SPA Financial Services Ltd

RISK MANAGEMENT DISCLOSURES

YEAR ENDED 31 DECEMBER 2020

April 2021

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

Contents

1. Regulatory Framework Overview

The EU adopted a legislative package to reinforce the regulation of the banking sector and to implement the Basel III agreement into the European Union's legal framework. The new package replaced the European Capital Requirements Directives (2006/48 and 2006/49) with the Capital Requirements Regulation (EU) 575/2013 (CRR) and the Capital Requirements Directive (CRD IV) and is considered as a key step towards creating a sounder and safer financial system.

CRR establishes the prudential requirements for capital, liquidity and leverage that credit and financial institutions need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency.

The current regulatory framework consists of three pillars:

- Pillar I covers the calculation of risk weighted assets for credit risk, market risk and operational risk
- Pillar II covers the Supervisory Review Process (SREP), which assesses the internal capital adequacy processes of the Company and provides for the monitoring and self-assessment of an institution's capital adequacy and internal processes
- Pillar III covers specific disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes

In Cyprus, the CRR/CRD IV package was implemented through:

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the "CRR" or the "Regulation"), and;
- Directive 144-2014-14 of the Cyprus Securities and Exchange Commission (the "CySEC") for the prudential supervision of investment firms (the "CRD IV" or "Directive") and Directive 144-2014-15 on the discretions of the CySEC arising from the CRR.

The Company has prepared these disclosures in accordance with Part Eight "Disclosures by Institutions" of the CRR.

2. Company Profile

SPA Financial Services Ltd ("**SPAFS**", "**the Company**") is an independent private investment services firm, offering a wide range of investment services to clients in Cyprus and abroad.

SPAFS commenced operations in May 2011 and is authorised as a Cypriot Investment Firm regulated by the Cyprus Securities and Exchange Commission under licence number 141/11.

The Company is licensed to provide the following investment and ancillary services:

Investment Services	Ancillary Services
Reception and transmission of orders in relation to one or more financial instruments	Safekeeping and administration of financial instruments, including custodianship and related services
Portfolio management	
Investment advice	

3. Location and Frequency of Disclosure

This document is prepared according to the requirement of the Regulation 575/2013 and CySEC's Directive 144-2014-14. The Company intends to make its Pillar III disclosures annually in a document other than the financial statements. The Disclosures will be uploaded on the website of the Company where they will be publicly available to view and download.

These disclosures are based on the position of the Company after the completion of the audit for the financial statements as at 31 December 2020.

The Company has commissioned independent auditors to verify its Pillar III Disclosures. The Company is required by the Directive to provide a copy of the auditor's verification report to CySEC within five months of each financial year-end.

4. Operating Environment and Covid-19

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 as a pandemic, recognising the rapid development in the entire world. Many governments are taking strict measures to controls, and in many countries to the delay of the spread of the virus. These measures slowed down the Cypriot and world economy and are likely to have a wider impact as the measures continue to apply for a longer period of time.

The Management of the Company takes the necessary measures to ensure the viability of the Company's activities, however, future effects of the current financial situation are difficult to predict, and the current forecasts of the Management could differ from the actual results.

Based on the assessment made, the Management of the Company has concluded that no provisions or impairment charges are required. Management considers that the Company takes all necessary measures to maintain the viability of the Company and will continue business as normal in this business and financial environment.

5. Scope of Disclosure

The Company since 10 November 2010, owned 100% of SPA GP (II) Ltd that was disposed on 29 November 2017 and on 25 August 2017 set up Larixent Holdings Limited. However, the Company is not required by the Cyprus Companies Law, Cap. 113, to prepare consolidated financial statements because the Company and its subsidiaries constitute a small sized group as defined by the Law. As a result, the Company is making the disclosures on an individual (solo) basis.

6. Governance – Board and Committees

6.1 The Board

The Board of Directors, which consists of both executive and non-executive members, has responsibility for the overall risk governance of the Company, including aligning business strategy with risk appetite, and ensuring that all key risks are controlled via a robust risk management framework. The Board's responsibilities are clearly stated in the Internal Operation Manual of the Company.

