



Zemblanco
INVESTMENTS LTD

PILLAR III DISCLOSURES

According to Directives DI144-2014-14 and DI144-2014-15 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms

YEAR ENDED 31 DECEMBER 2020

April 2021

CONTENTS

Specific References to CRR	4
1. Introduction	9
1.1 CIF Information	9
1.2. Scope of application	10
1.3. Pillar III Regulatory Framework	11
1.3.1. Overview	11
1.3.2. Disclosure Policy: Basis and Frequency of Disclosure / Location and verification ..	11
1.4. Risk Management objectives and policies	12
1.4.1. Risk Management Framework	13
1.4.2. Risk Statement	15
1.4.3. Risk Culture	17
1.4.4. Capital Requirements	17
1.4.5. Upcoming Regulatory Changes – IFR & IFD.....	19
1.5. Declaration of the Management Body	21
2. Corporate Governance.....	22
2.1. Organisational Structure	22
2.2. The Board of Directors	22
2.3. Number of Directorships held by members of the Board.....	23
2.4. Policy on Recruitment	23
2.5. Policy on Diversity	23
2.6. Governance Committees.....	24
2.7 Other Governance Functions	24
2.8 Information flow on risk to the management body	28
3. Own Funds	30
3.1. Tier 1 & Tier 2 Regulatory Capital	30
3.2. Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments.....	32
3.3. Balance Sheet Reconciliation	33
4. Compliance with the Regulation and the overall Pillar II Rule	35
4.1. Internal Capital	35
4.2. Approach to assessing adequacy of Internal Capital	35
5. Pillar I Capital Requirements	37
5.1 Credit Risk.....	37
5.1.1. Credit Risk Adjustments	37
5.1.2. Credit Risk – Risk Weighted Assets	38

5.1.3. Credit Risk – Analysis of Average exposures and total amount of exposures after accounting offsets.....	39
5.1.4. Credit Risk – Risk Weighted Assets by Geographical distribution of the exposure classes.....	39
5.1.5. Credit Risk – Distribution of exposures by industry.....	40
5.1.6 Residual maturity broken down by exposure classes.....	40
5.2. Use of ECAIs.....	41
5.3. Securitisations.....	42
5.4. Counterparty Credit Risk.....	42
5.5. Market Risk	43
5.5.1. Foreign Exchange Risk	44
5.5.2. Position Risk	44
5.5.3. Equity Risk.....	46
5.5.4. Commodities Risk.....	46
5.5.5. Interest Rate Risk	46
5.6. Operational Risk.....	47
6. Leverage Ratio	49
7. Other Risks.....	50
7.1. Concentration Risk	50
7.2. Reputation Risk	51
7.3. Strategic Risk.....	51
7.4. Business Risk.....	51
7.5. Capital Risk Management	51
7.6. Regulatory Risk	51
7.7. Legal and Compliance Risk.....	52
7.8. IT Risk	53
7.9. Risk Reporting.....	53
7.10. Liquidity Risk.....	53
7.11. Conduct Risk	53
8. Remuneration policy	54
8.1. Remuneration System.....	54
8.2. Link between the pay and performance.....	56
8.3. Remuneration of Senior Management Personnel and Directors	56

SPECIFIC REFERENCES TO CRR

Scope of disclosure requirements		Section
431(1)	Requirement to publish Pillar III disclosures	1.2
431(2)	Disclosures regarding operational risk.	5.6
431(3)	Institution shall adopt a formal policy to comply with the disclosures and have policies for assessing their appropriateness, including their verification and frequency	1.3.2
Non - material, proprietary or confidential information		Section
432	The policy on diversity with regard to selection of members of the management body	2.4
	Own Funds	3
	Remuneration policy	8
Frequency of disclosure		Section
433	Disclosures must be published at least on an annual basis, in conjunction with the date of publication of the financial statements	1.3.2
Means of disclosure		Section
434(1)	Determine the appropriate medium, location and means to publish the disclosures, preferably all disclosures in one medium	1.3.2
434(2)	Equivalent disclosures made under accounting, listing or other requirements may be deemed to constitute compliance with Pillar III	Cross-references to accounting and other disclosures are indicated in the Report
Risk management objectives and policies		Section
435(1)	Disclosure of risk management objectives and policies for each category of risk including	1.4
435(1) (a)	strategies and processes	1.4.1
435(1) (b)	the structure and organisational structure of the relevant risk management function	1.4.1
435(1) (c)	the scope and nature of risk reporting and measurement systems	1.4.1
435(1) (e)	Declaration approved by the management body on the adequacy of risk management arrangements	1.5
435(1) (f)	Concise risk statement approved by the management body	1.4.2
435(2)	Disclosure at least annually, regarding governance arrangements.	2.1
435(2) (a)	Number of directorships held by members of the management	2.3

	body	
435(2) (b)	Recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	2.4
435(2) (c)	Policy on diversity of management body, its objectives and targets and the extent to which these have been achieved	2.5
435(2) (d)	Whether a separate risk committee has been set up, and number of meetings in the year.	2.6
435(2) (e)	Description of information flow on risk to the management body	2.8
Scope of application		Section
436(a)	Name of institution.	1.1
436 (b)	Difference in the basis of consolidation for accounting and prudential purposes, describing entities that are:	
436 (b) (i)	• Fully consolidated;	
436 (b) (ii)	• Proportionally consolidated;	1.2
436 (b) (iii)	• Deducted from own funds;	
436 (b) (iv)	• Neither consolidated nor deducted.	
Own Funds - Requirements regarding the own funds table		Section
437 (1) (a)	A full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	3.3
437 (1) (b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution	3.2
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	3.2
437 (1) (d) (ii)	each deduction made pursuant to Articles 36, 56 and 66	3.1
437 (1) (d) (iii)	items not deducted in accordance with Articles 47, 48, 56, 66 and 79	3.1
Capital Requirements		Section
438(a)	Summary of institution's approach to assessing the adequacy of its internal capital	4.2
438(c)	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	5.1
438(e)	Capital requirements amount for position risk , FX risk, settlement risk, commodities risk	5.5
438(e)	Capital requirements amount for large exposures	7.1
438(f)	Capital requirements for the Basic Indicator approach, the Standardised approach, and the Advanced Measurement	5.6

approach as applicable and disclosed separately.

Exposure to counterparty credit risk (CCR)		Section
439(a)	Discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures.	5.4
439(b)	Discussion of policies for securing collateral and establishing reserves.	5.4
439(c)	Discussion of policies with respect to wrong-way exposures.	7.1
439(d)	A discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	5.4
439(e)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure	5.4
439(f)	Exposure values under mark-to-market, original exposure, standardised and internal model methods.	5.4
439(g)	Notional value of credit derivative hedges and the distribution of current credit exposure by type of exposure.	5.4
439(h)	Notional amounts of credit derivative transactions for own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group	5.4
Capital buffers		Section
440(1)(a)	Disclose the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer	N/A
440(1)(b)	Disclose the amount of its institution specific countercyclical capital buffer	1.4.4
Credit Risk Adjustments		Section
442(a)	Definitions for accounting purposes of ‘past due’ and ‘impaired’.	5.1.1
442(b)	Approaches for determining specific and general credit risk adjustments.	5.1.1
442(c)	Exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period	5.1.3
442(d)	Geographical distribution of exposures, broken down in significant areas by material exposure classes	5.1.4
442(e)	The distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs	5.1.5
442(f)	The residual maturity breakdown of all the exposures, broken down by exposure classes	5.1.6
Use of ECAI’s		Section
444(a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	5.2

444(b)	Exposure classes for which ECAI is used	5.2
444(c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	5.2
444(d)	Mapping of external rating to credit quality steps.	5.2
444(e)	Exposure values pre- and post-credit risk mitigation, by credit quality step.	5.2
Exposure to market risk		Section
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	5.5
Operational Risk		Section
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of internal and external factors considered in the case of advanced measurements approach.	5.6
Exposure to interest rate risk on positions not included in the trading book		Section
448(a)	Nature of interest rate risk and key assumptions and frequency of measurement	5.5.5
Remuneration Disclosures		Section
450	Remuneration Policy	8
450(1)(a)	Information concerning the decision-making process used for determining the remuneration policy	8.1
450(1)(b)	Information on link between pay and performance	8.2
450(1)(c)	The most important design characteristics of the remuneration system	8.2
450(1)(d)	The ratios between fixed and variable remuneration	8.1
450(1)(e)	Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	8.1
450(1)(f)	The main parameters and rationale for any variable component scheme and any other non-cash benefits	8.1
450(1)(g)	Aggregate quantitative information on remuneration, broken down by business area	8.3
450(1)(h)(i)	Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution	8.3
450(1)(h)(ii)		
450(1)(h)(iii)		
450(1)(h)(iv)		
450(1)(h)(v)		
450(1)(h)(vi)		
450(1)(i)	The number of individuals being remunerated €1 million or more per financial year, for remuneration between €1 million and €5 million broken down into pay bands of €500.000 and for remuneration of €5 million and above broken down into	8.3

	pay bands of €1 million	
450(2)	For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information shall also be made available to the public at the level of the members of the management body of the institution.	8.3
Leverage		Section
451(1)	Disclose the leverage ratio and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	6
451(1) (c)	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	6
451(1) (d)	a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	6
451(1) (e)		
Use of Credit Risk mitigation techniques		Section
453(b)	Policies and processes for collateral valuation and management.	5
453(e)	Information about market or credit risk concentrations within the credit mitigation taken.	7.1

1. INTRODUCTION

1.1 CIF Information

Zemblanco Investments Ltd (the ‘Company’) was incorporated in the Republic of Cyprus on 12 June 2014 as a private limited liability company with registration number HE 333296 and obtained a Cyprus Investment Firm (CIF) license from the Cyprus Securities and Exchange Commission (CySEC), CIF licence No. 277/15 on 28 May 2015 and it was activated on the 19 February 2016.

Moreover, pursuant to Article 4(2) of the Regulation (EU) 575/2013 (the “Regulation” or “CRR”) the Company is categorised as “**Full Scope**” CIF with minimum/initial capital requirement of €730k.

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

Table 1: Company Licence Information (based on the First Appendix of the Law 87(I)/2017, as amended)

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

The Company is authorised to provide the following **Investment Services**, in accordance with Part I of the First Appendix of the Law 87(I)/2017, as amended:

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients
- Dealing on own account

The Company is authorised to provide the following **Ancillary Services**, in accordance with Part II of the First Appendix of the Law 87(I)/2017, as amended:

- Safekeeping and administration of financial instruments for the account of clients, 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.

The Company is authorised to provide the aforementioned investment and ancillary services, as applicable for each service, for the following Financial Instruments, in accordance with Part III of the First Appendix of the Law 87(I)/2017, as amended:

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

1.2. Scope of application

The Pillar III disclosures Report (the ‘Report’) is prepared on an individual (solo) basis in accordance with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR and have as a starting point the financial information used in the Company’s Financial Statements which are prepared in accordance with the International Financial Reporting Standards (“IFRS”). The regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line-by-line basis.

