

**PILLAR III DISCLOSURES AND
MARKET DISCIPLINE REPORT
APRIL 2020**

YEAR ENDED 2019

SQUAREDFINANCIAL (CY) LTD

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The Disclosure and Market Discipline Report for the year 2019 has been prepared by SQUARED FINANCIAL (CY) LIMITED (ex. Aspide Financial Limited) as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directives DI144-2014-14 and DI144-2014-15 issued by the Cyprus Securities and Exchange Commission.

SQUARED FINANCIAL (CY) LIMITED states that any information that was not included in this report was either not applicable on the Company's business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.

*SQUARED FINANCIAL (CY) LIMITED is regulated by the Cyprus Securities and Exchange Commission under License number **329/17**.*

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Board of Directors declaration on the adequacy of risk management arrangements of the institution

The Board of Directors is ultimately responsible for the risk management framework of the Company. The Risk Management framework is the sum of systems, policies, processes and people within the Company that identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company's operations.

The Board of Directors approves in full the adequacy of Risk Management arrangements of the institution providing assurance that the risk management systems in place are adequate with regards to the institution's profile and strategy.

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1. Introduction

1.1. Investment Firm

Table 1: Company information

Company name	SQUARED FINANCIAL (CY) LIMITED
CIF Authorization date	23/06/2017
CIF License number	329/17
Company Registration Date	24/05/2016
Company Registration Number	HE 355968
Investment Services	
Reception and transmission of orders in relation to one or more financial instruments	
Execution of Orders on Behalf of Clients	
Portfolio Management	
Dealing on Own Account	
Ancillary Services	
Safekeeping and administration of financial instruments, including custodianship and related services	
Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	
Foreign exchange services where these are connected to the provision of investment services	

1.2. Purpose

The present report is prepared by *SQUARED FINANCIAL (CY) LIMITED* (the “Company”), a Cyprus Investment Firm (“CIF”) authorized and regulated by the Cyprus Securities and Exchange Commission (the “CySEC”, the “Commission”) under the license number 329/17 and operates in harmonisation with the Markets in Financial Instruments Directive (“MiFID II”).

In accordance with Regulation (EU) No. 575/2013 (the Capital Requirements Regulation, “CRR”), which was introduced in late 2014, the Company is required to disclose information relating to its risk exposure and management, capital structure, capital adequacy as well as the most important characteristics of the Company’s corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants.

This document is updated and published annually; it will, however, be published more frequently if there are significant changes to the business (such as changes to the scale of operations, range of

activities, etc.). CySEC is responsible for implementing and enforcing the European Capital Requirements Directive ('CRD'), a capital adequacy framework consisting of three 'pillars':

- **Pillar I** establishes minimum capital requirements comprising of base capital resources requirements; credit, market and operational risk capital requirements;
- **Pillar II** requires firms to undertake an overall internal assessment of their capital adequacy, considering all the risks which the firm is exposed to and whether additional capital should be held to cover risks not adequately covered by Pillar I requirements. This is achieved through the Internal Capital Adequacy Assessment Process ("ICAAP")
- **Pillar III** complements Pillars I and II and improves market discipline by requiring firms to disclose information on their capital resources and Pillar I capital requirements, risk exposures and their risk management framework

The 2019 Pillar III Disclosures Report sets out both quantitative and qualitative information required in accordance with Part 8 of the CRR and in particular articles 431 to 455, which set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure Report is audited by the Firm's external auditors and published on the Company's website at www.squaredfinancial.com on an annual basis.

Furthermore, the Board of Directors and the Senior Management have the overall responsibility for the internal control systems in the process of capital adequacy assessment and they have established effective processes to ensure that the full spectrum of risks faced by the Company is properly identified, measured, monitored and controlled to minimise adverse outcomes.

The Company's business effectiveness is based on the guidelines of the risk management policies and procedures put in place. The Board of Directors, Internal Audit, Risk Manager, Compliance and Anti-Money Laundering Officer control and supervise the overall risk system so that all units charged with risk management perform their roles effectively on a continuous basis.

As with all Investment Firms, the Company is exposed to a variety of risks and in particular to credit risk, market risk and operational risk. More information can be found in the sections below.

Moreover, pursuant to the Regulation (EU) 575/2013 (the "Regulation" or "CRR") and following the License extension to include Dealing on Own Account investment services, the Company is categorised as "**Full Scope**" CIF with minimum/initial capital requirements of €730,000.

The Company is making the disclosures on an individual (solo) basis and is based on the Annual Reports and Financial Statements which are prepared in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Cyprus Company Law, Cap. 113.

1.3. The Company

The Company, as a CIF, operates in Western and Eastern Europe along with other third-countries which has obtain prior authorization, offering Contracts for Difference (“CFD”) products and has 33 employees located in Cyprus.

The Company has a stable business model, and this is reflected in:

- A well-balanced capital allocation between the Company’s operations
- A geographically balanced model

The Company’s growth strategy focuses on its existing areas of expertise and the quality of its customer base. The Company strives for sustainable profitability consistent with its cost of capital and a balanced business model. To this end, the Company:

- Seeks to contain the volatility of its results
- Calibrates its capital ratio to ensure a significant safety margin relative to the minimum regulatory requirements
- Monitors the stability and diversification of its funding sources
- Ensures sufficient resilience in scenarios of liquidity shortages
- Tightly controls its foreign-exchange risks

The Company aims to maintain a diversified customer base, in order to diversify the respective risks accordingly.

The Company ensures that compliance rules are rigorously respected, especially in the area of anti-money laundering and counterterrorism financing. The Company monitors the loyalty of the behaviour of its employees with regards to customers and all its stakeholders, as well as the integrity of its investment and financial practices.

The Company considers its reputation to be an asset of great value that must be protected to ensure its sustainable development. The prevention and detection of the risk of harm to its reputation are integrated within all the Company’s operating practices. The Company’s reputation is protected by making its employees aware of the values of responsibility, ethical behaviour and commitment.

1.4. Regulatory Supervision

Overview

The minimum capital requirements as of 31 December 2019 for the CRD IV were calculated in accordance with the ‘Pillar I’ rules as set out by the Laws and Regulations, published by the CySEC. All CIFs under CySEC’s authority must meet the requirements with respect to capital adequacy and market discipline, which are comprised by the following:

- Regulation (EU) No. 575/2013 – Capital Requirements Regulation (“CRR”)
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation

- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive 4
- Law 87(I)/2017 – For the provision of investment services
- Directive DI144-2014-14 - For the prudential supervision of Investment Firms
- Directive DI144-2014-15 - On the discretions of CySEC arising from Regulation (EU) No. 575/2013

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 permits a transition period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2019. CRR is immediately binding on all EU member states. CRD IV governs access to internal governance arrangements including remuneration, Board of Directors (the “BoD”) composition and transparency.