The Board receives updates on risk and regulatory capital matters from management. The risk management framework of the Company is frequently reviewed and enhancements/amendments are performed when necessary, by the Board of Directors.

Management is tasked with ensuring that all key risks are effectively and efficiently controlled, and have unrestricted access to the Board to discuss risk, compliance and control issues on an ongoing basis.

6.2 Board - Recruitment and Diversity Policy

Recruitment of Board members combines an assessment of both technical capability and competency skills referenced against the Company's regulatory and operational framework as well as its strategic plan.

The persons proposed for appointment to the Board commit the necessary time and effort to fulfill their obligations and obtain the approval of the Commission.

Main factors influencing the decision to propose the appointment of potential members include:

- Integrity and honesty
- High business acumen and judgment
- Knowledge of financial matters
- Knowledge and experience relevant to financial institutions
- Risk Management experience
- Specialized skills and knowledge in finance, accounting, law, or related subject

The Company recognizes the benefits of having a diverse Board of Directors which includes and makes use of the differences in the skills, experience and background between members of the Board. Diversity is taken into consideration in determining the optimum composition of the Board of Directors. The diversity policy is included in the policy for the selection and appointment of the members of the Board.

6.3 Knowledge, skills and expertise of the Board

- The company has a full team of qualified and experienced investment professionals making up the management body. They are complemented by professionals in the fields of compliance and risk management, legal and accounting department and in the back office.
- The management body of the Company has a long track record since 1996 and it specializes in financial engineering, wealth management, asset management, structured investment products modelling and alternative investment advisory.

6.4 Risk Committee

Given the relatively small scale, nature and scope of the Company's operations, there is no risk committee in place. The risk function is adequately carried out by the Risk Manager who is independent.

6.5 Number of directorships held by members of the Board

The table below provides the number of directorships a member of the management body of the Company holds at the same time in other entities. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below.

Directorships within the same group are treated as single directorship, as specified in the CySEC Circular CI144-2014-23. The Directorships in the table below do not include the position of each director in the Company.

<table>
<tr><th>Name of Director</th><th>Position within SPAFS</th><th>Directorships – Executive</th><th>Directorships – Non-Executive</th></tr>
<tr><td>Gabriel Anastasiades</td><td>Executive</td><td>0</td><td>3</td></tr>
<tr><td>George Lyssiotis</td><td>Executive</td><td>0</td><td>1*</td></tr>
<tr><td>Andis Scordis</td><td>Non-Executive</td><td colspan="2">Mr. Scordis, in his past capacity as an executive director in Scordis, Papapetrou & Co DEPE and its affiliates, all members of Scordis, Papapetrou & Co (SP & Co), has been and still is appointed as director in many companies to which SP & Co offers its services.</td></tr>
<tr><td>Michalis Papapetrou</td><td>Non-Executive</td><td colspan="2">Mr. Papapetrou, in his past capacity as an executive director in Scordis, Papapetrou & Co DEPE and its affiliates, all members of Scordis, Papapetrou & Co (SP & Co), has been and still is appointed as director in many companies to which SP & Co offers its services.</td></tr>
</table>

Yiangos Kleopas	Independent Non-Executive	0	0
Panagiotis Siakkas	Independent Non-Executive, appointed since 1 August 2015	1	1*
*These include directorships within the same group			

6.6 Governance Committees

The Company, in order to support effective governance and management of the wide range of responsibilities of the Board, has established the Investment Committee.

The Investment Committee consists of at least 3 members (one of which is the Chairman) and aims at the processing and analysis of various investment products and the provisions of recommendations to clients and the Board.

The Investment Committee ensures the practice of a proper investment policy and the monitoring of the provision of adequate investment services to clients. Its responsibilities include the below:

- Suggesting markets and financial instruments where the Company could invest
- Provides its views/suggestions on the investment strategy of the Company
- Provides general guidelines in regards to portfolio management
- Creates profiles and respective portfolios on the basis of the investment profiles of its clients
- Provides its views on the pricing policy of the asset management department
- Rebalances the proposed portfolios in light of the financial outlook as well as other factors that could potentially indicate the need for such rebalancing.
- Decides on the means, content and frequency of reporting to clients in regards to the movement and balance of theirs trading accounts.