Moreover, through financial statements, a company aims to provide the value of all on-balance sheet items at a given point in time, whereas regulatory exposures entail an element of risk which is taken into consideration during the calculation and determination of the said exposures.

1.3. Pillar III Regulatory Framework

1.3.1. Overview

This Report has been prepared in accordance with Section 4 (Paragraph. 32) of the CySEC Directive DI144-2014-14 of 2014 for the prudential supervision of investment firms which implements the CRR and the CRD IV, as well as the relevant provisions of new Law 87(I)/2017 (hereinafter, the “Law”), as amended.

The CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. Furthermore, CRR introduces significant changes in the prudential regulatory regime applicable to institutions including amended minimum capital ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. Additionally, CRR is immediately binding on all EU member states. CRD IV governs access to internal governance arrangements including remuneration, Board of Directors (the “Board” or “BoD”) composition and transparency.

The Regulatory framework consists of a three “Pillar” approach:

- **Pillar I** - Establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating RWA for credit risk, market risk and operational risk.
- **Pillar II** – Requires firms and supervisors to take a view on whether a firm should hold additional capital against: risks considered under Pillar I that are not fully captured by the Pillar I process (e.g. credit concentration risk), risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk) and factors external to the firm (e.g. business cycle effects). Pillar II connects the regulatory capital requirements to the Company’s Internal Capital Adequacy Assessment Process (“ICAAP”) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and institutions on a continuous basis and to evaluate how well the institutions are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.
- **Pillar III** - Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds.

1.3.2. Disclosure Policy: Basis and Frequency of Disclosure / Location and verification

The Company has a formal policy, approved by the Board, which details its approach in complying fully with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR.

According to the Directive, the risk management disclosures should be included in either the financial statements of the CIFs if these are published, or on their websites. The Pillar III disclosure requirements are contained in Articles 431 to 455 of the Regulation. In addition, these disclosures must be verified by the external auditors of the CIF. The CIF will be responsible to submit its external auditors’ verification report to CySEC. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements.

As per the Article 432(1) of the CRR, institutions may omit one or more disclosures, if such disclosures are not regarded as material, except for the following disclosures:

- Regarding the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved (*Article 435 (2) (c)* of CRR)
- Own funds (*Article 437* of CRR)
- Remuneration policy (*Article 450* of CRR)

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, this was not included in the document.

Disclosures and Confidential Information

The Regulation also provides that institutions may omit one or more of the required disclosures, if such disclosures are regarded as confidential or proprietary. The CRR 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 institution's investments therein less valuable.

Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding the institution to confidentiality. Under the light of the above, the Company avoided to disclose such confidential information in this report.

Frequency

The Company's policy is to publish the disclosures required on an annual basis. The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

Medium and location of publication

Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements. In this respect, the Company's Pillar III disclosures are published on the Company's website: <http://www.zemblanco.com>.

Verification

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. The Company's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures have been reviewed by the Risk Management Committee.

1.4. Risk Management objectives and policies

To ensure effective risk management, the Company has adopted the Three Lines of Defence model, with clearly defined roles and responsibilities.

First Line of Defence: Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organisational risk appetite and are fully compliant with Company’s policies and where appropriate defined thresholds. First Line of Defence acts as an early warning mechanism for identifying (or remedying) risks or failures.

Second Line of Defence: The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company’s risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. The Risk Management Function will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them. Integral to the mission of Second Line of Defence is identifying risk areas, detecting situations/activities, in need of monitoring and developing policies to formalise risk assessment, mitigation and monitoring.

Third Line of Defence: Comprised by the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of design and operational effectiveness of the systems of internal controls. Internal Audit undertakes on-site inspections/visits to ensure that the responsibilities of each Function are discharged properly (i.e. soundly, honestly and professionally) as well as reviews the Company’s relevant policies and procedures. Internal Audit works closely with both the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.



1.4.1. Risk Management Framework

Managing risk effectively in a continuously changing risk environment, requires a strong risk management culture. As a result, the Company has established an effective risk oversight

structure and the necessary internal organisational controls to ensure that the Company undertakes the following:

- The adequate risk identification and management
- The establishment of the necessary policies and procedures
- The setting and monitoring of the relevant limits and
- Compliance with the applicable legislation

The Board meets on a regular basis, and receives updates on risk and regulatory capital matters from management. The Board reviews regularly (at least annually) written reports concerning compliance, risk management and internal audit policies, procedures and work as well as the Company's risk management policies and procedures as implemented by Management.

As part of its business activities, the Company faces a variety of risks, the most significant of which are described further below. The Company holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk.

Recovery Plan

CySEC has issued the Circular C351 on 05 February 2020 in order to provide guidance to Full Scope CIFs with respect to the 'Preparation and Submission of Recovery Plans by CIFS', fall within the scope of Law 20(I)/2016.

As per section 5(1) of the Law 20(I)/2016, certain institutions should be subject to simplified obligations in relation to recovery planning. CySEC published its Directive (Directive DI20-01) stating the criteria for CIFs to determine whether a CIF falls under simplified or full scope obligations in regard to recovery planning. Moreover and according to paragraph 4 of the Directive DI20-01, CIFs that fulfil the simplified obligations criteria for the purpose of preparing their recovery plans, shall draw a recovery plan which shall include at least the content and details referred to in Form 20-01 and submit the relevant Form to CySEC every two years by 30 September at the latest.

According to the latest available Audited Financial Statements, the Company is subject to the simplified obligations and as such has complied with the said reporting obligation by submitting the Form 20-01 to CySEC by 30 September 2020. The Company will update the contents of the Form and submit it to CySEC by 30 September 2022.

Resolution Plan

The Central Bank of Cyprus ('CBC') acting as the National Resolution Authority for all credit institutions and Cyprus Investment Firms (CIFs) pursuant to 22(I)/2016 is responsible for drafting of resolution plans of the aforementioned entities. For the purpose of preparation and implementation of the resolution plans, the Company was requested by CBC to submit the information set out in Annex I of the Regulation 2018/1624 ('CIR'), by 30 April each year with reference date 31st December of the previous year.

The Company is required to submit the relevant 2021 Data Collection templates with reference period the year 2020 to CBC in XBRL format. Furthermore, and as per the Article 7 of the CIR, the Company is also required to submit additional information in excel format each year with

reference date the end of previous calendar year. Both submissions shall be made via EDX platform of the CBC by 30 April 2021.

In this respect, the Company shall ensure that the resolutions templates and the additional information template will be completed and submitted in XBRL format and excel format respectively, via EDX platform by the designated deadline.

1.4.2. Risk Statement

The Company's activities expose it to a variety of risks, and in particular to credit risk, market risk, operational risk, compliance risk, regulatory risk, reputational risk, group risk, strategic risk, liquidity risk, conduct risk etc. The Company, through its operations, has significant exposure to the economies and financial markets.

Even though the global economy has recorded growth in the latest year after overcoming the latest economic recession, the overall future economic outlook of the economy remains unstable due to the recent developments on the outbreak of Coronavirus (COVID-19).

Following the outbreak of COVID-19 in Cyprus, the Company is following the local government guidelines in its response to the virus. During the year 2020, the Company concentrated their efforts on monitoring and assessing the impact of the COVID-19 as well as ensuring business continuity. In this respect, it has taken the required measures to ensure that its employees have access to its technology infrastructures necessary for the completion of their tasks and that additional system for critical functions are being provided, as per the updated Business Continuity Plan.

Risk Strategy

The risk strategy of the Company is the responsibility of the Board, which formulates it and is responsible for monitoring its implementation. This is achieved through the development of risk management processes and procedures as well as through an assessment of the risks undertaken and the effectiveness of the risk management framework, given the Company's business model. One important characteristic of the Company's risk strategy is the alignment with the strategic and operational targets that are set by the Board. The risks that arise from the implementation of the Company's strategic and business plans are regularly analysed in order to ensure the adequacy of the relevant policies, procedures and systems.

The risk strategy of the Company aims to provide to both Senior Management and employees a general risk framework for the management of the different types of risk in line with the overall risk management and risk bearing capacity of the Company. The Company recognises the importance of risk management to its business success and therefore the overall objective is to establish effective risk management policies that are able to mitigate the Company's exposure to the various risks.

Risk Appetite

Risk appetite is the level and type of risk a firm is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders. Risk appetite is generally expressed through both quantitative and qualitative means and should

consider extreme conditions, events and outcomes. In addition, risk appetite should reflect potential impact on earnings, capital and funding/liquidity.

The company has a low risk appetite in respect to investing and to managing business and operational activities.

According to Financial Stability Board (FSB) an appropriate risk appetite framework (RAF) should enable risk capacity, risk appetite, risk limits, and risk profile to be considered for business lines and legal entities as relevant, and within the group context. The Risk appetite framework is defined as the overall approach, including policies, processes, controls, and systems through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement, risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. The RAF should consider material risks to the financial institution, as well as to the institution's reputation vis-à-vis policyholders, depositors, investors and customers. The RAF aligns with the institution's strategy.

The Company is assessing its risk appetite in respect to investing and to managing business and operational activities while the Company's Risk Appetite Statement is prepared by the Risk Manager and approved by the Board of Directors.

Table 2: Risk Appetite areas

Indicator	Normal ¹	Warning ²	Limit ³
Own Funds	≥€850k	<€850k	€730k
Common Equity Tier 1 Ratio ⁴	≥10.50%	<10.50%	7.00%
Total Capital Ratio ⁴	≥14.00%	<14.00%	10.50%
Leverage Ratio	≥5.00%	<5.00%	3.00%
Liquidity Coverage Ratio	≥110.00%	<110.00%	100.00%
Return on Assets	≥5.00%	<5.00%	0.00%
Retained Earnings / Total Equity	≥10.00%	<10.00%	5.00%
Concentration of Funds	≤10.00%	>10.00%	25.00%

Notes

1. The level of the indicator is within the acceptable limits as per the Company's risk appetite.
2. The Company should take proactive actions in order to ensure that the level of the indicator will remain above the acceptable limits.
3. The level of the indicator falls below the acceptable limits and as such the Company should proceed with the required actions in order to restore the level of the said indicator to the normal predefined levels.
4. Capital Buffers + ICAAP add-on + 1.50% as per the paragraph 18 of the Law 20(I)/2016 have been taken into consideration for Normal and Warning thresholds
5. Large Exposures on a single counterparty or a group of connected counterparties limit in the accordance with Article 392 of CRR i.e. all exposures more than 10% of eligible capital.

The Risk Appetite framework has been designed to create links to the strategic long term plan, capital planning and the Company's risk management framework.