Disclosure Policy: Basis and Frequency of Disclosure / Location and Verification

Company’s Disclosure Policy below, details its approach in complying fully with the Pillar III 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. Verification of these disclosures has been made by the external auditors and sent to CySEC.

Materiality of Disclosures

The Regulation provides that 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 regards 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 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 an 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(s):

www.SquaredFinancial.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 Manager.

2. Governance and Risk Management

2.1. Risk Management Objectives and Policies

To ensure effective risk management, the Company has adopted the Three Lines of Defense 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: Comprises 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.

2.2. Risk Management Framework

Implementing a high-performance and efficient risk management structure is a critical undertaking for the Company, in all businesses, markets and regions in which it operates, as are maintaining a strong risk culture and promoting good corporate governance. The Company's risk management supervised at the highest level is compliant with the regulations enforced by CySEC and the European regulatory framework and ensures to undertake 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 and Resolution 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'*. Furthermore, CySEC issued on 20 December 2019 the Directive DI20-01 on the *'establishment of simplified obligations as to the content and details of the recovery plans of CIFS' (the 'Directive')*.

In light of the above, CIFS that are subject to simplified obligations as per the paragraph 4 of Directive DI20-01 should:

- a) Submit to CySEC Form 20-01 (the 'Form') which represents the main contents of their recovery plan, by 30 September 2020 (submission period 01 September 2020 – 30 September 2020), and
- b) Update the content of the Form and submit it to CySEC every two years (Second submission should be made by 30 September 2022)

According to the latest available Audited Financial Statements, the Company is subject to the simplified obligations and as such the preparation of a recovery plan is not a requirement at this stage. However, the Company acknowledge the obligation to submit the Form 20-01 which represents the main contents of the recovery plan to CySEC by 30 September 2020. In this respect, the Company shall comply with the said reporting obligation submitting the form by the designated deadline and updating the contents of the form every two years. Furthermore and pursuant to section 2(1) of the Law 22(I)/2016, which transposes EU Bank Recovery and Resolution Directive 2014/59/EC ('BRRD'), the Central Bank of Cyprus ('CBC') acting as the National Resolution Authority for all credit institution, as well as Cyprus Investment Firms (CIFs) and as such it is responsible for drafting of resolution plans of the aforementioned entities. In this respect, CBC requested all information necessary to draw up and implement the said plans. Specifically, the Company was required to provide CBC the information specified under Annex I of the Regulation 2018/1624 ('CIR') by 30 April each year with reference date the end of previous calendar year. Furthermore, and as per CBC's letter, the submission of the required reports to CBC shall be made in XBRL format and must comply with the EBA 2.9 XBRL taxonomy published on the EBA website.

With respect to the Resolution plan, the Company has been exempted from the obligation to provide CBC with the information specified under Annex I of the Regulation 2018/1624 for the year 2019 (2020 Data Collection Cycle). However, the Company will be requested to provide the said information for the first time in early 2021 (for the year 2020). In this respect and as per the letter provided, the Company shall expect further guidance with respect to the precise deadline and templates for the 2021 Data Collection Cycle.

Risk Policy Statement (PS-01-2019)

The Policy Statement (PS-01-2019) provides public guidance on CySEC's approach on the risk management arrangements of those Cypriot Investment Firms ("CIFs") providing investment services and/or performing investment activities in financial contract for differences ("CFDs").

The European Securities and Markets Authority (ESMA) has adopted new intervention measures on the provision of CFDs including the Negative Balance Protection (NBP) Requirement for protecting retail clients exposed to the consequences of trading in CFD. The purpose of this arrangement is to ensure that the maximum loss for the clients from trading CFDs never exceeds the client's available funds in the specific amount when the "margin close-out protection" cannot be effectively applied. Following the implementation of the ESMA decision and following a market-wide review of CFD CIFs, the Cyprus Securities and Exchange Commission (CySEC) has imposed Risk Management Transferring Arrangements in order to enhance the market structure for CFD CIFs and monitor the compliance with the new requirements.

Further to the above, all CFD CIFs operating under a Full Scope Licence are required to maintain an additional of CET 1 Capital of either a) €2.000.000, or b) 2% of their total risk exposure, whichever is higher unless they collaborate and have in place Liquidity and Contractual Arrangements with entities

(Credit Institutions or Investment Firms) domiciled in a third country listed in Annex I of the Commission Implementing Decisions (EU) 2016/230 and/or EEA regulated entities and/or entities domiciled in a member of G20.

The Company is not required to restructure its LP Contractual Arrangements since it is categorised as a Full Scope CFD CIF. Moreover, the Company maintains contractual agreements with solely EU entities and as such is not required to hold additional capital as per the provisions of the Policy Statement.

Brexit Effect

Further to the prospective withdrawal of the United Kingdom (UK) from the European Union (EU), which was approved by the 51.9% of the participating UK electorate, on 23 June 2016, CIFs which has close relationships with entities located in the United Kingdom are required to draft a Brexit Contingency Plan. On the 7 February 2019, CySEC announced a press release according to which the European Securities and Markets Authority (ESMA) and European securities regulators, including CySEC, have agreed a Memoranda of Understanding (MoUs) with the Financial Conduct Authority (FCA) of the United Kingdom (UK) in the event of a no-deal Brexit. Specifically, the agreement of MoUs between CySEC and FCA is expected to maintain investors' protection via the appropriate communications channels between the two competent authorities.

2.3. Types of Risks

Given the diversity and evolution of the Company's activities, risk management involves the following main categories:

- **Credit and Counterparty Risk** (including Country risk): risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments. Credit risk includes Counterparty risk linked to market transactions (Replacement risk) and securitisation activities. In addition, Credit risk may be further amplified by Concentration risk, which arises from a large exposure to a given risk, to one or more counterparties, or to one or more homogeneous groups of counterparties; Country risk arises when an exposure (loan, security, guarantee or derivative) becomes liable to negative impact from changing political, economic, social and financial conditions in the country of exposure.
- **Market Risk**: risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets.
- **Operational Risks** (including Accounting and Environmental risks): risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss.
- **Liquidity Risk**: risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.

- **Compliance Risk** (including Legal and Tax risks): risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company’s activities.
- **Reputational Risk**: risk arising from a negative perception on the part of customers, counterparties, shareholders, investors or regulators that could negatively impact the Company’s ability to maintain or engage in business relationships and to sustain access to sources of financing.
- **Strategic Risk**: risks inherent in the choice of a given business strategy or resulting from the Company’s inability to execute its strategy.
- **Business Risk**: risk of lower than anticipated profits or experiencing losses rather than a profit.