6.7 Control Functions

The Company has the following control mechanisms to ensure its proper functionality:

- Compliance function
- Risk management function
- Internal audit
- Anti-Money laundering function

These function are outsourced. They are independent and report directly to the Board of Directors.

It is noted that the Compliance and Risk management function have been outsource since February 2016.

6.7.1 Compliance Function

The Compliance function assists the various business units of the Company to understand and comply with relevant local laws and regulations and with Company's internal policies. It also aims to minimise the compliance risks identified and to assist CySEC in the effective performance of its supervisory duties. The person responsible for the Compliance Function is the Compliance Officer that is appointed by the Board of Directors ('BoD').

Main responsibilities:

- Monitoring and collection of legal and regulatory documentation and of material issued internally (e.g. internal operating rules/guidelines)
- Notification of regulations, directives etc. to the relevant units/departments within the Company
- Monitoring compliance and identification of potential deficiencies in the compliance arrangements established by the Company. Proposals of mitigating action for such deficiencies.
- Assisting the units/departments of the Company in compliance matters
- Communication with third parties (e.g. legal advisors, the competent authorities etc.)
- Reporting and submission of reports to the BoD. Reports are provided to the BoD on a regular and on an ad-hoc basis if deemed necessary.
- Record keeping

6.7.2 Risk management function

The risk management function establishes policies and procedures for the identification of risks that may arise within the Company and monitors their effectiveness in respect to the management of risks. The person responsible for the Risk Management function is the Risk Management Officer that is appointed by the BoD.

Main responsibilities:

- Set up of policies and procedures
- Implementation and monitoring of policies and procedures set. Monitoring includes the identification and assessment of risks, monitoring of capital adequacy, performance of stress tests etc.
- Monitoring compliance with the implemented policies and procedures. Identification of deficiencies and set up of mitigation action as needed.
- Communication with other parties (e.g. with the compliance officer)
- Reporting and submission of reports to the BoD. Reports are provided to the BoD on a regular and on an ad-hoc basis if deemed necessary.
- Record keeping

6.7.3 Internal Audit Function

The main objective of the Internal Audit Function is to review and assess the effectiveness and efficiency of the Company's system. Its main objective is to review and assess the effectiveness and efficiency of the Company's systems, of the mechanisms used for the internal audit and of the arrangements established and implemented. The Internal Audit Officer is the person responsible for the Internal Audit function that is appointed by the BoD.

<u>Main responsibilities</u>

- Set up and implement a schedule for regular internal audits
- Carrying out internal audit for example in case of events that detriment the best interest of the clients or the Company or if this is considered necessary by the Head of Internal Audit.

- Recommends to the Company's management team and personnel on the implementation of the company's procedures, if deficiencies are identified.
- Reporting and submission of reports to the BoD. Reports are provided to the BoD on a regular and on an ad-hoc basis if deemed necessary.
- Record keeping and maintenance of an internal control book

The roles and responsibilities of each function are enlisted in more detail in the Internal Operations manual of the Company.

6.7.4 Anti-Money Laundering Function

The Anti-Money laundering function establishes policies and procedures relevant to prevention of Money Laundering ('ML') and Terrorist Financing ('TF'). The Money Laundering Compliance Officer ('MLCO') is the person responsible for the anti-money laundering function and is appointed by the BoD.

