions involving money laundering and terrorist financing to the MLCO, who then investigates and if considered necessary, reports to the Board and, if required, to the relevant authorities.

Specifically, the MLCO's responsibilities consist of the following:

- 1 Designing the internal practice, measures, procedures and controls relevant to the prevention of money laundering and terrorist financing, and describes and explicitly allocates the appropriateness and the limits of responsibility of each department that is involved in the abovementioned.
- 2 Developing and establishing the customers' acceptance policy and submitting it to the Board of Directors for consideration and approval.
- 3 Preparing a risk management and procedures manual regarding money laundering and terrorist financing.
- 4 Monitoring and assessing the correct and effective implementation of the policy
- 5 Receiving information from the Company's employees which is considered to be knowledge or suspicion of money laundering or terrorist financing activities or might be related with such activities.
- 6 Acting as the first point of contact with MOKAS, upon commencement and during an investigation as a result of filing a report to MOKAS according to point (7).
- 7 Ensuring the preparation and maintenance of the lists of customers categorised following a risk based approach the names of customers, their account number and the date of the commencement of the business relationship.
- 8 Detecting, recording, and evaluating, at least on an annual basis, all risks arising from existing and new customers, new financial instruments and services and updates and amends the systems and procedures applied by the Company for the effective management of the aforesaid risks.
- 9 Evaluating the systems and procedures applied by a third person on whom the Company relies for customer identification and due diligence purposes and approves the cooperation with it.
- 10 Ensuring that the branches and subsidiaries of the Company that operate in countries outside the European Economic Area, have taken all necessary measures for achieving full compliance with the provisions of legislative requirements, in relation to customer identification, due diligence and record keeping procedures.
- 11 Providing advice and guidance to the employees of the Company on subjects related to money laundering and terrorist financing.
- 12 Acquiring the required knowledge and skills for the improvement of the appropriate procedures for recognizing, preventing and obstructing any transactions and activities that are suspected to be associated with money laundering or terrorist financing.
- 13 Preparing the Annual Report
- 14 Responding to all requests and queries from MOKAS and the Commission, providing all requested information and fully cooperating with MOKAS and the Commission.

2.1.5 *Compliance Officer*

The Company has established, implemented and maintained policies and procedures designed to detect any risk of failure by the Company to comply with its obligations under the Law, as well as the associated risks, and has put in place measures and procedures designed to minimise such risks and to enable the Commission to exercise its powers effectively under the Law and the Directive.

This is achieved through a compliance function which operates independently and has the following responsibilities:

- To monitor and to assess the adequacy and effectiveness of the measures and procedures put in place, and the actions taken to address any deficiencies in the Company's compliance with its obligations under the Law and the Directive;
- To advise and assist the relevant persons responsible for carrying out investment services and activities to comply with the Company's obligations under the Law and the Directive.
- To perform on a regular basis a compliance risk assessment taking into account the investment services, activities and ancillary services provided by the Company as well as the types of financial instruments traded and distributed to ensure that the focus and the scope of compliance monitoring and advisory activities remain valid.
- To establish a monitoring programme that takes into consideration all areas of the investment services of other business provided/performed by the Company. In particular, the monitoring programme establishes priorities determined by the compliance risk assessment ensuring that compliance risk is comprehensively monitored.
- To provide support for staff training and day-to-day assistance for staff and participating in the establishment of new policies and procedures within the Company.
- To oversee the operation of the complaints process and consider complaints as a source of relevant information in the context of its general monitoring responsibilities. In addition, the Compliance Officer is required to implement Company's complaints policy and maintain records as required by the legislation.
- To perform reviews on the procedures followed by the employees to ensure compliance with legislation and Company's Internal Procedures Manual (hereafter the "IPM") and to update them regarding new legislation.
- To perform reviews to ensure that the employees of the Company are aware of their duties as these are outlined in the Company's IPM.
- To ensure that its monitoring activities are not only desk-based, but to verify how policies and procedures are implemented in practice through on-site inspections at the operative business units of the Company.
- To ensure that information requested from the Commission through circulars and/or direct communication with the Company is accurate and is provided within the set timeframe.
- To ensure that the Commission is notified promptly and in accurate manner for any material changes that might occur in the organisational structure of the Company.
- To have the necessary authority, resources, expertise and access to all relevant information of the Company.
- To ensure that there are measures in place for minimizing the risk of non-compliance with legislation.

- To ensure submission of the Annual Compliance Officer report to the Board of Directors over the activities of the Company with special consideration to appropriate remedial measures that have been taken over the year under review in the event of deficiencies. The respective report will also contain advice on the necessary remedial measures.
- To review and where necessary update the IPM. • To review randomly clients' accounts with special consideration to the recording process of deposits/withdrawals and clients' transactions.