2.4. Risk Appetite Statement

The Company defines risk appetite as the level of risk, by type and by business that the Company is prepared to incur given its strategic targets. Risk Appetite is defined using both quantitative and qualitative criteria 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 RAF 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 understands how the risk appetite impacts the business and is assessing its risk appetite in respect to investing and to managing business and operational activities while the Company’s Risk Appetite Statement must be prepared by the Risk Manager and approved by the Board of Directors.

Table 2: Risk Appetite Areas

Risk Area	Risk Types
Financial	Credit Risk
	Market Risk
	Liquidity Risk
Reputational	Conduct Risk
	Customer Risk

	Regulatory Risk
	External reputational Risk
Operational & People	The risk associated with the failure of key processes or systems and the risks of not having the right quality and quantity of people to operate those processes

The RAF is 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 accordingly.

2.5. 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 behaviour 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.

2.6. Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (“ICAAP”) requires institutions to identify and assess risks not adequately covered in Pillar I, maintain sufficient capital to face these risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward-looking basis, i.e., internal capital supply to exceed internal capital demand.

The Company will initiate the establishment of the ICAAP report once the audited financial statements for the year ended 31 December 2019 are finalised.

2.7. Stress Tests

Stress testing is a key risk management tool used by the Company to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests must be performed periodically for both internal and regulatory purposes and serve an important role in:

- Understanding the risk profile of the Company

- The evaluation of the Company's capital adequacy in absorbing potential losses under stressed conditions: This takes place in the context of the Company's ICAAP on an annual basis
- The evaluation of the Company's strategy: Senior management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows senior management to determine whether the Company's exposures correspond to its risk appetite
- The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios

The ultimate responsibility and ownership of the Company's stress testing policy rests with the Board of Directors. If the stress testing scenarios reveal vulnerability to a given set of risks, the management should make recommendations to the Board of Directors for mitigation measures or actions. These may vary depending on the circumstances and include one or more of the following:

- Review the overall business strategy, risk appetite, capital and liquidity planning
- Review limits
- Reduce underlying risk positions through risk mitigation strategies
- Consider an increase in capital
- Enhance contingency planning

2.8. Diversity Policy

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success.

For the purpose of this policy, the Company considers that the concept of diversity incorporates a number of different aspects, therefore all Board appointments are made on merit, in the context of the skills, experience, knowledge, business perspectives, industry or related experience, independence, gender, age, cultural, educational background and more general experience which the Board as a whole requires in order to be effective.

The Company is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practises in the Corporate Governance Code of many EU countries.

In line with the recent changes in the regulatory reporting framework, the Company is in the process of establishing a dedicated diversity policy in relation to the Management body.

The applicability of this policy is reviewed at least annually by the Board of Directors, in the context of an internal review for compliance with the relevant legislation. Skills and Experience 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 in order to be able to understand the Company's activities and main risks.

Skills and Experience

The Board should possess a balance of skills appropriate for the requirements of the business of the Company, for the Company to benefit from its directors' experience in a range of activities including varied industries, education, government, investment and the professions. Further reference is made to Company's Board's Recruitment requirements in [subsection 2.9](#) below, which aims to assess the specific experience and skills needed to ensure the optimum blend of the potential individual and the aggregate capability having regard to the Company's long-term strategic plan.

Independence

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

Gender

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

2.9. Board Recruitment

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the BoD.

The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. The overall composition of the Board shall reflect an adequately broad range of experiences to be able to understand the CIF's activities, including the principal risks faced by the Company as well as sufficient knowledge, of the legal framework governing the operations of a CIF.

Specifically, when considering the appointment of the members of the Board and Senior Management, special attention shall be given to the following:

- Essential qualifications, business administration skills, education and experience so as to ensure the sound and prudent management of the Company, and diversity in order to conduct effectively and efficiently all their duties and responsibilities;

- Very strong interpersonal skills as well as managerial skills including time management and leadership skills;
- Criminal record certificate from the competent authorities of the country of residence of the person for the last five years, attesting that the person has no criminal records;
- Profound and solid corporate governance
- Financial markets and financial advisory sector market knowledge, experience and knowledge in the financial services industry (“fit-and-proper”), risk management knowledge and experience with local and international financial matters;
- Sufficient knowledge of the legal framework governing the operations of a Cyprus investment firm, including the investment services and activities which are regulated by the Cyprus Investment Firms Law;
- Integrity, honesty and the ability to generate public confidence
- High sense of responsibility and work ethics portraying the professional traits of initiative;
- Knowledge of financial matters including understanding financial statements and financial ratios
- Demonstrated sound business judgment
- Good knowledge of the Greek or/and English languages. Particularly, when considering the appointment of a member of the Board, special attention shall be given to the potential member’s skills review which aims to assess the specific experience and skills needed to ensure the optimum blend of the potential individual and the aggregate capability having regard to the Company’s long-term strategic plan. Members of the Board and Senior Management appointment are subject to the approval of the Chief Executive Officer and the Board. Regulatory approval is co-ordinated through the Compliance Officer. The majority of the members of the Board shall be residents of Cyprus.

2.10. Directorships held by Members of the Management Body

In 2019, the members of the Management body of the Company, given their industry experience, have been taking seats in other Company boards. In line with this, the following table indicates the number of positions that each member holds:

Table 3: Directorships held by Members of the Management Body

Name	Position in the CIF	Directorships (Executive)	Directorships (Non-Executive)
Youssef Barakat	Executive Director	5	1
Husam Al Kurdi	CEO	1	-
Philippe Ghanem	Executive Director	2	-
Constantinos Avgoustou	Independent Non-Executive Director	1	2
Theodoros Photiou	Independent Non-Executive Director	1	2

2.11. Remuneration

Remuneration refers to payments or compensations received for services or employment. The remuneration system includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment and shall be appropriate to the CIF's size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the Directive DI144-2014-14.

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. Finally, 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.

Remuneration system

During 2019, the Company's remuneration system is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management, members of the Board of Directors and the Heads of the Departments; the said practices are established to ensure that the rewards for the 'Executive Management' provide the right incentives to achieve the key business aims. The total remuneration of staff consists of fixed and variable components. Fixed and variable components are appropriately balanced, and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component.

The remuneration mechanisms employed are well known management and human resources tools that take into account the following factors in order to determine the remuneration of each staff member:

- knowledge and skills,
- the adding value to the business,
- the demands (physical and mental) of the job
- amount of training and/or experience needed
- working conditions
- the importance and the amount of responsibility
- market dynamics such as the supply and demand for labour
- financial viability of the Company
- economic performance of the country in which the Company operates
- employee's personal goals and performance evaluation in relation to the objectives set up at the beginning of the period
- employee's professional conduct with clients
- Staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives.