Main responsibilitie:

- Design the internal practice, measures, procedures and controls relevant to the prevention of ML/TF.
- Develop and establish the customers' acceptance policy and submit to BoD for approval.
- Apply appropriate monitoring mechanisms to assess the correct and effective implementation of the internal practice, measures, procedures and controls relevant to the prevention of ML/TF.
- Receive, examine and evaluate information from the Company's employees, which is considered to be knowledge or suspicion of ML/TF activities and following evaluation, report the suspicious activities to MOKAS.
- Detect, record and evaluate, at least on an annual basis, all risk arising from existing and new client and update and amend Company's systems and procedures applied by the Company for the effective management of ML/TF risks.
- Provide advice and guidance to the employees of the Company on subjects related to ML/TF.
- Prepare the Annual report within two months from the end of each calendar year.

6.8 Information flow on risk to the management body

The Board is updated on risk matters through the submission of reports. Thus, the information flow on risk to the management body is achieved through regular reporting to the BoD. The following table presents the key information provided to the Board on matters concerning risk:

Report	Prepared by	Submitted to	Frequency
Report of the risk management function	Risk manager	– CySEC – Board	Annually
Internal Audit report	Internal Auditor	– CySEC – Board	Annually
Report of the compliance function	Compliance Officer	– CySEC – Board	Annually
Audited Financial Statements	External Auditor	– CySEC – Board	Annually
Suitability Report	External Auditor	– Board	Annually
Pillar I	Risk Manager	– CySEC	Quarterly
ICAAP (Pillar 2) Report	Risk Manager	– Board	As requested
AMLCO Report	MLCO	– Board	Annually

7. Board Declaration – Adequacy of risk management arrangements

The Board of Directors is ultimately responsible for the risk management framework of the Company. The risk management framework is the totality of systems, structures, policies, processes and people within the Company that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the Company's operations. The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and - as such - offer reasonable but not absolute assurance against fraud, material misstatement and loss.

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

8. Board Risk Statement

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

The Company, taking into account the current nature, scale and complexity of its operations, follows a policy that establishes and applies processes and mechanisms that are most appropriate and effective in monitoring the various activities. The policy aims to promptly identify, measure, manage, report and monitor risks that affect the achievement of strategic, operational and financial objectives. It includes adjusting the risk profile in line with the Company's stated risk tolerance to respond to new threats and opportunities in order to minimize risks and optimize returns.

The Company's aim is to embed explicit and robust risk management practices across its entire business operations, in order to ensure that the level of risk it faces is consistent with its corporate objectives and its level of risk tolerance. This is achieved through the implementation of a comprehensive risk management framework for the identification, assessment, monitoring and control of all relevant risks. The framework also enables the Company to continually align its business objectives against a background of changing risks and uncertainty.
The risk management framework:

- Enables the Company to proactively manage its risks in a systematic manner;
- Ensures that appropriate measures are in place to mitigate risks;
- Creates a culture of risk awareness within the Company; and
- Ensures that risk management is an integral part of the Company's decision making process.

Risks are assessed systematically and evaluated as to the probability of a risk scenario occurring, as well as the severity of the consequences should they occur. Also, risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

In establishing the risk tolerance, the risk management function and the business collectively consider appropriate business opportunities and the associated risks. The risk tolerance is expressed at a holistic level in qualitative terms that clearly identify how it fits in with the tactical and strategic objectives of the Company. The qualitative expression of the risk appetite is subsequently translated into day-to-day tractable quantitative measures. This level of risk is expressed quantitatively in terms of how much the firm is “prepared to lose” from credit, market or operational events over a three-year time frame. Altogether, the quantitative and qualitative expressions of the risk appetite serve as a “moral compass” to guide day-today decisions.

The general observations of the whole assessment lead to the conclusion that the Company’s current risk profile is in line with the level of its risk tolerance.

The following table sets out a number of key measures used to monitor the Company’s risk profile:

Risk Area	**Metrics**	**Comment**	**Measure as at 31/12/2020**
Capital	Common Equity Tier1 (CET1), Tier 1 and Total capital ratios	The Company’s objective is to maintain regulatory ratios well above the minimum thresholds set by CySEC. It therefore aims to maintain its capital ratios at a level equal to 10% (regulator’s limit: 4,5%, 6% and 8% respectively)	CET1: 69,63% Tier1: 69,63% Total Capital Ratio: 69,63%
Liquidity	Cash Ratio	The Company aims to keep its Cash Ratio i.e. (Cash & Cash Equivalents/Current Liabilities) at values exceeding 0,7	Cash Ratio: 6,11 :1
Credit Risk	Exposure to single financial institution	The Company’s objective is to minimize the potential loss from counterparties. It thus limits its exposure to a single financial institution at levels of 50% of its overall cash positions or less	Current exposure: 67%[1]

9. Risk Management

The Company is exposed to credit risk, interest rate risk, foreign exchange risk and operational risk.