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

1.4.3. Risk Culture

Risk culture is a critical element in the Company's risk management framework and procedures. Management considers risk awareness and risk culture within the Company as an important part of the effective risk management process. Ethical behavior is a key component of the strong risk culture and its importance is also continuously emphasised by the management.

The Company is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to take accountability for them. The Company embraces a culture where each of the business areas is encouraged to take risk-based decisions, while knowing when to escalate or seek advice.

1.4.4. Capital Requirements

Regulatory Capital Buffers

CRD IV is transposed into national laws, which allows national regulators to impose additional capital buffer requirements. Based on the provisions of the Macroprudential oversight of Institutions Law of 2015 which came into force on 1 January 2016, the Central Bank of Cyprus (the "CBC") is the designated Authority responsible for setting the macroprudential buffers that derive from the CRD IV.

Further to the above, the Macroprudential Authority has decided to activate the capital conservation buffer (the "CCB") having exercised its power. The CCB was phased-in gradually, starting from 1 July 2016 at 0.625% and increasing by 0.625% every year thereafter, until being fully implemented (2.5%) on 1 January 2019.

The Company is obliged to maintain a 2.5% CCB in addition to the CET1 capital maintained for the year 2020 to meet the own funds requirement imposed by Article 92 of the CRR. In accordance with the provisions of this law, the CBC sets, on a quarterly basis, the Countercyclical Capital Buffer (the "CCyB") level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined by the CBC ahead of the beginning of each quarter.

According to paragraph 52(2) of the Directive, the Macroprudential Authority may exempt small and medium sized CIFs from holding an institution specific CCyB, in addition to their CET 1 Capital. However, CySEC with an email dated 25 May 2020 informed the Company that CBC decided not to exempt small and medium sized CIFs from the obligation to maintain countercyclical capital buffer. The Company is obligated to maintain an institution specific CCyB equivalent to its total risk exposure amount multiplied by the weighted average of the countercyclical buffer rates. The CBC has set the level of the CCyB rate for Cyprus at 0% for 2020.

Table 3: Countercyclical Capital Buffer Rate per Country

Country	Current Rate	
	Date from	CCyB Rate
Bulgaria	01 April 2020	0.50%
Czech Republic	01 July 2020	0.50%
Hong Kong	16 March 2020	1.00%
Luxembourg	01 January 2021	0.50%
Norway	13 March 2020	1.00%
Slovakia	01 August 2020	1.00%

Source: European Systemic Risk Board & BIS Website – Updated on 15 March 2021

The institution specific CCyB rate of the Company for 31 December 2020 was zero.

The Macroprudential Oversight of Institutions Law, 2015, also requires the maintenance of additional capital buffer by the systemically important credit institutions and investment firms either at the national level, or at the EU level, referred to as Other Systemically Important Institutions (“O-SII”).

The O-SII capital buffer reflects the cost for an institution of being systemically important and reduces the moral hazard from the support of the institution from the state and the taxpayers and compensates for the higher risk it represents for the national financial system and the potential consequences of its failure. The Company is not obliged to maintain a O-SII capital buffer as it is not a O-SII institution.

Policy Statement on launching a Temporary Permission Regime for the provision of Investment Services to professional clients and eligible counterparties based in Cyprus, by UK firms (PS-02-2020)

CySEC issued on 22 December 2020 Policy Statement II in order to inform the market about the launch of a temporary permission regime for the provision of investment services to professional clients and eligible counterparties based in Cyprus by UK firms.

Following UK’s leave from the European Union on 31 January 2020, a transitional period entered into force until 31 December 2020 where during this period cross-border provision of Investment services and activities (‘MIFID Passport’) is still possible to or from the UK. However, following the expiration of the Transitional Period the so-called ‘MiFID passport’ will cease to apply and the UK Firms will be considered as third-country firms.

Therefore, UK entities which wishes to continue offer investment services in Cyprus to Professional Clients and Eligible Counterparties are requested to submit the relevant notification as per the Annex I of the PS-02-2020 to CySEC via email by 31 December 2020. Moreover, the Temporary Permission Regime will be terminated on 31 December 2021 and as such UK firms who provide investments services on the basis of the Temporary Permission Regime and who wish to continue soliciting Professional Clients and Eligible Counterparties based in Cyprus, they will need to establish at least a Branch unless an equivalence decision is taken by the EC.

1.4.5. Upcoming Regulatory Changes – IFR & IFD

The European Parliament on 16 April 2019 has adopted a new, comprehensive regulatory regime for investment firms: the Investment Firm Directive ("IFD") and Investment Firm Regulation ("IFR") are intended to replace the existing applicable regulation for investment firms.

While small and "non-interconnected" firms in particular will benefit from less regulation, the legislation for "systemically relevant" investment firms means no less than equal treatment with credit institutions in the sense of a level playing field – accordingly, they will fall entirely under the previous regulatory framework (i.e. CRR). As a result, all other investment firms will no longer be subject to the CRD/CRR framework, which is primarily intended for banks.

The new regulatory regime applies to ALL investment firms authorised and supervised under the MiFID II. The main regulatory changes in the prudential framework by IFR and IFD:

- a. New Classification of Investment Firms
- b. Initial Capital Requirement and Composition
- c. Capital Requirements (K-Factors)
- d. Concentration Risk Requirement
- e. Liquidity Requirements
- f. Disclosures Requirements
- g. Reporting Requirements

Other Supervisory Requirements According to the new prudential regulatory framework the Initial Capital Requirements and classification for investment firms will be amended. Specifically, investment firms will be classified into three different categories (Class 1, Class 2 and Class 3) based on their size and business operations. Moreover, the initial capital requirements will be amended (€750k, €150k and €75k) and it will be decided based on the investment services an entity is authorised to offer.

Further to the above, the regulatory capital ratio requirements will not be applicable anymore and investment firms will be requested to comply with the following at all times:

- a) CET 1 should constitute at least 56% of capital requirements;
- b) Tier 1 should constitute at least 75% of capital requirements;
- c) Tier 1 and Tier 2 should constitute at least 100% of capital requirements

CET1, Tier 1 and Tier 2 will be calculated in accordance with the eligibility criteria of the capital instruments as per the provisions of the CRR.

As regards the capital requirements calculation, Class 1 Investment Firms will continue calculate their overall capital requirements in accordance with the provisions of the existing regulation. However, Class 2 Investment Firms will be requested to maintain own funds of at least the higher between a) Initial Capital, b) K-Factors requirement and c) Fixed Overheads requirement while Class 3 Investment Firms' capital requirements will be calculated as the higher between only a) Initial Capital and b) Fixed Overheads requirement.

K-factors methodology which is applicable for Class 2 Investment Firms will replace the current credit risk, market risk and operational risk approach in order to calibrate the capital needed to meet the risks of the investment firm. Class 3 firms are not required to calculate their capital based on the K-factor formula while they need to calculate the K-factors for categorisation purposes.

Capital requirement from applying K-factors formula (pursuant to Article 15 of the IFR) is the sum of Risk to Customer (RtC), Risk to Market (RtM) and Risk to Firm (RtF). The K-Factors are calculated as shown below:

K-Factors as per IFR&IFD

Risk to Client (RtC)	Risk to Market (RtM)	Risk to Firm(RtF)
Sum of: <ul style="list-style-type: none"> • K-AUM: Assets Under Management • K-ASA: Client Assets Safeguarded and Administered • K-CMH: Client Money Held • K-COH: Client Orders Handled 	Higher of: <ul style="list-style-type: none"> • K-NPR: Net Position Risk (calculated in accordance to CRR) or • K-CMG: Clearing Member Guarantee 	Sum of: <ul style="list-style-type: none"> • K-TCD: Trading Counterparty Default • K-CON: Concentration risk based on large exposures • K-DTF: Operational risks from Daily Trading Flow

**K-AUM, K-ASA, K-CMH, K-COH and K-DTF relate to the volume of activity. The volumes should be multiplied by the corresponding coefficients set out in IFR in order to determine the own fund requirement.*

Further to the above, the Company has already assessed the requirements under the new prudential regulatory framework and concluded that it will be classified as Class 2 Investment Firm and as such it will be requested to maintain own funds of at least the higher between a) the initial capital requirement, b) the K-Factors requirement and c) Fixed Overheads requirement.

Circular C426 - Updates for the new prudential framework of Investment Firms (IFR/IFD)

CySEC continuously updates all CIFs about the EBA actions regarding the implementation of the new prudential regulatory framework IFR/IFD. On 02 February 2021, CySEC issued Circular C426 to provide CIFs with the latest updates regarding the following matters:

- Seven (7) Final draft technical standards regarding IFR/IFD
- Reporting and disclosures requirements under IFR/IFD
- Launch of Consultation Papers and Public hearing by the EBA
- Next actions to be taken by CIFs.

The Company shall proceed with an impact assessment on its capital adequacy and risk management procedures, systems and controls to ensure compliance with the above regulatory amendments by 26 June 2021.

1.5. Declaration of the Management Body

The Management Body is required to proceed with an annual declaration on the adequacy of the Company's risk management framework and ensure that the risk management arrangements and systems of financial and internal control in place are in line with the Company's risk profile.

The Company's risk management framework is designed to identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company's operations. The Board considers that it has in place adequate systems and controls with regard to the Company's size, risk profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

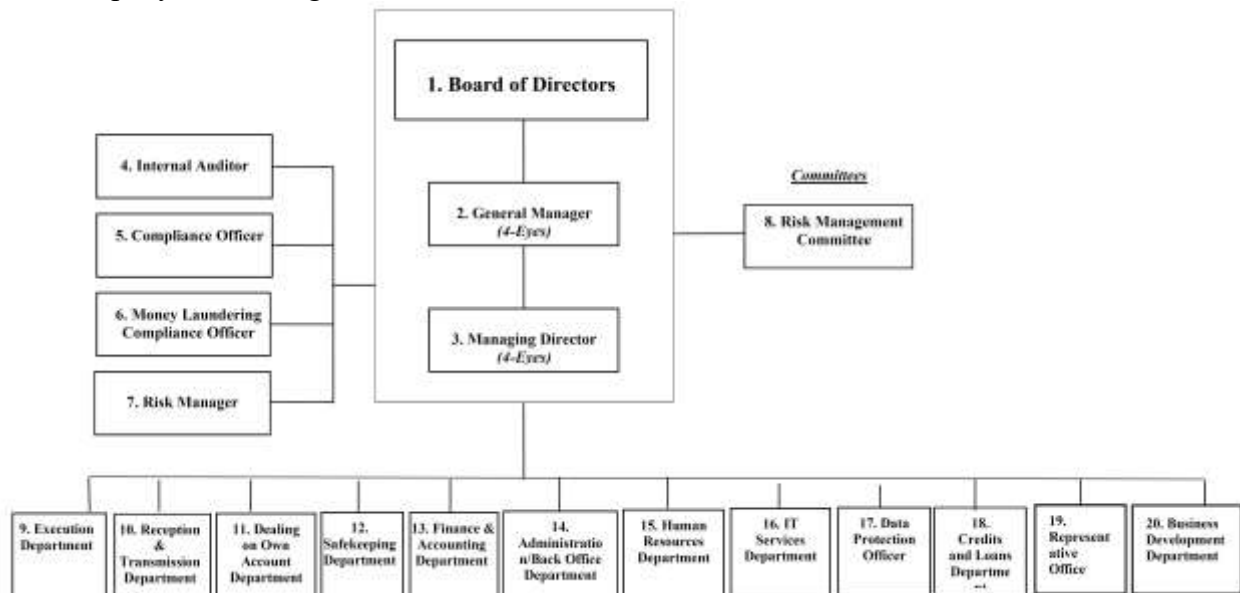
2. CORPORATE GOVERNANCE

The Company's systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness.