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 and a variable component. On the one hand, 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. On the other hand, the variable remuneration is a performance-based remuneration which motivated, and rewards staff members based on their results in relation with the targets set in the beginning of the year. This kind of remuneration is not guaranteed, and the BoD has determined a maximum percentage of variable remuneration relative to the fixed remuneration in order to ensure a compliant ratio between these two kinds of remuneration. Although, the maximum limit on variable remuneration set at 100% of

fixed salary, the limit could be set at 200% upon shareholders’ approval according to the Article 94 of Directive 2013/36/EU.

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 subsection 2.9 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 4: Aggregate Quantitative Information on Remuneration broken down by business area

€ thousands	No. of staff	Fixed	Variable	Non-cash	Total
Senior Management	3	350	-	-	350
Members of staff whose actions have a material impact on the risk profile of the institution and other staff	6	259	-	-	259
Grand Total	9	609	-	-	609

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 2019, while no severance payments were paid during the year.

2.12. Reporting and Control

In line with the requirements set out in the Cyprus Investment Firms Law and subsequent Directives, the Company has been able to maintain a good information flow to the Management body, as it can be seen below:

Table 5: Periodic Reporting Summary

Report Name	Report Description	Owner	Recipient	Frequency	Due Date
Annual Compliance Report	To inform the Senior Management & the BoD of the Company regarding the Performance of Compliance function during the year	Compliance Officer	BoD, CySEC	Annual	31/07/2020 <i>(deadline extended by CySEC)</i>
Annual Internal Audit Report	To inform the Senior Management & the BoD of the Company regarding the Internal Auditor during the year	Internal Auditor	BoD, CySEC	Annual or more frequent upon management request	31/07/2020 <i>(deadline extended by CySEC)</i>
Anti-money laundering report	To inform the Senior Management & the BoD of the Company regarding the work undertaken by the AMLCO and deficiencies identified	Anti-money laundering Compliance Officer	BoD, CySEC	Annual	31/03/2019
Annual Risk Management Report	Represents the work & activities undertaken by the Risk Manager during the year	Risk Manager	BoD, CySEC	Annual	31/07/2020 <i>(deadline extended by CySEC)</i>
Pillar III Disclosures (Market Discipline and Disclosure)	The Company is required to disclose information regarding its risk management, capital structure, capital adequacy and risk exposures	Risk Manager	BoD, CySEC, Public	Annual	31/07/2020 <i>(deadline extended by CySEC)</i>
Financial Reporting	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual	31/07/2019
Capital Adequacy Reporting	A measure of the CIF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world	Risk Manager / Accounting	Senior Management, CySEC	Quarterly	11/05/2019 11/08/2019 11/11/2019 11/02/2020

Statistical reporting	Statistical information on traded volumes, company financials and clients' segregated funds	Risk Manager / Accounting / Dealing	Senior Management, CySEC	Quarterly	30/04/2019 31/07/2019 31/10/2019 31/07/2020 <i>(deadline extended by CySEC)</i>
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3. Capital Management and Adequacy

In response to the financial crisis of recent years, the Basel Committee, mandated by the G20, has defined the new rules governing capital and liquidity aimed at making the financial sector more resilient. The new Basel III rules were published in December 2010. They were translated into European law by a directive (CRDIV) and a regulation (CRR) which entered into force on 1st January 2014.

The Company throughout the year under review managed 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 to 31 December 2019 the Company complied fully with all capital and liquidity requirements and operated well within the regulatory requirements.

The Total Capital Ratio of the Company for the period up to 31 December 2019 was **14.95%**, which is well above the regulatory limits. Furthermore, the large exposures were closely monitored in order to maintain below the limits. The Company's Combined Buffer Requirement as of 1st of January 2019 consists of the following:

- Regulatory capital requirement of the level of 8%;
- Capital Conservation Buffer ("CCB") of the level of 2.50%;

It is noted that the CCB for the year 2019 increased to 2.50% and as such the Combined Buffer Requirement will be at least 10.50%.

3.1. Regulatory Capital

According to the International Financial Reporting Standards (IFRS), the Company's regulatory capital consists of Common Equity Tier 1 and Tier 2 Capital.

Common Equity Tier 1 Capital (CET1 Capital)

According to CRR/CRDIV regulations, Common Equity Tier 1 capital is made up primarily of the following:

- Ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts
- Retained earnings
- Other reserves
- Minority interest limited by CRR/CRDIV

Deductions from Common Equity Tier 1 capital essentially involve the following:

- Estimated dividend payment
- Goodwill and intangible assets, net of associated deferred tax liabilities
- Unrealised capital gains and losses on cash flow hedging
- Deferred tax assets on tax loss carry forwards

- Deferred tax assets resulting from temporary differences beyond a threshold
- Any positive difference between expected losses on customer loans and receivables, risk-weighted using the standardised approach, and the sum of related value adjustments and collective impairment losses
- Expected loss on equity portfolio exposures
- Value adjustments resulting from the requirements of prudent valuation

Tier 2 Capital

Tier 2 capital includes:

- Dated subordinated notes
- Any positive difference between (i) the sum of value adjustments and collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardised approach and (ii) expected losses, up to 0.6% of the total credit risk-weighted assets using the Internal Ratings Based approach;
- Value adjustments for general credit risk related to collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardised approach, up to 1.25% of the total credit risk-weighted assets

Deductions of Tier 2 capital essentially apply to the following:

- Tier 2 hybrid treasury shares
- Holding of Tier 2 hybrid shares issued by financial sector entities
- Share of non-controlling interest in excess of the minimum capital requirement in the entities concerned

3.2. Capital Adequacy Ratio

The capital adequacy ratio is set by comparing the institutions' equity with the sum of risk-weighted assets for credit risk and the capital requirement multiplied by 12.5 for market risk and operational risk.

Since 1st January 2014, the new regulatory framework sets minimum requirements to be met for the CET1 ratio and the Tier 1 ratio. For 2015, the minimum requirement for CET1 was 4% and that of Tier 1 5.5%, excluding the Pillar II requirement. The total equity requirement, including CET1, AT1 and Tier 2 equity, was set at 8%.

Currently, the minimum requirement for CET1 is 4.5%, and that of Tier 1 6% with an overall ratio of 8% (including Tier 2).

Institutions shall disclose information relating to their own funds. 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. In this respect, the Company's Tier 1 capital is wholly comprised of Common Equity Tier 1 Capital.