Risk Categorization

i. Credit Risk

Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor’s failure to meet its financial obligations towards the Company. Generally, credit risk can be derived from the following areas:

[1] The Company is taking measures to reduce its current exposure at levels below the 50% benchmark by the end of July 2021.

- Cash and cash equivalents: The Company has significant exposure to cash and cash equivalents with financial institutions in the European Union. In order to mitigate risks related to this area, the Company utilizes banks with lower default risk and tries to limit maximum cash amount that can be deposited with a single counterparty;
- Debt securities: The Company is not exposed to credit risk from third parties where it holds securities issued by those entities. Moreover, it does not intend to hold debt securities in the near future neither through sovereign nor institutional issuers;
- Receivables: The Company is not exposed to credit risk from receivables from third party agents, brokers and other intermediaries since it collects all commissions from third party liquidity providers within a short period of time following trade execution;
- Derivatives: The Company is not exposed to credit risk arising from derivative financial instruments, such as swaps, options, future and forward contract.

The Company's objective in managing credit risk exposures is to maintain them within parameters that reflect the strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored. To assess counterparty credit risk, the Company uses the ratings assigned by external rating agencies to that counterparty and where not possible the country ratings assigned to the jurisdiction the counterparty maintains its base. This is primarily emphasized on the credit institutions where the Company maintains its corporate and clients' accounts.

ii. Market Risk

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in the prices of equities, real estate assets, interest rates and currency exchange rates. The Company manages the market risk of assets relative to liabilities on an economic total balance sheet basis. It strives to maximize the economic risk-adjusted excess return of assets relative to the liability benchmark taking into account the Company's risk tolerance as well as regulatory constraints.

Equity and real estate market prices
Risks arising from equity securities and real estate could affect the Company's liquidity, reported income, surplus and regulatory capital position. Such exposure may include, but is not limited to, common stocks, direct holdings in real estate, or listed real estate company shares and funds.

The Company is not currently exposed to any risks resulting from price fluctuations on equity securities, real estate or capital markets. Moreover, it is highly unlikely that the Company will be exposed to such risks in the future considering its current authorization (not licensed to trade on own book) and own funds consisting mainly of bank deposits.

Interest rate risk
Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. Such exposure may include, but is not limited to, debt securities, reserves for insurance contracts, liabilities for investment contracts, employee benefit plans and loans and receivables.
Currently, the Company is not exposed to interest rate risk since its deposits are held in current accounts.

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency.

The Company is exposed to the financial impact arising from changes in the exchange rates of various currencies in the following three ways:

- The Company may receive income in a currency other than Euro, which is the base currency of the Company
- The Company may have expenses denominated in a currency other than Euro, which is the base currency of the Company
- The Company may have deposits denominated in a currency other than Euro, which is the base currency of the Company

During the period under review, the Company had income, minor expenses and deposits in foreign currency, namely in USD. Fluctuations in the exchange rate did not have any significant impact on the Company's financials. Although there was a notable change in the exchange rate, the impact was insignificant as the amounts did not have a material effect on the results of the Company.

The Company continues to regularly monitor the impact of exchange rate risks and if deemed necessary corrective actions will be taken to minimize the effect. Any measures should be in line with the Company's risk appetite given that exposure to foreign exchange can lead to gains as well as losses.

iii. Operational Risk

Operational risk is defined as the risk of a direct or indirect impact resulting from human factors, inadequate or failed internal processes and systems, or external events. Operational risk includes, inter alia, actual and/or potential losses caused from deficiencies in the Company's set-up of operations, including but not limited to, system integrity and reliability, employee fraud, weaknesses in personnel appointment, organizational structure and internal communication inefficiencies.