The risk management and internal control systems are embedded in the operations of the Company and are capable of responding quickly to evolving business risks, whether they arise from factors within the Company or from changes in the business environment.

2.1. Organisational Structure

The company's latest organizational structure is as follow:



2.2. The Board of Directors

The Board has the overall responsibility for the establishment and oversight of the Company's Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust. The number of directorships held by Executive and Non-Executive Directors do not exceed the maximum number allowed

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff of the Company. It also implements and maintains adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

2.3. Number of Directorships held by members of the Board

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

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

Furthermore, directorships in organisations which do not pursue predominantly commercial objectives such as non-profit or charitable organisations shall not count for the purposes of the above guidelines.

The table below discloses the number of directorships held by members of the management body in entities of the Company as at 31 December 2020.

Table 4: Number of Directorships of the members of the Board of Directors*

Director	Function	Number of Executive Directorships	Number of Non-Executive Directorships
Mrs. Lilia Xanthou	General Manager	1	-
Ms. Anna Smolina	Managing Director	1	-
Mr. Denys Denisov	Independent, Non-Executive	-	1
Mr. Christophoros Tengeris	Independent, Non-Executive	-	2

*The information in this table is based only on representations made by the directors of the Company.

For the purposes of the above, Executive or non-executive directorships held within the same group shall count as a single directorship.

2.4. Policy on Recruitment

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework. Members of the Board possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board reflects an adequately broad range of experiences to be able to understand the CIF's activities, including the main risks to ensure the sound and prudent management of the Company as well as sufficient knowledge, of the legal framework governing the operations a CIF.

2.5. Policy on Diversity

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business

strategy, and developing talent at every level in the organisation. For this purpose, the Company takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age, cultural and educational background, for the Board appointments.

2.6. Governance Committees

Risk Management Committee

In order to support effective governance and management of the wide range of responsibilities the Board has established the Risk Management Committee. The role of the Risk Management Committee is to provide oversight, review and challenge of the material risks both current and future affecting the business whilst ensuring that there is effective management and control of all key risks and issues facing the Company. The Risk Management Committee, inter alia, scrutinizes, and decides on various risks inherent with the operation of the Company with the view to formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company. Moreover, the Risk Management Committee reviews the risk management procedures in place (monitors and controls the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department).

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify. The Risk Management Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.

The Risk Management Committee meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager.

Risk Manager

Further to the formation of the overall Internal Governance Framework, it should be noted that the Board has appointed a Risk Manager to ensure that all the different types of risks taken by the Company are in compliance with the Law and the obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place and are functional on an operational level from a day to day basis. The Risk Manager reports directly to the Senior Management of the Company while as previously discussed, the Risk Management Committee is responsible to control and overview the Risk Manager's actions/ performance at work.

2.7 Other Governance Functions

Internal Audit

The Company has appointed a qualified, experienced and independent Internal Auditor outsourced from MAP S.Platis. The Internal Auditor reports to the Senior Management and the Board of the Company and is separated and independent from the other functions and activities of the Company. The Internal Auditor has access to the Company's premises, systems,

information, personnel and financials. The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions are taken according to the Board's assessment and prioritization.

Compliance Function

Pursuant to the regulatory obligations of the Company and with the view to complement the Internal Governance framework of the Company, the Board has appointed a Compliance Officer, to head the Compliance Function of the Company in order to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, to put in place adequate measures and procedures designed to minimize such risks and to enable the competent authorities to exercise their powers effectively. The Compliance Officer is independent and reports directly to the Senior Management of the Company, having at the same time the necessary authority, resources, expertise and access to all relevant information.

Anti-Money Laundering Compliance Officer

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

Table 5: Roles and Responsibilities

Role	Responsibilities
Risk Management Committee	<ul style="list-style-type: none"> • Scrutinize and decide on various risks associated with the operation of the Company with the view to increase the awareness of, formulate internal policies and measure the performance of the said policies • Review the risk management procedures in place • Review the ICAAP on a yearly basis • Monitor and control the Risk Manager's and Risk Management Department's performance and effectiveness • 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 organizational units of the Company. • Break down of such risk limits further where necessary, for example, per class of investment service or Financial Instrument, or Client or market • Implement stop loss-control limits • Follow up open positions within the approved limits • Ensure the immediate tracking down and scrutiny of important abrupt changes in the Company's financial figures, procedures or personnel, as well as the regular control of the volume and causes underlying deviations between projections and corporate end results, as submitted to the Board

	<ul style="list-style-type: none"> • Approve Client and counterparty limits • Approve policy description concerning information systems and monitor the information systems in place • Establish policy regarding the amount of information provided to Clients about the nature and risks of Financial Instruments according to the Client classification • Supervise the Disaster Recovery Plan
Risk Manager	<ul style="list-style-type: none"> • Design the overall risk management system of the Company • Comply and implement the relevant provisions of the Law • Prepare the Risk Management policies and procedures • Provide training to relevant employees and the Senior Management, on risk-related issues • Analyze the market and its trends • Evaluate the effect of the introduction of any potential new services or activities on the Company's risk management • Measures for the monitoring of capital adequacy and large exposures • Draft written reports to the Management Body including recommendations. • Monitor Client and counterparty limits • Identify and manage the overall risks faced by the Company • Establish methods for risk monitoring and measurement • Monitor the performance and overall actions of the Dealing on Own Account Department • Prepare and implement the ICAAP of the Company • Apply stress testing scenarios and undertake analysis of the results, • Propose for additional, if necessary, capital allocation for Pillar 2 risks and other risks not covered by Pillar 1 • Apply the relevant provisions of the CRDIV requirements, as amended from time to time • Review the policy on maximum limits with respect to liquidity risk and market risk
Compliance Function	<ul style="list-style-type: none"> • Liaise with all relevant business and support areas within the Company • Monitor and assess the adequacy and effectiveness of the measures, policies and procedures put in place • Monitor and assess the level of Legal & Compliance Risk that the Company faces • Provide training to the staff of the Company in respect with the compliance function according to the Law • Communicate the relevant statutes of the IOM to each employee and notify them of any relevant changes therein • Develop and design the appropriate procedures of the Company, so as to prevent and resolve potential conflicts of interest • Ensure that all employees have the ability to identify cases of potential conflicts of interest. • Disclose to Clients the general nature and any potentially present

	<p>conflicts of interest</p> <ul style="list-style-type: none"> • Keep records regarding conflict of interest situations • Consent and approve the Company's Replacement Policy • Establish and implement the measures as regards personal transactions and notify each relevant person of the restrictions on personal transactions • Review the Company's website, on at least annual basis • Ensure that the termination process of Clients account is followed • Ensure that all relevant information is included in the Company's outsourcing agreements • Ensure that the performance of multiple functions by the Company's relevant persons does not and is not likely to prevent those persons from discharging any particular function soundly, honestly, and professionally • Follow up Client complaints or grievances in relation to the Administration/Back Office Department and filing these complaints. • Approve the information script and/or standard FAQ which shall state the information that can be shared with Clients • Monitor the development and periodic review of product governance arrangements
<p>Internal Audit</p>	<ul style="list-style-type: none"> • Establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements • Provide timely, accurate and relevant reporting in relation to internal audit matters to the Board of Directors and the Senior Management of the Company, at least annually. • Provide the Company with an Independent confirmation that the process followed by the Company is according to the Board's requirements • Provide the Company with an Independent review of the risk assessment, stress testing and capital allocation exercises performed, and shall confirm their compliance with the policies and procedures approved by the Board of the Company • Perform an Independent validation of all numbers included in the ICAAP Report and shall confirm their agreement with the financial records
<p>AMLCO</p>	<ul style="list-style-type: none"> • The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income • To decrease the probability of appearance among the Customers of the Company of any persons/organizations engaged in illegal activity and/or related with such persons/organizations • To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing • To ensure compliance with anti-money laundering laws and

	directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities
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2.8 Information flow on risk to the management body

Risk information flows up to the Board directly from the business departments and control functions. The Board ensures that it receives on a frequent basis, at least annually written reports regarding Internal Audit, Compliance, Money Laundering and Terrorist Financing and Risk Management issues and approves the Company's ICAAP report as shown in the table below:

Table 6: Information flow on risk to management body

No.	Report Name	Owner of Report	Recipient	Frequency
1	Risk Management Report	Risk Manager	Senior Management, Board, CySEC	Annually
2	Pillar I – CRDIV CoRep Forms	Risk Manager	Senior Management, Board, CySEC	Quarterly
3	ICAAP (Pillar 2) Report	Risk Manager	Senior Management, Board	Annually
4	Pillar 3 Disclosures	Risk Manager	Senior Management, Board	Annually
5	Risk Register	Risk Manager	Senior Management, Board	Annually
6	Compliance Report	Compliance Officer	Senior Management, Board, CySEC	Annually
7	Internal Audit Report	Internal Auditor	Senior Management, Board, CySEC	Annually
8	Anti-money laundering (AMLCO) Report	Anti-money laundering Compliance Officer	Senior Management, Board, CySEC	Annually
9	Audited Financial Statements	External Auditor	Senior Management, Board, CySEC	Annually
10	Form 144-14-11 'Prudential Supervision Information'	Risk Manager	Senior Management, Board, CySEC	Annually
11	Form 20-01 (Recovery Plan)*	Risk Manager	Senior Management, Board, CySEC	Every Two Years
12	Resolution Templates (XBRL)**	Risk Manager	Senior Management, Board, Resolution Authority (CBC)	Annually

*CIFs which are subject to simplified obligations for the purpose of preparing their recovery plans according to Directive DI20-01

**Starting from 2021.

Furthermore, the Company believes that the risk governance processes and policies are of at most importance for its effective and efficient operation. The processes are reviewed and updated on an annual basis or when deemed necessary.

Reporting/Notification Deadlines amid the impact of COVID-19

In light of the reporting obligations for the year 2020, CySEC announced extension for the most of the annual reporting obligations due to the outbreak of Coronavirus (COVID-19).