In Table 6 below you can see the composition of the Company's capital base and capital ratio reported as of 31st December 2019:

Table 6 Own Funds - Capital Ratio

	31/12/2019 (based on audited accounts)
	€'000
Own Funds	
Share Capital	1900
Share Premium	2050
Previous years retained earnings	(676)
Eligible Profit/Loss for the year	(2030)
Other reserves	/
Other intangible assets and cash buffer ICF	(64)
Additional deductions of CET1 Capital due to Article 3 of the CRR (*)	(68)
Common Equity Tier 1 Capital (CET1)	1112
Additional Tier 1 Capital (AT1)	/
Tier 1 Capital (T1=CET1+AT1)	/
Tier 2 Capital (T2)	/
Total Capital (TC=T1+T2)	1112
Risk Weighted Exposures	
Credit Risk	1652
Market Risk	2288
Operational Risk	202
Foreign Exchange Risk	3295
Total Risk Exposure Amount	7437
CET1 Capital ratio	14.95%
T1 Capital ratio	14.95%
Total capital ratio	14.95%

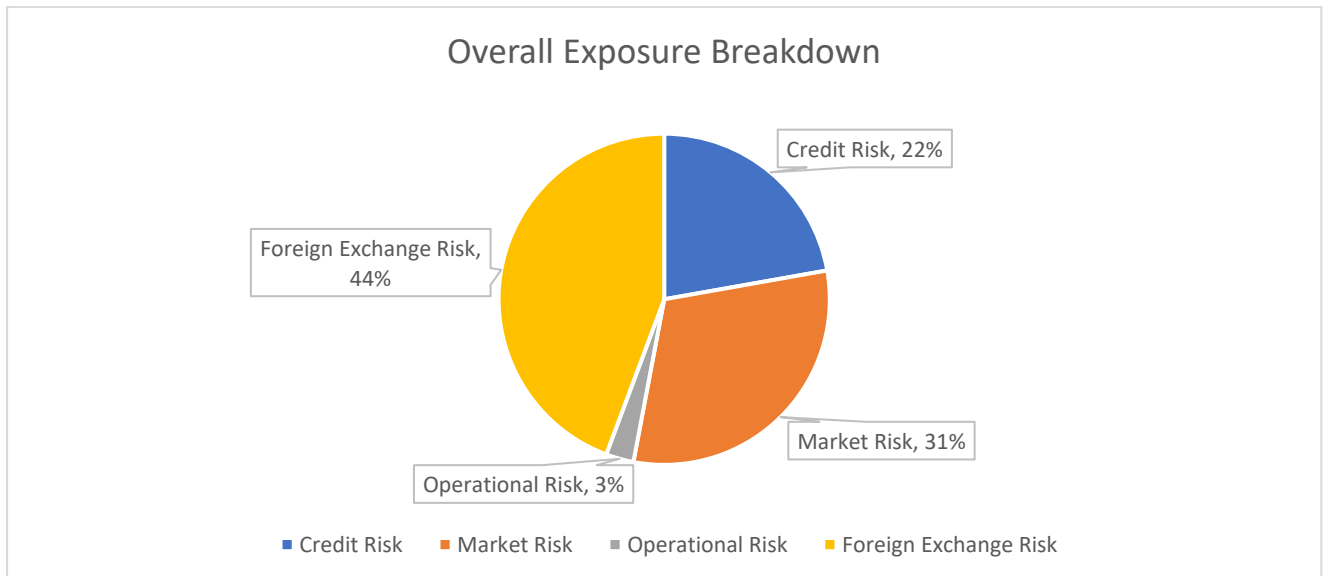
Tables 7 and 8 below illustrate the Capital Ratios and the breakdown of the exposures for the year ended 31 December 2019:

Table 7 Capital Ratios



*Capital Buffers are applicable based on the type of license and/or operations

Table 8 Breakdown of Exposures



3.3. Capital Management

Capital management is implemented by the Senior Management. As part of managing its capital, the Company ensures that its solvency level is always compatible with the following objectives:

- Maintaining its financial solidity and respecting the Risk Appetite targets
- Preserving its financial flexibility to finance organic growth

- Adequate allocation of capital among the various business lines according to the Company's strategic objectives
- Maintaining the Company's resilience in the event of stress scenarios
- Meeting the expectations of its various stakeholders: supervisors, debt and equity investors, rating agencies, and shareholders

The Company determines its internal capital adequacy targets in accordance with these.

In line with the above, the Company is obligated to calculate and report on a quarterly basis, under CRD, its credit risk, market risk and operational risk, the result of which, i.e. capital ratio, needs to be above 8% at all times.

At 31st December 2019, the Total Capital ratio of the Company was **14.95%** with total risk-weighted assets of **EUR 7.437** thousand.

Table 9: Capital Requirements

€ thousands	Dec 31, 2019 (Audited)
CAR Ratio	14.95%
CAR Ratio surplus	6.95%
Capital Adequacy (CET1) ratio	14.95%
CET1 Capital	1112
Tier 1 Capital	1112
Tier 2 Capital	-
Total Own Funds	1112
Total Own Funds surplus	382
Total Credit Risk exposure	1652
Total Market Risk Exposure	5583
Additional Fixed Overhead Risk Exposure	202
Total Risk Exposure	7437
Leverage ratio	33.29%
Capital Conservation Buffer	/

Table 10: Regulatory Capital

€ thousands	Dec 31, 2019 (Audited)
Common Equity Tier 1 (CET 1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	3950
Retained earnings	-
Accumulated other comprehensive income (loss), net of tax	-2706
Other	-
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	1244
Common Equity Tier 1 (CET 1) capital: regulatory adjustments	-
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	-64
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities where the conditions in Art. 38 (3) CRR are met) (negative amount)	-
Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 15 % threshold and net of eligible short positions) (negative amount)	-
Other regulatory adjustments	-68
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	-132
Common Equity Tier 1 (CET 1) capital	1112
Additional Tier 1 Capital	-
Tier 1 Capital	1112
Tier 2 Capital	-
Total Capital	1112
Total risk-weighted assets	7437
Capital Ratios	
Common Equity Tier 1 (CET 1) capital ratio	14.95%
Tier 1 Capital ratio	14.95%
Total Capital ratio	14.95%

Table 11: Own funds disclosure template under the Transitional and Full – phased in definition

€ thousands	Transition al Definition	Full – phased in Definition
Common Equity Tier 1 (CET 1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	3950	
Retained earnings	-	
Accumulated other comprehensive income (loss), net of tax	-2706	
Other	-	
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	1244	
Common Equity Tier 1 (CET 1) capital: regulatory adjustments	-	
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	-64	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities where the conditions in Art. 38 (3) CRR are met) (negative amount)	-	
Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 15 % threshold and net of eligible short positions) (negative amount)	-	
Other regulatory adjustments	-68	
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	-132	
Common Equity Tier 1 (CET 1) capital	1112	
Additional Tier 1 Capital	-	
Tier 1 Capital	1112	
Tier 2 Capital	-	
Total Capital	1112	
Total risk-weighted assets	7437	
Capital Ratios		
Common Equity Tier 1 (CET 1) capital ratio	14.95%	
Tier 1 Capital ratio	14.95%	
Total Capital ratio	14.95%	

4. Credit Risk

Credit risk corresponds to the risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments.