The Company's exposure to operational risk is limited to the extent of its current scale and complexity. The Company has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk. Overall planning, coordination, and monitoring is centralized, however, most operational risks are managed within the departments in which they arise. Moreover, the Company is applying the guidelines issued by the Commission in relation to the recruitment of its personnel. Also, in order to mitigate operational risks, the Company has specific processes and systems in place to focus continuously on high priority operational matters such as information security, managing business continuity and combating fraud.

The Company's services do not include "Dealing on Own Account" which virtually eliminates the potential scale of operational risk it may face. The absence of a trading book means that its operational risk is virtually reduced to information technology security risk both external and internal (external intrusion and internal theft or sabotage) and regulatory risk. Both of these risks are taken very seriously and policies are in place to monitor and manage such risks by taking various measures before they manifest. The Company maintains an updated Business Continuity Policy which details all the measures taken in such operationally disruptive cases.

Additionally, the Company follows a very strict implementation of the “4-eye” principle at all levels of its hierarchy, which adheres to a need to know rule that compartmentalizes important information and tasks.

The Company’s risk report includes a detailed analysis of operational risk and relevant findings on the below operational risks:

- Security risk
- System provider risk
- Platform risk
- Employee fraud
- Employee knowledge and experience
- Organisational structure
- Outsourcing of operations
- Client service

iv. Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Company’s policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions. To achieve this, the Company monitors and manages its liquidity needs on an ongoing basis. Also, the Company ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Currently the Company is not subject to any liquidity risk as it maintains own funds in cash deposits with reputable institutions and its liquidity (or cash ratio) and own fund ratios are extremely high.

v. 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. Additionally, reports from external providers are constantly reviewed (i.e. BOC Outlook, Moody’s Outlook etc). All these are analysed and taken into consideration when implementing the Company’s strategy.

vi. Reputational Risk

Reputational risk can arise from direct Company actions or by actions of third parties that it may or may not have a relationship with. Such Company actions may include internal security breaches, employee fraud, client misinformation, mistakes in handling client requests and any other actions that can lead to significant negative public opinion and subsequently loss of business and income. Third party actions can include problems with the provision of the outsourced services that can lead to operational interruptions, database hosting and security, spreading of rumors and unsubstantiated information.

The Company strives to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of the Company, which include integrity and good business practice. The Company centrally manages certain aspects of reputational risk, for example, communications, through functions with the appropriate expertise. It also places great emphasis on the information technology security which is one of the main causes of such reputational risk manifestation.

vii. Strategic Risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy. A strategy is a long-term plan of action designed to allow the Company to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans;
- Improper implementation of strategic plans; and
- Unexpected changes to assumptions underlying strategic plans.

Risk considerations are a key element in the strategic decision-making process. The Company assesses the implications of strategic decisions on risk-based return measures and risk-based capital to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

viii. Credit concentration risk

This refers to 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 or to a client.

Some concentration of credit risk with respect to trade receivables exists, due to the Company's small number of customers. The Company's experience in the collection of trade receivables has never caused debts which are past the due payment period of 180 days to be impaired. Due to these factors, there are no additional credit risks beyond amounts provided for collection losses is inherent in the Company's trade receivables. Also the size of such exposures is negligible in comparison to the Company's current financial strength and the size of its assets (against its liabilities).

ix. Residual Risk

Residual risk relates to any credit risk that remains after all measures and controls have been implemented. This could occur because of low performance or failure of credit risk mitigation techniques, which could give rise to other risks that may render the overall risk reduction less effective. These additional risks are legal risk, documentation risk and liquidity risk. The Company's nature is such that it is not exposed to residual risk.

x. Settlement risk

Settlement risk occurs if, as part of a trade, the Company delivers an asset or cash value to the counterparty (or the opposite meaning that the Company must receive an asset or cash value from the counterparty) and does not receive the corresponding cash value or asset as expected.