2.1.6 Risk Management Arrangement Adequacy

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and – as such – offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled to avoid or minimise loss.

2.1.7 Risk Appetite Statement

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

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

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

Furthermore, the Risk Capacity/Tolerance is the maximum amount of risk which the Company is technically able to assume before breaching one or more of its capital base, liquidity, reputational and regulatory constraints. The risk capacity represents the upper limit beyond which a breach is likely to result in failure.

Taking into consideration the Firm's size, services offered, complexity and operations, the risks that are considered significant and / or material for the Company are credit risk, market risk, operational risk, liquidity risk and large exposures. In regards to the above, setting the corporate risk appetite without taking into account the risk capacity of the entity may have serious consequences. Risk capacity may be easy to quantify in terms of capital or required funding but it is more challenging to consider the point at which the Company's reputation is beyond repair.

The BoD and senior management understand how the risk capacity impacts on the business and have taken the necessary steps in order to be in constant awareness, mitigating any potential threats.

2.1.8 Internal Capital Adequacy Assessment Process ("ICAAP") and Pillar II

ICAAP overview

The ICAAP is an internal tool which allows the Company to assess its position and determine the amount of internal capital it needs to hold in order to be covered against all the risks it is facing or to which it may be exposed in the future.

Pillar 2 establishes a process of prudential interaction that complements and strengthens Pillar 1 by promoting an active dialogue between the Commission and the investment firm such that, any inadequacies or weaknesses of the internal control framework and also other important risks, the fulfilment of which may entail threats for the investment firm, are identified and managed effectively with the enforcement of additional controls and mitigating measures.

The ICAAP comprises of all the measures and procedures adopted by the Company, with the purpose of ensuring:

- the appropriate identification and measurement of risks,
- an appropriate level of internal capital in relation to the Company's risk profile, and
- the application and further development of suitable risk management and internal control systems and tools

The company is considering the time and requirements in order to initiate the establishment of an ICAAP report.

2.2 Governance Arrangements

2.2.1 Recruitment Policy

The Board was selected according to their knowledge, skills and expertise in their own fields offering diversity to the Board. The directors selected are specialists in various fields offering diversity, specialist knowledge and the expertise required to oversee the smooth operations of an investment firm.

2.2.2 Other Directorships

| Name of director | | Directorships |
|------------------------|--|---------------|
| Executive Director | | 2 |
| Non-Executive Director | | 3 |

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

2.2.3 Diversity Policy

The Company has taken into consideration, the scale and complexity of its operations and is committed in ensuring that the diversity of its Management Board is in line at all levels, skills, experience and professionalism. The Company recognises that business succeed when adopting diversity into their business strategy.

2.2.4 Reporting and Control

All risks related to the company are communicated to the management body through the following reports which are prepared annually, reviewed and approved by the Board.

- Risk management report
- Internal Audit report
- AML Compliance Officer report
- Compliance Officer report
- Financial Statements

3. Own Funds

3.1 Balance sheet reconciliation

| Balance sheet Description | 2019 \$'000 |
|--|----------------|
| Eligible Tier 1 Capital before solvency filters | |
| (Original Own Funds) | |
| Tier 1 positive items: | |
| - Share capital | 3 |
| - Share premium | 274 |
| - Reserves | 729 |
| - Profit from current year (audited) | (789) |
| Total Own Funds before Deductions: | 217 |
| Deductions: | |
| ICF Deduction | (59) |
| Original Own Funds (Tier 1 Capital) | 158 |

3.2 Own funds disclosure template under the Transitional and fully phased in definition

| At 31 December 2019 | Transitional Definition | Full - phased in Definition |
|---|----------------------------|-----------------------------------|
| | \$'000 | \$'000 |
| Common Equity Tier 1 capital: instruments and reserves | | |
| Capital instruments and the related share premium accounts | 277 | 277 |

| At 31 December 2019 | Transitional | Full - |
|---|--------------|--------------|
| Retained earnings | (1064) | (1064) |
| Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 0 | 0 |
| Funds for general banking risk | 0 | 0 |
| Common Equity Tier 1 (CET1) capital before regulatory adjustments | 217 | 217 |
| Common Equity Tier 1 (CET1) capital: regulatory adjustments | | |
| Intangible assets (net of related tax liability) | - | - |
| (-) Additional deductions of CET1 Capital due to Article 3 CRR | (59) | (59) |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | - | - |
| Total regulatory adjustments to Common Equity Tier 1 (CET1) | (59) | (59) |
| Common Equity Tier 1 (CET1) capital | 158 | 158 |
| Additional Tier 1 (AT1) capital | 0 | 0 |
| Tier 1 capital (T1 = CET1 + AT1) | 158 | 158 |
| Tier 2 (T2) capital | 0 | 0 |
| Total capital (TC = T1 + T2) | 158 | 158 |
| Total risk weighted assets | 1.804 | 1.804 |
| Capital ratios and buffers | | |
| Common Equity Tier 1 | 8,77% | 8,77% |
| Tier 1 | 8,77% | 8,77% |
| Total capital | 8,77% | 8,77% |

3.3 Main terms and conditions of capital resources

The Company maintained as of 31st December 2019 Core Tier 1 as eligible own funds. The Company's Tier 1 Capital comprises share capital, share premium, shareholder's contribution and retained earnings. Share Capital includes the Company's paid up capital.