CySEC has issued on 17 March 2020, the Circular C365 in order to inform CIFs that the recent developments on the outbreak of the COVID-19 may prevent CIFs from submitting relevant reports/notifications to CySEC by the designated deadlines. Moreover, it has issued on 31 March 2020, the Circular C373 in order to inform CIFs regarding a further extension of the deadlines for submitting the relevant reports to CySEC. Finally, CySEC issued the Circular C381 in order to inform CIFs regarding the publication deadline of the Pillar III Disclosures report for the year 2019 and the submission deadline of the External Auditors' verification report for the year 2019.

In this respect, the table below indicating the new deadline dates set and the respective announcement for each reporting obligation:

Regulatory Obligations Deadlines	Current Deadline	Extension Deadline	Circular
Capital Adequacy Forms based on the Audited Financial Statements	31/05/2020	31/07/2020	C373
Annual Risk Management Report	30/04/2020	31/07/2020	C373
Annual Audited Financial Statements	30/04/2020	31/07/2020	C373
Annual Disclosure & Market Discipline Report (Pillar III Report)*	30/04/2020	31/07/2020	C381
Annual Fees to CySEC Form 87-03-01	30/04/2020	31/07/2020	C372
Prudential Supervision Information Form 144-14-11	30/06/2020	31/08/2020	C373
External Auditor's Verification Report on Pillar III Disclosures	31/05/2020	31/08/2020	C381

**CIFs anticipate that the publication of their Pillar III disclosures will be delayed, should inform the market participants for that delay, the reasons of delay and, to the extent possible, their estimated publication date.*

Further to the above, the Company managed to deliver all Reports by the extended deadlines.

3. OWN FUNDS

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

The Company throughout the year under review the Company manages its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

During the 12-month accounting period the Company complied fully with all capital and liquidity requirements and operated well within the regulatory requirements.

The Total Capital Ratio of the Company as at 31 December 2020 was above the minimum regulatory capital of 10.5% (8% + buffers).

The Company's Combined Buffer Requirement consists of the following:

- Regulatory capital requirement of the level of 8%,
- Capital Conservation Buffer ("CCB") and
- Countercyclical Capital Buffer ("CCyB").

3.1. Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information relating to their own funds of the institution. Furthermore, institutions shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution.

The Company's regulatory capital comprises of CET1 and Tier 2 capital. The composition of the capital base and capital ratios of the Company are shown in the following table:

Table 7: Composition of the capital base and capital ratios

Item	€000
CET1 capital before regulatory adjustments	
Capital instruments and the related share premium accounts	1,250
Other Reserves	(0)
Retained earnings	846
CET1 capital: regulatory adjustments	
Additional deductions of CET1 Capital due to Article 3 of the CRR (*)	(87)
CET1 capital	2,009
AT1 capital	-
Tier 1 capital (T1 = CET1 + AT1)	2,009
Tier 2 (T2) capital	400
Total capital	2,409

Risk weighted assets	
Credit risk	1,086
Market risk	1,696
Operational risk	1,811
Total risk weighted assets	4,593
Capital ratios and buffers	
Common Equity Tier 1	43.75%
Tier 1	43.75%
Total Capital	52.46%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or)-SII buffer), expressed as a percentage of risk exposure amount)	7.00%
<i>of which: capital conservation buffer requirement</i>	2.50%
<i>of which: counter cyclical buffer requirement(**)</i>	-
CET1 available to meet buffers(***)	37.75%

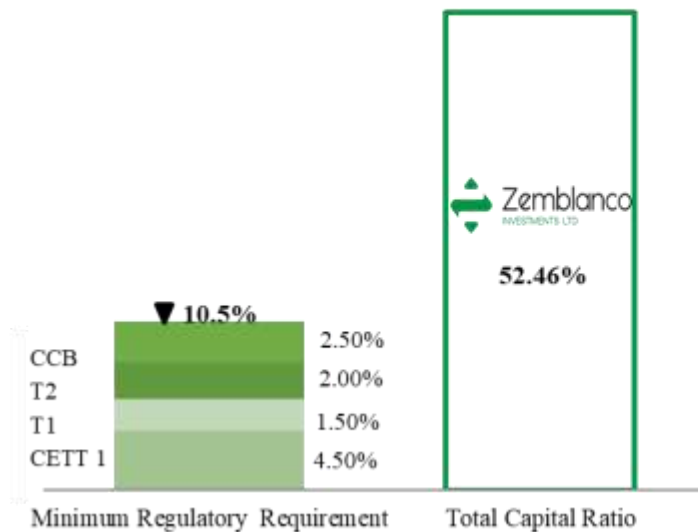
**Treatment pursuant to Circular C162 (Capital adequacy requirements - Change in the treatment of the Investors Compensation Fund (“ICF”) Contribution) on 10 October 2016, according to which the contribution to ICF will no longer be risk weighted as an “exposure to public sector entities” pursuant to paragraph 13(3) of Directive DI144-2014-15. The said ICF exposure will be deducted from CET1 Capital pursuant to Article 3 (Application of stricter requirements by institutions) of the CRR. The aforementioned Article gives the member states the power to request from the institutions to hold own funds in excess of those required by the CRR. Moreover, according to the Circular C334 (Treatment of the additional cash buffer of Investors Compensation Fund (‘ICF’) in the own funds calculation), CIFs should deduct the additional Cash Buffer of 3 per thousand of the eligible funds and financial instruments of their clients as at the previous year calculated according to paragraph 11(6) of the Directive DI87-07 (operation of the ICF).*

*** No capital requirements derived from Company’s exposures for 2020.*

**** Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets).*

The figures below illustrate the Capital Ratios and the breakdown of the exposures for the year ended 31 December 2020:

Capital Requirements



Overall Exposure Breakdown



Further to the above and in light of the upcoming amendments to the prudential regulatory framework (IFR/IFD), the Company has concluded that the Company will be categorised as a Class 2 Investment firm and as such its total capital requirement will be the higher of:

- Fixed Overheads Requirement (is calculated as 25% of Fixed Overheads of the preceding year)
- K-factors requirement (shall be equal with the RtC proxies, RtM and RtF are excluded from the calculation of the capital requirements for limited license CIF)
- Minimum Initial Capital of €750k (since is not authorised to provide the investment service of “Dealing on Own account”)

In this respect, the Company has already assessed its capital adequacy position taking into consideration the above new methodology in order to ensure that the appropriate actions will be taken to ensure compliance with the new prudential requirements.

3.2. Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

In order to meet the requirements for disclosure of the main features of these instruments, the company discloses the capital instruments’ main features as outlined below:

Table 8: Main features of capital instruments

Capital Instruments Main Feature	CET1		Tier 2
Issuer	Zemblanco Investments Ltd		Zemblanco Investments Ltd
Regulatory Treatment			
Eligible at Solo/(sub)consolidated/solo	Solo		Solo
Instrument type	Common Equity		Subordinated loan
Amount recognized in regulatory capital	€1,250k		€400k
Nominal amount of instrument	€1,250k		€400k
Issue Price	Various		€400k
Accounting classification	Shareholders' Equity		Liability
Original date of issuance	<i>Share Capital Increase</i>	<i>Effective Date</i>	25/05/2017
	€1k	12/06/2012	
	€124k	29/07/2015	
	€129.5k	30/09/2015	
	€90k	10/05/2016	
	€150k	28/06/2016	
	€120k	31/10/2016	
	€385.5k	01/03/2017	
€250k	12/10/2017		
Perpetual or dated	Perpetual		Dated
Original maturity date	No maturity		26/05/2027
Issuer call subject to prior supervisory approval	No		No
Coupons / dividends			
Fixed or floating dividend/coupon	Floating		Fixed
Coupon rate and any related index	N/A		1%

The Company's capital resources consist of CET1 and Tier 2 Capital. No additional Tier 1 capital available.

3.3. Balance Sheet Reconciliation

Institutions shall disclose a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items, filters, deductions and the balance sheet in the audited financial statements of the institution as follows:

Table 9: Balance Sheet Reconciliation

Item	€000
Equity	
Share capital	1,250
Other Reserves	(0)
Retained earnings	846
Total Equity as per the Audited Financial Statements	2,096
Regulatory Deductions	
Additional deductions of CET1 Capital due to Article 3 of the CRR	(87)
Tier 2	
Subordinated Loan	400
Total Own funds as per the CoRep Forms	2,409

4. COMPLIANCE WITH THE REGULATION AND THE OVERALL PILLAR II RULE

4.1. Internal Capital

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

4.2. Approach to assessing adequacy of Internal Capital

The Company has adopted the Pillar I plus approach whereby it determines the minimum capital required under Pillar I methodology and subsequently incorporates in that methodology the risks that are either not covered or are partially covered by Pillar I. Initially an assessment is made on the general financial position of the Company both from its financial statements and its Capital Adequacy Returns.

The Pillar I variable capital requirement is the sum of the credit risk and market risk requirements and the operational risk. In order to validate the adequacy of the above requirements under the Pillar I calculations, the ICAAP proceeds with the following individual tests:

- The adequacy of the credit and market risk requirements is assessed with reference to all relevant balance sheet items in order to ascertain if there are additional risks that are not covered by Pillar I
- Other risks connected with the balance sheet, such as liquidity risk and concentration risk, are reviewed in order to establish whether there should be an additional requirement that might not be covered under Pillar I
- The overall capital adequacy is tested by adding together the resulting requirement of the identified risks.
- The absolute impact of combinations of scenarios, including a severe market downturn, is considered in relation to the financial forecasts of the business to assess the potential impact on the capital base over a three year period (forward-looking).
- A comprehensive risk assessment is carried out for all risks, categorizing them under a risk profile by attributing the anticipated impact and likelihood of occurrence.
- Finally, additional measures are set for the mitigation of the identified risks as well as capital allocation.

The Company operates a fully integrated ICAAP process throughout the year that rolls into the final ICAAP assessment. The Company also performs monthly key risk assessments supported by periodic stress testing. The ICAAP process considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against them both currently and in the future.

The ICAAP Report describes how the Company implemented and embedded its ICAAP within its business. The ICAAP also describes the Company's Risk Management framework e.g. the Company's risk profile and the extent of risk appetite, the risk management limits if any, as well as the adequate capital to be held against all the risks (including risks other than the Pillar I risks) faced by the Company.

With regards to the ‘use test’ the following evidence shall be used to support that the ICAAP is embedded within the Firm:

- Senior management or board challenge, review and sign-off procedures; including any relevant notes in minutes from board and risk committee meetings.
- The extent to which the ICAAP is part of the firm’s capital management process, including the extent and use of capital modelling or scenario analysis and stress testing within the firm’s capital management policy. For example, in setting pricing and charges and the level and nature of future business.