The Company's credit risk mainly arises:

- By the Company's deposits in credit and financial institutions
- By assets mainly held from debtors or prepayments made

The Company follows the Standardized Approach under Pillar I for calculating its Credit Risk Capital Requirements, as specified in CRR. It categorizes the assets in respect to their exposure class and uses the Credit Step methodology to determine its respective Risk Weights (RW).

The Company follows both regulatory and compliance-oriented credit risk mitigation ("CRM") strategies in order to minimize the possibility of occurrence of this risk, such as:

- All Client funds are held in segregated accounts, separated from Company's funds.
- The Company maintains regular credit review of counterparties, identifying the key risks faced and reports them to the Board of Directors, which then determines the firm's risk appetite and ensures that an appropriate amount of capital is maintained.
- In order to maintain its Credit risk to the minimum, the Company is using EU credit institutions for safekeeping of funds and always ensures that the banks it cooperates with have high ratings based on top credit rating agencies (Moody's, S&P or Fitch), it frequently monitors their compliance with the EU regulatory framework and diversifies the funds over several credit institutions thus mitigating the risk exposure efficiently.

Further to the above, the Company has policies to diversify credit risk and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Regulation (EU) No. 575/2013.

Concentration Risk

Concentrations are measured using a standardised model and individual concentration limits are defined for large exposures. Any concentration limit breach is managed over time by reducing exposures.

4.1. External Ratings

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

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

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

Credit Quality Step	Moody's Rating	Institution Risk Weight (Below 3 months)	Institution Risk Weight (Above 3 months)	Sovereigns Risk Weight	Corporate Risk Weight
1	Aaa to Aa3	20%	20%	20%	20%
2	A1 to A3	20%	50%	50%	50%
3	Baa1 to Baa3	20%	50%	100%	100%
4	Ba1 to Ba3	50%	100%	100%	100%
5	B1 to B3	50%	100%	100%	150%
6	Caa1 and below	150%	150%	150%	150%

For exposures to regional governments or local authorities, public sector entities and institutions, the external ratings are applied in the following priority (i) Issue/Exposure (ii) Issuer/Counterparty (iii) Sovereign.

For exposures to central governments or central banks and corporates the external ratings are applied in the following priority (i) Issue/Exposure (ii) Issuer/Counterparty.

Please note that the external ratings are not considered where exceptions or discretions as per the CRR apply.

4.2. Exposure Analysis

The credit exposures in this section are measured using the standardized approach. Exposures are broken down by sectors and obligor ratings.

At 31st December 2019, the Company's capital requirements for credit risk amounted to **EUR 132 thousand (EUR 1652 thousand total risk-weighted credit risk exposure)**. The tables below indicate the Company's credit risk exposure.

Table 12: Asset Class Breakdown of Net Credit Risk Exposure and Minimum Capital Requirement as at 31 December 2019, € thousands

Asset Class	Net value of exposures at the end of the period	Minimum capital requirement
Central governments or central banks		
Public sector entities		

Institutions	559	45
Corporates	494	40
<i>Of which: SMEs</i>		
Retail	136	11
<i>Of which: SMEs</i>		
Equity exposures		
Other exposures	463	37
Total risk weighted assets	1652	
<i>Total Credit Risk Capital Requirements</i>		132

Table 13: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Exposure Class, € thousands

Asset class	Exposure before CRM	Exposure after CRM
Central governments or central banks		
Public sector entities		
Institutions	559	559
Corporates	494	494
<i>Of which: SMEs</i>		
Retail	136	136
<i>Of which: SMEs</i>		
Equity exposures		
Other exposures	463	463
Total risk weighted assets	1652	1652
<i>Total Credit Risk Capital Requirements</i>	132	132

Table 14: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Significant Geographic Area and Material Exposure Class, € thousands

Asset class	Cyprus	Ireland	United Kingdom	United States	Australia	Hong Kong	Luxembourg	Seychelles	Total
Central governments or central banks									
Public sector entities									
Institutions	377	9	171	2	-	-	-	-	559
Corporates	168	-	-	-	1	14	157	154	494
Of which: SMEs									
Retail	116	-	20	-	-	-	-	-	136
Of which: SMEs									
Equity exposures									
Other exposures	463	-	-	-	-	-	-	-	463
Total risk weighted assets	1124	9	191	2	1	14	157	154	1652
Total Credit Risk Capital Requirements	90	1	15	-	-	1	13	12	132

Table 15: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Industry and Exposure Class, € thousands

Asset class	Financial Services	Payment Processors	Not Applicable	Total
Central governments or central banks				
Public sector entities				
Institutions	392	-	166	559

Corporates			494	494
<i>Of which: SMEs</i>	-	-		
Retail	-	-	136	136
<i>Of which: SMEs</i>				
Equity exposures				
Other exposures	-	-	463	463
Total risk weighted assets	392	-	1259	1652
<i>Total Credit Risk Capital Requirements</i>	31	-	101	132

Table 16: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Residual Maturity and by Material Exposure Class, € thousands

Asset class	Up to 3 months	More than 3 months	Total
Central governments or central banks			
Public sector entities			
Institutions	554	5	559
Corporates	-	494	494
<i>Of which: SMEs</i>			
Retail	-	136	136
<i>Of which: SMEs</i>			
Equity exposures			
Other exposures	-	463	463
Total risk weighted assets	554	1098	1652
<i>Total Credit Risk Capital Requirements</i>	44	88	132

Table 17: Credit Quality Concentration, € thousands

Credit Quality Step	Exposure before CRM	Exposure after CRM
1	15	15
2	-	-
3	-	-
4	-	-
5	376	376
6	-	-
<i>Unrated</i>	1260	1260
Total	1652	1652

5. Market Risk

Market risk corresponds to the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets.

As mentioned above, in the context of Pillar I, market risk mainly arises as:

Foreign Exchange Risk: It is a financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the company. The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange limits, such as through the establishment of maximum value of exposure to a currency pair as well as through the utilization of sensitivity analysis.

The Company monitors these exposures on a quarterly basis and has policies to minimize its market risk exposures which are in accordance with the CRR.