4. Minimum required own funds for credit, market and operational risk

4.1 Risk weighted assets and Capital Adequacy Ratio

The Company falls under Article 95(1) of the Regulation therefore, it calculates its total Risk Weighted Assets as the higher of the following:

- a) The sum of the risk weighted assets calculated for credit and market risks;
- b) 12, 5 multiplied by the one quarter of the fixed overheads of the preceding year.

Table: Minimum Capital Requirement per Risk Type

| Risk Type | Capital Requirement \$'000 |
|--|-------------------------------|
| Credit Risk | 107 |
| Foreign Exchange Risk | 188 |
| Operational Risk (Based on Fixed Overheads) | 1.509 |
| Total Capital Requirements ((MAX((CR + MKR) ; OPR)) | 1.804 |

As at 31st December 2017, the capital adequacy ratio of the company stood at 25,22%. The CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8%. The CySEC may impose additional capital requirements for risks not covered by Pillar I.

4.2 Credit Risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date.

The company has credit exposure to the banks with which it deposits funds.

The company has no credit risk exposure to clients since all the client accounts are being segregated from the operational accounts of the company and are being handled as such all in accordance with CySEC regulations.

The Company follows mitigation strategies in order to minimize the possibility of occurrence of this risk, such as:

- The Company maintains regular credit review of all counterparties.
- The Company diversifies its funds in European banks.

The Company's credit risk profile is characterized by diversified asset distributions and predominantly cash deposits and receivables from trading activity.

The Company follows the Standardised Approach for the calculation of the minimum capital requirements for credit risk.

Table: Exposure Amount, Risk Weighted Assets and Minimum Capital Requirements per Asset Class

| Exposure Class | Exposure Amount | RWA | Minimum Capital Requirement |
|----------------|-----------------|------------|-----------------------------|
| Institutions | 145 | 29 | 5 |
| Other Items | 78 | 78 | - |
| Retail | - | - | - |
| Total | 328 | 141 | 2.33 |

Table: Exposure Amount per Exposure Class and Risk Weight

| Exposure Class | Exposure Amount per Risk Weight | | | | |
|----------------|---------------------------------|------------|-----|-----------|------------|
| | 0% | 20% | 75% | 100% | Total |
| Institutions | - | 145 | - | - | 145 |
| Other Items | - | - | - | 78 | 78 |
| Retail | - | - | - | - | - |
| Total | - | 145 | - | 78 | 223 |

4.2.1 Company's exposure to credit risk and impairment risk

4.2.1.1 Past due and impaired receivables

As at 31 December 2019 the Company did not have any past due receivables and did not recognise any provisions for impairment in respect of trade and other receivables.

4.2.1.2 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by exposure class

The table below outlines the company's average exposures by exposure class:

| Exposure Class | Average exposure \$'000 |
|----------------|----------------------------|
| Institutions | 145 |
| Other Items | 78 |
| Retail | 0 |
| Total | 223 |

4.2.1.3 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by significant geographic area and material exposure class

The table below outlines the company's exposures by exposure class and geographic area:

| Exposure Class | Cyprus \$'000 | Montenegro \$'000 | Luxembourg \$'000 | Total \$'000 |
|----------------|------------------|----------------------|----------------------|-----------------|
| Institutions | 145 | - | - | 145 |
| Other Items | 78 | - | - | 78 |
| Retail | - | - | - | - |
| Total | 223 | - | - | 223 |

4.2.1.4 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) exposure class

The table below outlines the company's exposures by exposure class before and after Credit Risk Mitigation (CRM):

| Total Exposure pre and after the application of the respective provisions by industry | Credit Quality Step | |
|---|---------------------|------------|
| | NA | Total |
| Institutions | 145 | 145 |
| Other Items | 78 | 78 |
| Retail | - | - |
| Total | 223 | 223 |

The table below outlines the company's exposures by industry before and after Credit Risk Mitigation (CRM):

Table: Distribution of Exposure by Industry Type

| Exposure Class | Financial / Banking Services | Other | Total |
|----------------|---------------------------------|-----------|------------|
| Institutions | 145 | - | 145 |
| Other Items | | 78 | 78 |
| Retail | - | - | - |
| Total | 145 | 78 | 223 |

4.2.1.5 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by residual maturity and by material exposure class