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

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

The graph below illustrates the process between ICAAP and SREP:



The Supervisory Review and Evaluation Process (SREP) is the supervisory tool for establishing the appropriate level of capital resources that a CIF should hold in order to meet its present and future capital requirements over a period of up to five years. Circular C027 outlines how CySEC applies the supervisory review and evaluation process (SREP) when reviewing the CIFs’ internal capital adequacy assessment processes (ICAAP) under the framework of the paragraph 33 of the Directive.

5. PILLAR I CAPITAL REQUIREMENTS

The following tables show the overall Pillar I minimum capital requirement and risk weighted assets for the Company under the Standardized Approach to Credit Risk and Market Risk and the Basic Indicator Approach for the Operational Risk.

5.1 Credit Risk

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises when counterparties fail to discharge their obligations and this could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The Company has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Directive. The Company continuously monitors the fair value calculations, forecast and actual cash flows, and cost budgets so that to ensure that the carrying level of Company's own funds and consequently the Capital Adequacy ratio meet the regulatory requirements at all times.

Trade receivables are shown net of any provision made for impairment. The management believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in the trade receivables. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

5.1.1. Credit Risk Adjustments

The Company assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. For those trading receivables that are 90 days or more past due, in non-accrual status, the Company classifies them as "in default", thus an impairment test will emerge.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a receivable is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income. None of the derivative financial instruments is either past due or impaired.

IFRS 9 Impairment

IFRS 9 introduced a new model for recognition of impairment losses – the expected credit losses (“ECL”) model. The new rules require that entities will have to record an impairment loss equal to the 12-month ECL for financial assets that have not suffered a significant increase in credit risk since initial recognition. Where there has been a significant increase in credit risk since initial recognition, impairment is measured using lifetime ECL rather than 12-month ECL. Entities must calculate probability of default (“PD”), losses given default (“LGD”) and exposures at default (“EAD”) to estimate expected credit loss provisioning amounts. The model includes operational simplifications for lease and trade receivables which require lifetime losses to be calculated.

The Company has the following types of financial assets that are subject to the expected credit loss model: cash and cash equivalents. The Company provides for credit losses against loans to related parties, receivables, other receivables, and cash and cash equivalents. The loss allowance was not reflected on the position as it is the Company's policy not to adjust for immaterial amounts. The first €100.000 has been deducted from the calculation in case of EU banks under the Deposit Guarantee Scheme.

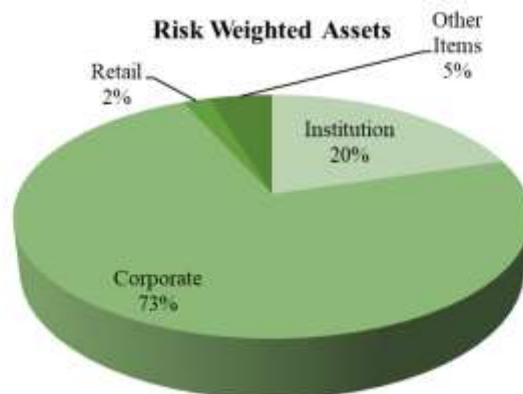
5.1.2. Credit Risk – Risk Weighted Assets

The minimum capital requirement for Credit risk is calculated by exposure using a factor of 8%. The following table shows the risk-weighted exposure amounts and the corresponding minimum capital requirements as at 31 December 2020 of the Company broken down by exposure class:

Table 10: Exposure classes as at 31 December 2020

Exposure class	Risk Weighted Assets	Capital Requirements
	€000	€000
Institutions	220	18
Corporates	793	63
Retail	22	2
Other Items	51	4
Total	1,086	87

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.



5.1.3. Credit Risk – Analysis of Average exposures and total amount of exposures after accounting offsets

The Company shall disclose the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposures as follows:

Table 11: Analysis of Average Exposures

Exposure class	Original exposure amount, net of specific provisions	Average Exposure
	€000	€000
Institutions	934	843
Corporates	793	784
Government	172	206
Retail	30	21
Other Items	51	64
Total	1,979	1,919

5.1.4. Credit Risk – Risk Weighted Assets by Geographical distribution of the exposure classes

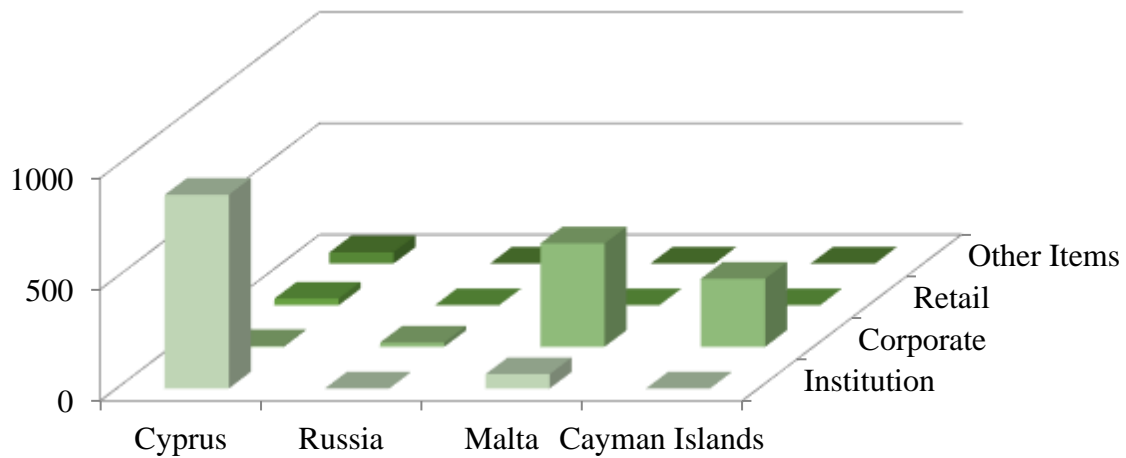
The Company shall disclose the geographical distribution of the exposures, broken down in significant areas by material exposures classes. The geographical distribution of the exposure classes of the Company are as follows:

Table 12: Geographical distribution of the exposure classes

Exposure class	Cyprus €000	Malta €000	Cayman Island €000	Russia €000	Total €000
Institutions	870	64	0	0	934
Corporates	4	465	306	19	793
Government	0	0	0	172	30
Retail	30	0	0	0	172
Other Items	51	0	0	0	51
Total	954	529	306	190	1979

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period

Geographical Distribution of the Exposures



5.1.5. Credit Risk – Distribution of exposures by industry

The Company shall disclose the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate as follows:

Table 13: Exposures by industry

Exposure class	Banking/Financial services	Private Individuals	Other	Total
	€000	€000	€000	€000
Institutions	934	-	-	934
Corporates	793	-	-	793
Government	-	-	172	172
Retail	-	30	-	30
Other Items	-	-	51	51
Total	1,727	30	222	1,979

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

5.1.6 Residual maturity broken down by exposure classes

The Company shall disclose the residual maturity breakdown of all the exposures, broken down by exposure classes, as follows:

Table 6: Residual maturity broken down by exposure class

Exposure Class	Residual Maturity ≤ 3 months	Residual Maturity > 3 months	Total
	€000	€000	€000
Institutions	934	-	934
Corporates	22	771	793
Government	-	172	172
Retail	30	-	30
Other Items	-	51	51
Total	986	993	1,979

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

5.2. Use of ECAIs

The Company shall disclose the names of the nominated External Credit Assessment Institutions (“ECAIs”) and the exposure values along with the association of the external rating with the credit quality steps.

The Company uses external credit ratings from Moody’s. These ratings are used for all relevant exposure classes. The general ECAI association with each credit quality step is as follows:

Table 15- ECAI Association with each credit quality step

Credit Quality Step	Moody’s Rating	Corporate	Institutions			Sovereign
			Sovereign method	Credit Assessment method		
				Maturity > 3 months	Maturity 3 months or less	
1	Aaa to Aa3	20%	20%	20%	20%	0%
2	A1 to A3	50%	50%	50%	20%	20%
3	Baa1 to Baa3	100%	100%	50%	20%	50%
4	Ba1 to Ba3	100%	100%	100%	50%	100%
5	B1 to B3	150%	100%	100%	50%	100%
6	Caa1 and below	150%	150%	150%	150%	150%

Exposures to unrated institutions are assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated, as specified in Article 121 of CRR. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favourable risk weight of 20% if specific conditions are met.

The Other Items category includes tangible assets and prepayments for which the Company cannot determine the counterparty risk weighted at 100%, cash items in the process of collection risk weighted at 20% % and cash in hand risk weighted at 0%. Exposures to corporate clients were risk weighted by 100% risk factor since they were all unrated and were incorporated in countries with no credit rating or with credit assessment up to credit quality step 5

Table 16: Breakdown of exposures by asset class and risk weight under the Standardised approach

Exposure Class	Risk Weight					Total €000	Of which unrated €000
	0%	20%	50%	75%	100%		
	€000	€000		€000	€000		
Institutions	0	822	112	0	0	934	375
Corporate	0	0	0	0	793	793	793
Government	172					172	0
Retail	0	0	0	30	0	30	30
Other Items	0	0	0	0	51	51	51
Total	172	822	112	30	844	1979	1,249

The table below presents exposure values before and after credit risk mitigation of the Company, corresponding to Credit Quality Steps (CQS). The values before credit risk mitigation represent the initial exposure value net of value adjustments while the values after credit risk mitigation represent exposures taking into account the eligible financial collateral funded and unfunded credit protection

Table 17: Exposures before and after credit risk mitigation as at 31 December 2020

Credit Quality Step	Exposure values before credit risk mitigation €000	Exposure values after credit risk mitigation €000
CQS 4	172	172
CQS 1	559	559
Unrated	1,249	1,249
Total	1,979	1,979

5.3. Securitisations

The Company is not an active participant in the origination of securitisations (meaning pooled assets with tranche risk), and accordingly detailed Pillar III disclosures are not made.

5.4. Counterparty Credit Risk

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

The company takes margin cash deposits as funded credit protection (collateral) for derivatives and uses the Financial Collateral Comprehensive Method for calculation of the funded credit protection.

The Company’s counterparty credit risk as at 31 December 2020 was €771k as shown in the table below:

Table 18: Counterparty Credit Risk as at 31 December 2020

Counterparty	Country	Asset Class	Final Exposure Amount EUR'000	Risk Weight	Risk Weighted Assets EUR'000
Altafinch Malta	MT	Corporate	465	100%	465
Russian Federation	RU	Government	172	0%	-
Intellect Lending Group Ltd	KY	Corporate	306	100%	306
TOTAL			942		771

Counterparty Policies with respect to wrong-way risk exposures

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

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

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

A conservative treatment for the purpose of calculating exposure profiles is applied to material trades with wrong-way risk features. The wrong-way risk framework applies to OTC, securities financing transactions and centrally cleared trades. If material correlation is identified, the collateral is deemed ineligible for regulatory risk calculations and risk is measured on an uncollateralised basis. The Company does not have any Wrong-Way Risk Exposures.