In 2019, the Company's market risk mainly emanated from foreign exchange fluctuations which affect the Company's deposits in banks or reserves held that are denominated in foreign currencies.

5.1. Exposure Analysis

The Company's capital requirements related to market risk are mainly determined using the standardized approach.

The Company's total capital usage for market risk as at 31 December 2019 amounted to **EUR 447** thousand, while the market risk risk-weighted assets amounted to **EUR 5583** thousand.

Table 18: Market risk capital requirements

€ thousands	RWAs	Capital Requirements
Market risks		
Commodity risk	809	65
Equity risk	1479	118
Foreign Exchange risk	3295	264
Total	5583	447

6. Operational Risk

Operational risks (including accounting and environmental risks) correspond to the risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss. This section describes the monitoring of the Company's operational risk, in addition to providing an analysis of the Company's operational risk profile and regulatory capital requirements.

The Company has developed processes, management tools and a control infrastructure to enhance the Company-wide control and management of the operational risks that are inherent in its various activities. These include, among others, general and specific procedures, permanent supervision, business continuity plans, and functions dedicated to the oversight and management of specific types of operational risks, such as fraud, risks related to external service providers, legal risks, information system security risks and compliance risks.

In order to control the exposure to operational risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance.

To that effect, the management of operational risk is geared towards:

- Maintaining a strong internal control governance framework.
- Managing operational risk exposures through a consistent set of processes that drive risk identification, assessment, control and monitoring.

The Company implements the below Operational Risk Mitigation Strategies in order to minimize its Operational Risk Exposure:

- The development of operational risk awareness and culture.
- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities.
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives.
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.

- Established a “four-eye” structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management. The Board further reviews any decisions made by the Management while monitoring their activities;
- Detection methods are in place in order to detect fraudulent activities;
- Comprehensive business contingency and disaster recovery plan.

The Senior Management employs specialized tools and methodologies to identify, assess, mitigate and monitor operational risk. These specialized tools and methodologies assist operational risk management to address any control gaps. To this effect, the following are implemented:

- Incident collection
- Key Risk Indicators
- Business Continuity Management
- Training and awareness

6.1. Exposure Analysis

Operational risk is a significant risk category faced by the Company requiring coverage by own funds.

The Company manages operational risk, on an ongoing basis, 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 will not be repeated.

For the calculation of operational risk in relation to the capital adequacy returns, the Company uses the basic indicator approach.

Based on the basic indicator approach, operational risk is equal to the average over the previous three years of a fixed percentage of positive annual gross income.

Based on the relevant calculations the Company’s capital requirement in respect to operational risk, as at 31 December 2019, was **EUR 16** thousand, while the risk-weighted exposure was **EUR 202** thousand.

7. Liquidity Risk

Liquidity risk corresponds to the risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.

The Company’s primary objective is to ensure the funding of its activities in the most cost-effective way by managing liquidity risk and adhering to regulatory constraints. The liquidity system aims at providing a balance sheet framework with assets and liabilities target structure that is consistent with the risk appetite defined by the Board of Directors:

- The assets structure should allow the businesses to develop their activities in a way that is liquidity-efficient and compatible with the target liabilities structure.
- The liabilities structure is based on the ability of the businesses to collect financial resources from customers and the ability of the Company to sustainably raise financial resources on the markets, in accordance with its risk appetite

The principles and standards applicable to the management of liquidity risks are defined by the Company's governing bodies, whose duties in the area of liquidity are listed below:

- The Company's Board of Directors (i) establishes the level of liquidity risk tolerance as part of the Risk Appetite exercise, (ii) meets regularly to examine the Company's liquidity risk situation, on a quarterly basis
- The Senior Management (i) sets budget targets in terms of liquidity (ii) allocates liquidity to the pillars

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

- Regular analysis & reporting to the Board of Directors on the funding needs of the Company
- Monitoring of the Company's exposures and diversification to avoid rise of concentration risk as per the internal policies
- Cash Management

The Company has undertaken a specific review of its liquidity risks and believes that it is able to meet its upcoming maturities. As at 31/12/2019, the Company held **EUR 826** thousand in its bank accounts.

Furthermore, the client assets held in fiduciary capacity (in segregated accounts) were **EUR 17321** thousand. The Company is taking due care in safeguarding these assets and performs the following mitigation strategies:

- These assets are held by the Company in a fiduciary capacity and are not included in the Company's funds nor its financial statements
- The funds are held in client segregated bank accounts
- Frequent reconciliations are performed internally and also from the External Auditors which also are tasked to verify and submit to CySEC annual reports

8. Leverage Ratio

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

The leverage ratio is an additional prudential measure to enhance financial stability by determining capital requirements on the basis of non-risk weighted assets so as to prevent the building up of

excessive leverage during economic upswings and to act as a backstop to internal model-based capital requirements. The recommended leverage ratio by EBA set at 3% is effective as of 01 January 2019.

The Company's Leverage Ratio for the period up to 31 December 2019 **33.29%** based on the fully phased-in definition of Tier 1:

Table 19: Leverage Ratio

Leverage Details	31/12/2019
	€000
Exposure Values	
Derivatives: Current Replacement Cost	-
Derivatives: Add-on under the mark-to-market Method	-
Other assets	3339
Total exposures	3339
Capital and regulatory adjustments	
Tier 1 capital – fully phased-in definition	1112
LEVERAGE RATIO	33.29%

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 **33.29%** is well above the minimum ratio of 3%.

9. Compliance, Reputational and Legal Risks

Compliance risk (including legal and tax risks) corresponds to the risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company's activities.

Compliance means acting in accordance with applicable regulatory rules, as well as professional, ethical and internal principles and standards. Fair treatment of customers, with integrity, contributes decisively to the reputation of the Company.

By ensuring that these rules are observed, the Company works to protect its customers and, in general, all of its counterparties, employees, and the various regulatory authorities to which it reports.

Compliance Department

Independent compliance structures have been set up within the Company's different business lines around the world to identify and prevent any risks of non-compliance.

The Compliance Officer verifies that all compliance laws, regulations and principles applicable to the Company's services are observed, and that all staff respect codes of good conduct and individual

compliance. The Compliance Officer also monitors the prevention of reputational risk and provides expertise for the Company performs controls at the highest level and assists with the day-to-day operations. The Compliance Officer is responsible for:

- The Company's financial security (prevention of money laundering and terrorism financing; know-your-customer obligations; embargoes and financial sanctions)
- Developing and updating consistent standards for the function, promoting a compliance culture, coordinating employee training and managing Company regulatory projects
- Coordinating a compliance control mechanism within the Company (second-level controls), overseeing a normalised Compliance process, oversight of personnel operations and, finally, managing large IT projects for the function
- Preventing and managing conflicts of interest
- Proposing ethical rules to be followed by all Company employees
- Training and advising employees and raise their awareness of compliance issues
- Building and implementing steering and organisational tools for the function: Compliance and Reputational Risk dashboards, forums to share best practices, meetings of functional compliance officers
- Generally monitoring subjects likely to be harmful to the Company's reputation

9.1. Prevention of Money Laundering and Terrorism Financing

Money laundering and terrorist financing risk mainly refers to the risk where the Company may be used as a vehicle to launder money and/or assist/involved in financing terrorism.