The Company has not faced any such issues and exposure to settlement risk is considered low given the measures the Company takes to ensure that its clients have the necessary funds to conclude a transaction or the financial instruments in case of sale (no short selling).

xi. Information technology risk

Information technology risk could occur because of inadequate information technology security, or inadequate use of the Company's information technology.

Policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, as well as use of both hardware and software intrusion aversion measures such as (but not limited to) firewalls, anti-virus software, use of security keys, access restrictions, network fencing, and encryption techniques. Materialization of this risk has been minimized to the lowest possible level given the Company's current complexity of its operations and the services it offers to its clients.

xii. Capital Risk Management

This 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 for the benefit of both the shareholders and all stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. This ultimately ensures the going concern of the Company. Such procedures are explained in detail in the Internal Operations manual of the Company.

The Company is further required to report to CySEC on its capital adequacy on a quarterly basis and has to maintain at all times a minimum capital adequacy ratio of 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. The management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the accounting system which enables the management to have on-line read access and they can extract any information required at all times.

10. Capital Base and Adequacy

The own funds of the Company are comprised entirely by Common Equity Tier 1 capital. Common Equity Tier 1 capital comprise of share capital and reserves. As at 31 December 2020, the level of own funds was approximately €1,170,000.

As at 31/12/2020 the Capital Adequacy Ratio was 69,63%. The Directive stipulates a minimum capital ratio of 8%.

Table 1 below shows a breakdown of own funds as at 31 December 2020.

Table 1: Capital for regulatory purposes	
Own Funds	**2020 (€ '000s)**

Share Capital	580
Retained Earnings	649
Total Common Equity Tier 1 Capital	**1.229**
Deductions from Common Equity Tier 1 Capital	
Intangible Assets	(1)
CYSEC -Investor Compensation Fund	(58)
Total Own Funds	**1.170**

Initial Capital
The Company's initial capital as at 31 December 2020 was above the minimum required level of initial capital (€125.000), as this is defined in the relevant sections of the Regulation.

11. Credit, Market and Operational Risk Capital Requirements

Table 2 below shows the capital requirements for the three risks covered by Pillar I of the Regulation.

Table 2: Capital Requirements	
Type of Risk	**Capital Requirements (€ '000s)**
Credit Risk	1.220
Market FX Risk	460
Additional capital requirements due to Fixed overhead	-
Total	**1.680**

The exposures and calculation of capital requirements for each risk are analysed below.

11.1 Credit Risk[2]

The Company has adopted the Standardised Approach for the assessment of capital requirements for credit risk, and has elected to use S&P Ratings as the External Credit Assessment Institution ("ECAI") for all classes of exposure.

The Company has used the credit step mapping table below to map the credit assessment to credit quality steps.

Credit Quality Step	S&Ps
1	AAA to AA-
2	A+ to A-
3	BBB+ to BBB-
4	BB+ to BB-
5	B+ to B-
6	CCC+ and below

[2] In accordance with Guide issued by CySEC https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=151e0c3e-0fc1-4dda-ad5a-15dd8a957e71
The Company is not subject to submitting form Form 144-14-09 and therefore disclose credit risk capital requirements per exposure class and geographical distribution.

The Company did not make use of any credit mitigation techniques ("CRM") as at the reference date.

The exposure classes under which the assets of the company have been allocated under the Standardised Approach for credit risk are as shown in **Table 3** below.