5.5. Market Risk

Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. From a regulatory perspective, market risk stems from all the positions included in banks' trading book as well as from commodity and foreign exchange risk positions in the whole balance sheet. As per the requirements of the Regulation, the Company shall disclose the own funds requirements for Market Risk exposures.

The Company benefits from a number of factors that reduce the volatility of its revenue and protect it from significant changes in market conditions such as its product range. This diversification leads to a significant reduction in the Company's exposure to price risk. The Company's exposure to risk price at any point in time depends primarily on short-term market conditions and client activities during the trading day, hence the exposure at each reporting date may not be representative of the price risk exposure faced by the Company over the year.

The following table discloses the Company's market risk as 31 December 2020:

Table 19: Market Risk Exposure

Risk Weighted Assets	2020 €000
Traded Debt Instruments	604
Foreign Exchange	1,091
Total Market Risk Exposure	1,696
Total Market Risk Requirements	136

5.5.1. Foreign Exchange Risk

The Company's reporting currency is Euro. Foreign currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency.

The Company is exposed to foreign currency risk arising from various currency exposures. Furthermore, funds deposited by clients may not always be maintained in the originally deposited currency but may instead be converted to other currencies on the basis of the management's decisions. This may expose the Company to Foreign currency risk. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly. If the sum of the Company's overall net foreign-exchange position and its net gold position exceeds 2% of its total own funds, the Company calculates own funds requirements for foreign exchange risk. The own funds requirement for foreign exchange risk is the sum of its overall net foreign-exchange positions and its net gold position in the reporting currency, multiplied by 8%.

The Company's foreign exchange risk capital requirement is €48k emanating from a net foreign exchange exposure of €604k based on the latest relevant calculations of the Company's capital requirements, as at 31st of December 2020. 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.

Closely Correlated Currencies

Following the EBA's Final draft Implementing Technical Standards on Closely Correlated Currencies under Article 354 (3) of CRR, the Company may apply lower own funds requirements against positions in relevant closely correlated currencies as those are disclosed by EBA. In this respect, for the calculation of the foreign exchange risk for matched positions on closely correlated currencies, a capital requirement of 4% instead of 8% is used. The Company's positions in non-reporting currencies and gold for the period were zero.

5.5.2. Position Risk

The position risk is the risk involved with a certain trading position, commonly incurred due to the changes in price. The Company calculates its capital requirements for position risk as the sum of the own funds requirements for the general and specific risk of its positions in debt and equity instruments.

Traded Debt Instruments

Position Risks in Traded Debt Instruments arising from the investments on Fixed Income instruments such as bonds. The position risk on a traded debt instrument shall be divided into two components in order to calculate the capital required against it:

- a. Specific risk— this is the risk of a price change in the instrument concerned due to factors related to its issuer and
- b. General risk — this is the risk of a price change in the instrument due to a change in the level of interest rates.

Net positions shall be classified according to the currency in which they are denominated and shall calculate the capital requirement for general and specific risk in each individual currency separately. The capital requirement for general market risk for traded debt instruments is calculated under the maturity-based approach. The instruments' net positions shall be grouped into the three zones (maturity bands) according to the residual time to maturity and whether their coupon is above/below 3%. The Company's trading book exposure is presented in the table below.

Table 20: Position Risks in Traded Debt Instruments

Currency: EUR	Net Positions	Weighting factor	Positions subject to capital charge	Own Funds Requirements	Total Risk Exposure
	€000	%	€000	€000	€000
Traded Debt Instruments in Trading Book				85	1,065
General Risk					
Zone 3: Maturity >5<= 7 years	306	2.75%	8	24	
Zone 3: Maturity >7<= 10 years	465	3.25%	15	17	
Specific Risk					
Debt securities	771	8%	62	62	
Currency: USD	Net Positions	Weighting factor	Positions subject to capital charge	Own Funds Requirements	Total Risk Exposure
	€000	%	€000	€000	€000
Traded Debt Instruments in Trading Book				2	27
General Risk					
Zone 3: Maturity >10<= 15years	171	1.25%	2	2	
Specific Risk					
Debt securities	171	0%	-	-	

5.5.3. Equity Risk

The sum of the absolute values of all the Company's net long positions and all its net short positions is its overall gross position. The Company calculates, separately for each market, the difference between the sum of the net long and the net short positions. The sum of the absolute values of those differences is its overall net position.

The specific risk on this individual equity can be ignored if the stock-index future in question is exchange traded and represents a relevant appropriately diversified index.

The Company multiplies its overall gross position by 8% in order to calculate its own funds requirement against specific risk. The own funds requirement against general risk are the Company's overall net position multiplied by 8%.

For the year 2020, the Company's equity risk was zero.

5.5.4. Commodities Risk

The risk of the unexpected changes in commodities prices. These commodities are split into precious metals (except gold), base metals, agricultural products and other energy products (oil gas). The Company calculates its capital requirement with respect to commodities risk using the Simplified Approach.

Each position in commodities or commodity derivatives is expressed in terms of the standard unit of measurement. The spot price in each commodity is expressed in the reporting currency.

The capital requirements for each commodity are calculated as the summation of the following:

- 15% x net position (long or short) x spot price for the commodity
- 3% x gross position (long plus short) x spot price for the commodity

The overall capital requirements for commodities risk is the sum of capital requirements for each commodity. The Company's Commodities risk for the year 2020 was zero.

5.5.5. Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk in relation to its bank deposits and from the interest charged on the derivative financial instruments that remain open overnight.

The Company's income and operating cash flows are substantially independent of changes in market interest rates. Other than cash at bank, which attracts interest at normal commercial rates, the Company has no other significant interest bearing financial assets or liabilities.

The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

5.6. Operational Risk

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk. The following list presents some event-type categories, included in operational risk, with some examples for each category:

Internal Fraud	<ul style="list-style-type: none"> • misappropriation of assets; • tax evasion; • intentional mismarking of positions; • bribery.
External Fraud	<ul style="list-style-type: none"> • theft of information; • hacking damage; • third-party theft; • forgery.
Employment Practices and Workplace Safety	<ul style="list-style-type: none"> • discrimination; • workers compensation; • employee health; • safety.
Clients, Products, & Business Practice	<ul style="list-style-type: none"> • market manipulation; • antitrust; • improper trade;
Damage to physical assets	<ul style="list-style-type: none"> • damage to physical assets from a natural disaster, e.g. earthquake
Business Disruption & Systems Failures	<ul style="list-style-type: none"> • utility disruptions; • software failures; • hardware failures.
Execution, Delivery, & Process Management	<ul style="list-style-type: none"> • data entry errors; • accounting errors; • failed mandatory reporting; • negligent loss of Client assets.

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.

Furthermore, the Company has in place policies and processes whose implementation assists with the evaluation and management of any exposures to operational risk.

The Company has implemented an operational risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner consisting of, inter alia, the following components:

- Maintaining a four-eye structure and implementing board oversight over the strategic decisions made by the heads of departments;
- A Disaster Recovery Plan has been designed in order to be used in the event of a force majeure affecting the Company's internal systems and databases; and
- Maintenance of Risk Registers in the Context of the ICAAP;
- A Business Continuity Plan has been implemented which helps protect all of the Company's information databases including data, records and facilities.
- The majority of actions occurring in the Company's systems are automated and therefore it is less likely that a human error will occur;
- Review of risks and controls as part of the Internal Audit function;
- Regular review and updating of the Company's policies;

Following the outbreak of COVID-19 in Cyprus, the Firm has taken the required measures to ensure that its employees have access to its technology infrastructures necessary for the completion of their tasks and that additional system for critical functions are being provided. In this respect, the Business Continuity Plan has been amended accordingly. For the calculation of operational risk in relation to the capital adequacy reports, the Company uses the Basic Indicator Approach (BIA). Under the BIA, the own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator. Based on the relevant calculations the Company's exposure to Operational Risk, as at 31 December 2020, was **€1,811k** as provided by the table below:

The tables below show the Company's exposure to Operational Risk:

Table 21: Operational Risk capital requirements

Basic Indicator Approach	Audited year	Audited year	Audited year
	2018 €'000	2019 €'000	2020 €'000
Total Additions	742	960	1,513
Total Deductions	61	96	161
Relevant Indicator	681	865	1,352
Average	966		
Operation Risk Exposure Amount	1,811		
Own Funds Requirement	145		

Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15% of the average of three years of the above relevant indicator, resulting to **€145k** capital requirements.

6. LEVERAGE RATIO

The Company shall disclose the Leverage Ratio and how it applies the definition of Tier 1 Capital.

The leverage ratio is a supervisory tool for the European Union, which it is in line with international agreements. Moreover, it is a supplementary non-risk based ratio that aims in monitoring the excessive built-up of leverage on the balance sheet of institutions. The leverage ratio is expressed as a percentage of Tier 1 Capital over the total leverage exposure measure.

The total leverage exposure measure is defined as the sum of exposure values of all assets and all off-balance sheet items not deducted when calculating Tier 1 Capital.

The Leverage Exposure measure includes:

- All On-balance sheet assets;
- Derivative exposures;
- Securities Financing Transaction exposures;
- Other non-trading book exposures.

The Basel Committee has set a benchmark of 3% for a minimum Leverage ratio.

The Company's Leverage Ratio for the period up to 31 December 2020 was **101.53%**:

Table 22: Leverage Ratio

Leverage Details	31/12/2020 €000
Exposure Values	
Derivatives: Current Replacement Cost	-
Derivatives: Add-on under the mark-to-market Method	-
Other assets	1,979
Total exposures	1,979
Capital and regulatory adjustments	
Tier 1 capital – fully phased-in definition	2,009
LEVERAGE RATIO	101.53%

The Company monitors leverage closely in order to ensure that any possible excess of the Leverage Limit will be identified and managed promptly. The Company's leverage ratio of 101.53% is well above the minimum ratio of 3%.

7. OTHER RISKS

7.1. Concentration Risk

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

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

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

Large Exposures

The concentration risk arising from exposures to each counterparty, including central counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures such as a single collateral issuer, must be addressed and controlled including by means of written policies and procedures.

For the purposes of calculating large exposures, exposures means any asset or off-balance sheet item without application of the risk weights or degrees of risk there provided for. Exposures arising from derivative instruments are calculated in accordance with the treatment for Counterparty Credit Risk (CCR) applied by each Investment firm.

According to Paragraph 61 - Limitations on exposures to directors and shareholders of the Directive, a CIF is not allowed to have exposures to all its directors more than 1% and to all its shareholders that are not an institution, more than 2% of its eligible capital. Exposures to shareholders and directors are monitored and kept within the limits.

Furthermore, the allowable limits to institutions (100% of the total eligible capital) and to non-institutions (25% of the total eligible capital) are closely monitored and controlled. As 31 December 2020, the Company had exposure with 2 institutions, RCB Bank Ltd and Astrobank in the Banking Book and an exposure in the Trading Book which were below the allowable limit and above the reportable limit of 10% of the total eligible capital but below the maximum allowable limit.