The Company has in place and is updating as applicable, certain policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks. Among others, these policies, procedures and controls include the following:

- The adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing risks faced by the Company
- The adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing risk
- Setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents from independent and reliable sources, third party information)
- Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction
- Monitoring and reviewing the business relationship or an occasional transaction with clients and potential clients of high-risk countries
- ensuring that the Company's personnel receive the appropriate training and assistance

The Company is frequently reviewing its policies, procedures and controls with respect to money laundering and terrorist financing to ensure compliance with the applicable legislation and incorporated, as applicable, any new information issued/available in this respect.

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.

10. Reference Table to CRR

CRR Ref	High Level Summary	Compliance Reference
<i>Scope of disclosure requirements</i>		
431(1)	Requirement to publish Pillar III disclosures.	1.2.
431(2)	Disclosure of operational risk information.	6
431(3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	1.4.2.
431(4)	Explanation of ratings decisions to SMEs upon request.	4.2.
<i>Frequency of disclosure</i>		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements.	1.4.2.
<i>Means of disclosures</i>		
434(1)	To include disclosures in one appropriate medium or provide clear cross-references to other media.	1.2.
434(2)	Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate.	1.4.2.
<i>Risk management objectives and policies</i>		
435(1) (a)	Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation/hedging policies	2
435(1) (b)		
435(1) (c)		
435(1) (d)		
435(1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements	2.4
435(1) (f)	Concise risk statement approved by the BoD	2.3
435(2)	Information, once a year at a minimum, on governance arrangements.	2.4
435(2) (a)	Number of directorships held by members of the BoD.	2.8
435(2) (b)	Recruitment policy of BoD members, their experience and expertise.	2.7
435(2) (c)	Policy on diversity of BoD members, its objectives and results against targets.	2.6
435(2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	2.10.2

435(2) (e)	Description of information flow on risk to BoD.	2.11
<i>Scope of application</i>		
436(a)	Name of institution.	1.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	1.3
436 (b) (i)	Fully consolidated;	N/A
436 (b) (ii)	Proportionally consolidated;	N/A
436 (b) (iii)	Deducted from own funds;	N/A
436 (b) (iv)	Neither consolidated nor deducted.	N/A
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	N/A
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any).	N/A
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities.	N/A
<i>Own Funds</i>		
437 (1)	Requirements regarding capital resources table	3
437 (1)		
437 (1) (a)		
437 (1) (b)		
437 (1) (c)		
437 (1) (d) (i)		
437 (1) (d) (ii)		
437 (1) (d) (iii)		
437 (1) (e)		
437 (1) (f)		
437(2)	EBA shall develop implementation standards for points (a), (b), (d) and (e) above	3
<i>Capital Requirements</i>		
438(a)	Summary of institution's approach to assessing adequacy of capital levels.	3.2
438(b)	Result of ICAAP on demand from competent authority.	
438(c)	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	2.4.

438(d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class.	4
438(d) (i)		
438(d) (ii)		
438(d) (iii)		
438(d) (iv)		
438(e)	Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits.	5
438(f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	6
<i>Exposure to counterparty credit risk (CCR)</i>		
439(a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	4
439(b)	Discussion of policies for securing collateral and establishing reserves.	4
439(c)	Discussion of policies as regards wrong-way exposures.	4
439(d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	4
439(e)	Derivation of net derivative credit exposure.	4
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	4
439(g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	4
439(h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	4
439(i)	Estimation of alpha, if applicable.	4
<i>Credit Risk Adjustments</i>		
442(a)	Definitions for accounting purposes of 'past due' and 'impaired'.	4
442(b)	Approaches for calculating credit risk adjustments.	4
442(c)	Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by different types of exposures.	4
442(d)	Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by significant geographic areas and material exposure classes.	4
442(e)		4

442(f)	Exposures post value adjustments by residual maturity and by material exposure class.	4
442(g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	4
442(g) (i)		4
442(g) (ii)		4
442(g) (iii)		4
442(h)		Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.
442(i)	Reconciliation of changes in specific and general credit risk adjustments.	4
442(i) (i)		4
442(i) (ii)		4
442(i) (iii)		4
442(i) (iv)		4
442(i) (v)		4
442 endnotes	Specific credit risk adjustments recorded to income statement are disclosed separately.	4
<i>Unencumbered assets</i>		
443	Disclosures on unencumbered assets.	N/A
<i>Use of ECAI's</i>		
444(a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	N/A
444(b)	Exposure classes associated with each ECAI.	N/A
444(c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	N/A
444(d)	Mapping of external rating to credit quality steps.	N/A
444(e)	Exposure values pre- and post-credit risk mitigation, by credit quality step.	N/A
<i>Exposure to market risk</i>		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	5.1.
<i>Operational Risk</i>		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	6
<i>Exposures in equities not included in the trading book</i>		

447(a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	N/A
447(b)	Recorded at fair value and actual prices of exchange traded equity where it is materially different from fair value.	N/A
447(c)	Types, nature and amounts of the relevant classes of equity exposures.	N/A
447(d)	Cumulative realised gains and losses on sales in the period.	N/A
447(e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	N/A
<i>Exposure to interest rate risk on positions not included in the trading book</i>		
448(a)	Nature of interest rate risk and key assumptions in measurement models.	N/A
448(b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	N/A
<i>Remuneration Disclosures</i>		
450	Remuneration Policy	2.9
<i>Leverage</i>		
451(1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	8
451(1) (b)		
451(1) (c)		
451(1) (d)	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	8
451(1) (e)		
451(2)	EBA shall develop implementation standards for points above.	
<i>Use of Credit Risk mitigation techniques</i>		
453(a)	Policies and processes, and an indication of the extent to which the CIF makes use of on- and off-balance sheet netting.	4
453(b)	Policies and processes for collateral valuation and management.	4
453(c)	Description of types of collateral used by the CIF.	4
453(d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	4
453(e)	Information about market or credit risk concentrations within the credit mitigation taken.	4
453(f)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure value covered by eligible collateral.	4

453(g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	4
<i>Use of the Advanced Measurement Approaches to operational risk</i>		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	6