Table 3: Capital requirements per exposure class				
Exposure Class	**Average Exposure amount before and after CRM**	**Exposure amount before and after CRM (€ '000s)**	**Risk Weighted Assets (€ '000s)**	**Minimum Capital Requirement (€ '000s)**
Other	32	28	28	2
Institution	816	945	257	21
Corporates	-	935	935	75
Central governments or central banks	52	100	-	-
Total	**900**	**2.108**	**1.220**	**98**

The allocation of the Company's credit risk exposures to the different industry sectors, as at 31 December 2020, is illustrated in the following table:

Table 4: Distribution of credit risk exposures by industry sector			
Exposure Class	**Non-Financial (€ '000s)**	**Financial (€ '000s)**	**Total (€ '000s)**
Other	-	28	**28**
Institution	-	945	**945**
Corporates	-	935	**935**
Total	**-**	**2.008**	**2.008**

The residual maturity of the Company's credit risk exposures, broken down by residual maturity and exposure class, is provided in the table below:

Table 5: Residual maturity per exposure class			
Exposure Class	**Residual Maturity ≤ 3 months (€ '000s)**	**Residual Maturity > 3 months or No maturity (€ '000s)**	**Total (€ '000s)**
Other	-	28	**28**
Institution	-	945	**945**
Corporates	-	935	**935**
Total	**-**	**2.008**	**2.008**

11.2 Operational Risk

Due to the fact that the company is not authorised to provide the "Dealing on own account" or/and the "underwriting" services and provides "portfolio management", it falls under Article 95 of the Regulation and therefore, it calculates its total Risk Weighted Assets based on the fixed overheads of the preceding year, as explained in Section 8 (iii) above.

No additional capital charges are required by using this method for operational risk.

11.3 Market Risk

The Company is exposed to foreign exchange risk due to exposures it has in USD.

As at 31 December 2020, the Company's capital requirement for market risk is approximately €37,000 and relates entirely to foreign exchange risk.

12. Remuneration Disclosures

The remuneration policy of the Company is set by the Senior Management and the Board of Directors.

According to the skills, knowledge, performance and market rates that the staff and management possess the appropriate remuneration levels are provided.

The Company provides fixed and variable salary cash component to its staff and management body.

Currently the remuneration structure of the Company does not include any variable pay component in non-cash form. The remuneration package of the 4 professional members of the firm's staff consists of a salary element and a discretionary bonus element.

There were no non-cash remuneration benefits, no outstanding deferred remuneration and no sign-on or severance payments made during 2020.

Due to the size of the Company and the proportionality principles all employees are considered as persons with material impact on the Company.

The Company's annual remuneration to management and staff as at 31 December 2020 is as follows:

Table 6: Annual remuneration to management and staff				
	No. of beneficiaries	**Fixed[3] (€ '000s)**	**Variable (€ '000s)**	**Total (€ '000s)**
Senior Management	2	106	15	121
Other Staff	3	117	4	121
Total	**5**	**223**	**19**	**242**

The remuneration of non-executive Board members amounted to €6,000.

[3] Includes gross salary and total employer's contributions

Appendix

I. Balance sheet reconciliation

Balance Sheet Description, as per published financial statements	Amounts ('000EUR)
Share Capital	580
Retained Earnings	1,251
Total Equity as per Audited accounts	**1,831**
Regulatory Adjustments	
Profit not eligible	(602)
Intangible assets	(1)
CYSEC Guarantee Deposit	(58)
Total regulatory Own Funds	**1.170**

II. Own funds Transitional and Fully Phased-in Definition

At 31 December 2020	Transitional Definition €'000	Fully Phased in Definition €'000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	580	580
Retained earnings	649	649
Accumulated other comprehensive income (and other reserves, to include unrealized gains and losses under the applicable accounting standards)	0	0
Funds for general banking risk	0	0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1.229**	**1.229**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	0	0
Intangible assets (net of related tax liability)	(1)	(1)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(58)	(58)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(59)**	**(59)**
Common Equity Tier 1 (CET1) capital	**1.170**	**1.170**
Additional Tier 1 (AT1) capital	**0**	**0**
Tier 1 capital (T1 = CET1 + AT1)	**1.170**	**1.170**
Tier 2 (T2) capital	**0**	**0**
Total capital (TC = T1 + T2)	**1.170**	**1.170**
Total risk weighted assets	**1.680**	**1.680**
Capital ratios		
Common Equity Tier 1	69,63%	69,63%
Tier 1	69,63%	69,63%
Total capital	69,63%	69,63%

Definitions:
The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The Total Capital ratio is the own funds of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.