The Company maintains proper accounting controls in order to identify, monitor and control of all exposures including clients' balances and the value of the assets held as financial instruments under pledge.

7.2. Reputation Risk

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

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

7.3. 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.

7.4. Business Risk

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

7.5. Capital Risk Management

Capital Risk is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company. Such procedures are explained in the Procedures Manual of the Company.

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

7.6. Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects

of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Procedures Manual. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore the risk of non-compliance is very low.

7.7. Legal and Compliance Risk

Legal and Compliance Risk could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. Following the replacement of the Law 144(I)/2007 by Law 87(I)/2017 for the purpose of harmonization with MIFID II, several regulatory changes were applied that may cause the Company's exposure to compliance risk. The Company among others, is also exposed to legal and compliance risk arising from inability or inadequate arrangements to comply with the requirements related to the:

- Product Governance (Circular C236, Directive DI87-01),
- New rules governing derivatives on virtual currencies (Circular C268),
- Commission Delegated Regulation of 8 June 2016 of the European Parliament and of the Council with regard to regulatory technical standards for the annual publication by investment firms of information on the identity of execution venues and on the quality of execution,
- Policy Statement on the Risk Management Arrangements of Cyprus Investment Firms
- Policy Statement on the replacement of the legal framework governing the operation of the investors compensation fund
- Policy Statement on the Investment-Based Crowdfunding Rules
- European Securities and Markets Authority Decision (EU) 2019/155 of 23 January 2019 renewing the product intervention measures relating to the marketing, distribution or sale of contracts for differences to retail clients,
- 4th AML Directive (Directive (EU) 2015/849)
- 5th AML Directive (Directive (EU) 2015/849)
- EMIR Refit
- Recovery and Resolution Plan (Circular C351, Regulation 2018/1624)

The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the Board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management. Finally and with respect the Implications of NBP, the Company has contractual agreements with solely with European Economic Area regulated entities and as such is not required to maintain a minimum additional capital buffer.

7.8. IT Risk

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

7.9. Risk Reporting

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

7.10. Liquidity Risk

Liquidity risk is defined as the risk 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 has policies and procedures with the object of minimizing such losses.

As a class 2 Investment Firm, the Company will be requested upon the implementation of the new prudential framework to hold an amount of liquid assets (defined as per the Article 43 of the IFR) equal to at least one third of the fixed overhead requirement.

The Company has already assessed whether it has adequate liquid assets and took the appropriate measures to ensure compliance with the new Liquidity Requirement which will be implemented on 26 June 2021.

7.11. Conduct Risk

Conduct risk is defined as the risk of an action, by an individual, financial institution or the industry as a whole, which leads to customer detriment or, undermines market integrity. This can bring sanctions and negative publicity. Moreover, EBA has defined conduct risk as the current or prospective risk of losses to an institution arising from inappropriate supply of financial services including cases of wilful or negligent misconduct. Consequently, conduct risk arises from failures of designated execution venues located in third countries associated with the Company.

Additionally, the Company is exposed to negative balances with its execution venues, in case of fast-pacing volatile market, where the execution venues cannot close a position at the Company's stop out limit. Therefore, the Company may be exposed to conduct risk arising from inadequate agreements with the execution venues and/or with the third parties that hold client's funds.

As part of risk management policy and tools, the Company has procedures in place to diversify its execution venues and monitor their financial position on an on-going basis. The financial soundness of the execution venues is closely monitored and the company is ready to switch to alternative execution venues, if necessary. Furthermore, the receivable/payable amounts with the execution venues are monitored on a daily basis. In particular, the Company examines its existing procedures and arrangements with respect to the products offered and services provided.

8. REMUNERATION POLICY

The Company has established a remuneration policy, which its purpose is to set out the remuneration practices of the Company taking into consideration the salaries and benefits of the staff, in accordance with the provisions of the Directive as well as the Circular 031 on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Company's size, internal organization and the nature, scope and complexity of its activities. Furthermore, the Company's remuneration strategy is designed to reward and motivate the people who are committed to maintaining a long term career with the Company and performing their role in the interests of the Company.

The design of the Policy is approved by the people who effectively direct the business of the Company, after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance. The people who effectively direct the business are responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks, that remuneration policies and practices can create. The Board discusses remuneration policy matters at least annually.

Furthermore, the Policy also benefits from the full support of senior management or, where appropriate, the supervisory function, so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures. Moreover, the Policy adopts and maintains measures enabling them to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

The Policy aims to provide for sufficient incentives so as for the personnel of the Company, including key persons, -to achieve the business targets, to deliver an appropriate link between reward and performance whilst at the same time consisting of a comprehensive, consistent and effective risk management tool that prevents excessive risk taking and /or misselling practices in light of financial incentives schemes, which could lead to compliance risks for the Company in the long-run.

8.1. Remuneration System

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management and members of the Board; the said practices are established to ensure that the rewards are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long term success.

The remuneration mechanisms employed are well known management and human resources tools in order to determine the remuneration of each staff member. Other factors taken into account for the remuneration of the Company's employees are the following:

- The financial viability of the Company,

- The general financial situation and the state in which the Company operates,
- Each employee's personal objectives (such as personal development, compliance with the Company's systems and controls, compliance with regulatory requirements, commitment and work ethics) performance evaluation and the rating received based on their annual performance in relation to the objectives set up at the beginning of the period,
- Each employee's professional conduct with Clients (such as acting in the best interest of the Client, fair treatment of Clients and inducing Client satisfaction), as applicable.

The Company's remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff. The remuneration includes all forms of benefits provided by the Company to its staff and can be Financial or non-Financial remuneration.

It is noted that the Company has taken into account its size, internal organisation and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee. Decisions on these matters are taken on a Board level while the remuneration policy is periodically reviewed.

The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for a staff member to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors. Furthermore, the employee's personal goals and performance evaluation in relation to the objectives set up at the beginning of the period and the employee's professional conduct with clients are taken into account in order to determine the remuneration.

The total remuneration of staff currently consists of a fixed component. The Fixed Remuneration (FR) has purpose to attract and retain Company's employees. This fixed amount of remuneration includes salary, fixed pay allowance and other cash allowances and all are determined based on the role and position of each employee, taking into account the experience, seniority, education, responsibility, and market conditions. Benefits provided to the relevant Company employees, such as private health insurance, indemnity insurance are not employee performance-related and are considered part of the fixed remuneration.

Moreover, the Company does not award, pay or provide guaranteed variable remuneration. The variable remuneration is as a performance-based remuneration that motivates and rewards staff members based on their results in relation with the targets set. It is not guaranteed and the BoD has determined a maximum percentage of variable remuneration relative to the fixed remuneration in order to ensure a compliant ratio between these two kinds of remuneration. Although, the maximum limit on variable remuneration set at 100% of fixed salary, the limit could be set at 200% upon shareholders' approval according to the Article 94 of Directive 2013/36/EU. However, all Company employees are eligible for the annual (one-off) bonus remuneration which is evaluated from their annual performance appraisal.

Furthermore there no remuneration is payable under deferral arrangements (with vested or unvested portions). Finally the Company did not pay any non-cash remuneration for the year under review, since the Company does not have non-cash instrument, such as shares or other equivalent non-cash instrument, in place.

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

8.2. Link between the pay and performance

The Company recognizes the responsibility that the Staff has in driving its future success and delivering value for the Company and that remuneration is a key component in motivating and compensating its employees. Furthermore, the overall remuneration policy incorporates an annual variable incentive compensation reflecting individual performance and overall performance.

The individual performance is assessed during the annual appraisal process, which establishes objectives for all staff covering both financial and non-financial factors, specific behavioral competencies including compliance and risk management behaviors with regards to the Company's procedures.

The Company must ensure that where remuneration is linked with performance, the total amount of remuneration is based on a combination of the performance assessment of:

- a. the individual (financial as well as non-financial criteria are taken into account; annual performance evaluation and performance rating are taken into account),
- b. the business unit concerned, and
- c. the overall results of the Company.

Further to the above, the Company implements a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit and its target is to promote the healthy competition amongst personnel, analysis of weak and strong sides of each employee performance-based and give feedback to the staff member in order to motivate them to be improved. The performance appraisal takes place in a multiyear framework in order to ensure that the appraisal process assess employee's long-term performance and that in the future.

The performance appraisal on medium and short-term is being performed as follows:

- a. Objectives are set in the beginning of each year (depending on the department appraisal process) defining what the Company functions, departments and individuals are expected to achieve during the year and half annually.
- b. Performance checks and feedbacks: managers provide support and feedback to the concerned staff annually and semi-annually, during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.
- c. Annual performance review: takes place annually. The annual performance review also determines the level of the annual (one-off) bonus to be awarded to the employees. This bonus depends on the annual performance evaluation of each employee the fulfillment of their annual performance related targets and the annual financial performance of the Company.

8.3. Remuneration of Senior Management Personnel and Directors

The remuneration policy of the Company is intended to ensure that the Company will attract and retain the most qualified Senior Management Personnel and Directors. As stated in Section 8.2 the criteria used for determining the remuneration of the Company's directors are segregated into quantitative and the qualitative criteria.

The quantitative remuneration criteria mostly rely on numeric and financial data such as the Company's performance and the individual performance evaluation and ratings of each member of the staff whose professional activities affect the risk profile of the firm.

In addition to the quantitative criteria, the Company has put in place qualitative criteria which include compliance with regulatory requirements and internal procedures, fair treatment of clients and client satisfaction. Moreover, the remuneration of the Company's non-executive directors is fixed and it is set at a level that is market aligned and reflects the qualification and competencies required based on the Company's size and complexity, the responsibilities and the time that the non-executive directors are expected to consume in order to serve the Company. The remuneration of the senior management personnel of the Company, including Board are shown in the following tables:

Table 23: Remuneration analysis split by Senior Management and key management personnel

2020	Senior Management (Executive Directors)	Key Management personnel	Non-Executive Directors
Fixed reward	162,363	150,211	12,296
Variable reward	1,917	1,417	0
Total	164,280	151,628	12,296
Number of beneficiaries	2	3	2

*The variable to fixed remuneration ratio is 1%

Companies are required to disclose the number of natural persons that are remunerated €1mln or more per financial year, in pay brackets of €1mln, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. Nevertheless, currently there are no natural persons at the Company that are remunerated €1mln or more per financial year and as such the above disclosure is not applicable to the Company. No sign-on payments have been awarded during 2020, while no severance payments were paid during the year. Furthermore, aggregate remuneration analyzed by business area is presented below:

Table 24: Aggregate remuneration analysis by business area

Business Area	Aggregate Remuneration
	€
Control Functions	207,735
Brokerage Department	57,893
Dealing on Own Account Department	50,279
Total	315,908

*Control functions include Executive Directors and MLCO.