The table below outlines the company's exposures by exposure class and residual maturity net of any specific provision:

| Exposure Class | up to 3 months \$'000 | > 3 months \$'000 | Total \$'000 |
|------------------------|--------------------------|----------------------|-----------------|
| Institutions | - | 145 | 145 |
| Other Items | 78 | - | 78 |
| Retail | - | - | - |
| Public Sector Entities | - | - | - |
| Total | 78 | 145 | 223 |

4.3 Market Risk

Market risk changes in line with fluctuations in market prices, such as foreign exchange rates, interest rates, equities and commodities prices. These market prices affect the Company's income indirectly as a result of the increase or decrease in the clients' activities, as well as the foreign exchange differences. As at the reporting date the currencies to which the Company has the highest exposure due to its reporting currency, are the EUR and GBP. The foreign currency risk is low and thus the company has not prepared a more sensitivity analysis.

The Company follows the Standardised Approach for the calculation of the minimum capital requirements for market risk.

4.4 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks outlined above. The directors are responsible for managing operational risk and have identified the following risks which are considered significant to the Company:

1) Technology

The Company's operations are highly dependent on technology and advanced information systems. Its ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of the business. Such dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. The Company has business continuity procedures and policies in

place which are designed to allow the Company to continue trading in its core markets and its systems are designed to mitigate the risk of failure of any component.

Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that where possible multiple providers and data routes are utilized. To remain competitive, the Company must continue to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

2) Regulation

The company is regulated by the Cyprus Securities and Exchange Commission.

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated. Moreover, the Company has in place internal policies and procedures to be followed in the case of damage to any vital part of the Company's structure.

Due to the limited authorization of the Company, the Company falls under Article 95(1) of CRR and therefore the calculation of the capital requirements for operational risk is based on the fixed overheads of the preceding financial year.

5. Other Risks

The Company is exposed to the following risks from its use of financial instruments:

5.1 Liquidity risk

Liquidity risk is the risk that 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. The company considers liquidity risk to be low.

Exchange Risk

Foreign exchange risk is the effect that unanticipated exchange rate changes have on the Company. In the ordinary course of business, the Company is exposed to minimal foreign exchange risk, which is monitored through various control mechanisms. The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

Money Laundering and Terrorist Financing Risk

Money laundering and terrorist financing risk mainly refers to the risk where the Company may be used as a vehicle to launder money and/or assist/involved in 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. 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;
- Maintaining strict deposit and withdrawal procedures to minimize money transfer opportunities.

5.2 Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions and / or material financial loss that the Company may suffer as a result of its failure to comply with laws, regulations, rules and codes of conduct applicable to its activities.

Such risks expose the Company to financial losses, fines that may lead to diminished reputation. Compliance risk has been divided by the Compliance Officer into regulatory, reputational and customer / counterparty risk.

The Compliance office of the company was responsible during 2019 for implementing and maintaining adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, and for putting in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively.

The Compliance officer, is responsible for implementing and maintaining adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, and for putting in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively.

The Company is operating an overall control environment comprised by the following three levels:

- Senior Management of the Company; (first level of defence)
- Compliance and Risk Management functions; (second line of defence)
- Internal and External Audit; (third level of defence)

The Company, through its Compliance function, ensures that all personnel receive the appropriate training and assistance regarding compliance issues.

6. Counterparty Credit Risk

Counterparty credit risk arises from the possibility that a counterparty will fail to perform on an obligation arising from transactions such as money market placements, FX, derivatives and other transactions.

As at 31 December 2019 the Company had no exposure to transactions which would give rise to counterparty credit risk.

7. External Credit Assessment Institutions (ECAIs) used for calculating Risk-weighted Assets under the Standardised Approach

For exposures to banking institutions the Company is cooperating only with banks in the European Union that's follows the European Legislation avoiding cooperating with any banking institution in third countries.

8. Exposures in Equities not included in the Trading Book

As 31 December 2019 the Company did not have any exposures in equities which were not included in the Trading book.

9. Exposure to Interest Rate Risk on positions not included in the Trading Book

As 31 December 2019 the Company did not have any exposures to interest rate risk on positions which were not included in the Trading book.

10. Remuneration Policy and Practices

The Company's remuneration system is relative to the 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 and the Heads of the departments.

10.1 Performance Related Pay

The remuneration structure offered by the Company to management and staff during 2019 comprised of a fixed salary cash component.

| Table 8: Annual remuneration to management and staff | | | | |
|--|-------------------------|----------------------------------|----------|-----------------------|
| | Average no. of staff | Annual Remuneration (€ '000s) | | Total Remuneration |
| | | Fixed | Variable | |
| Senior Management | 3 | 61 | - | 61 |
| Other staff | 12 | 152 | - | 152 |
| Total | 15 | 213 | - | 213 |