Pillar III Disclosures and Market Discipline for the year ended 31 December 2019

CEX Markets Ltd

June 2020

Regulated by the Cyprus Securities and Exchange Commission (License. No. 381/19)

This report has been prepared based on the Audited Financial Statements of 2019; under Directive DI144-2014-14 and DI144-2014-15 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms

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1 Introduction

1.1 Corporate information

These disclosures relate to CEX Markets Ltd., (the "Company"), which is authorized and regulated by the Cyprus Securities and Exchange Commission (the Commission" or "CySEC") as a Cyprus Investment Firm ("CIF") to offer Investment and Ancillary Services in accordance to the Investment Services and Activities and Regulated Markets Law of 2017 (hereinafter, the "Law"), under license number 381/19 dated 22 November 2019.

The Company has the license to provide the following investment and ancillary services, in the financial instruments outlined below:

Investment Services and Activities:

(a) Reception and transmission of orders in relation to one or more financial instruments;

(b) Execution of orders on behalf of clients; and

(c) Dealing on own account

Ancillary Services:

(a) Safekeeping and administration of financial instruments, including custodianship and related services; and

(c) Foreign exchange services where these are connected to the provision of investment services.

Financial Instruments:

1) Transferable securities;

2) Money-market instruments;

3) Units in collective investment undertakings;

4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;

5) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);

6) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF);

7) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that can be physically settled not otherwise mentioned in point 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls;

8) Derivative instruments for the transfer of credit risk;

9) Financial contracts for differences; and

10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognized clearing houses or are subject to regular margin calls.

1.2 Basis of preparation (Pillar III Regulatory Framework)

The current EU Capital Requirements Directive 2013/36/EU ("CRDIV") and 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 (the "Regulation" or "CRR") set out the regulatory framework (commonly known as Basel III) that governs the amount of capital EU investment firms and banks are required to maintain. This is achieved through the application of common capital adequacy methodologies and by enforcing standardized disclosure requirements that ensure transparency and enable the comparability of solvency results across the region.

The Basel III framework consists of three Pillars:

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

According to Directives DI144-2014-14, DI144-2014-14(A) and DI144-2014-15 of the Commission and Part Eight of the Regulation for the prudential supervision of investment firms, the Company prepared these disclosures (hereinafter the "Pillar III disclosures") to demonstrate that it has successfully implemented the prudential provisions and to fully comply with the current legislature.

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

1.3 Reporting Frequency

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

This report is published and will be available on the Company's website at: ***www.cexbro.com***

1.4 Verification

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board of Directors (the "Board") for approval.

The Company's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures as detailed in Section 6 of this document have been reviewed by the Board and the Remuneration Committee which have responsibility of the Remuneration Policy.

1.5 Reporting details

The Company reports on a Solo basis and the reporting currency is EUR.

1.6 Return on Assets

The Company's return on assets (ROA) for financial year ending 31 December 2019 is negative since it has only incurred expenses. As at the year-end 2019 it is not meaningful to formalize this metric since the Company received its license in November 2019 and no activities were performed and no clients have been on-boarded.

1.7 Non-Material, Proprietary or Confidential Information

This document has been prepared to satisfy the Pillar III disclosure requirements set out in the CRR. The Company does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

2 Risk Governance – Board and Committees

2.1 Board of Directors

The Board has overall responsibility for the business. It sets the strategic aims for the business, in line with delegated authority from the shareholders and in some circumstances subject to shareholders approval, within a control framework, which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are robust.

The Board of Directors, as at the reference date, consists of two (2) executive and three (3) non-executive members, of which the two are also independent. The Chairman of the Board is one of the Independent Non-Executive Directors of the Company.

Table 1:Board of Directors structure

Full name of Director	Position/Title	Capacity	Country
Charalambos Christodoulides	Chief Executive Officer	Executive Director, "4 eyes"	Cyprus
Raffi Mahdessian	General Manager	Executive Director, "4 eyes"	Cyprus
Oleksandr Lutskevych	Director	Non-Exe. Director	Ukraine
Andreas Charalambides	Non-executive Director	Non-Exe. Director, Independent	Cyprus
Marios Athanasiou	Non-executive Director	Non-Exe. Director, Independent	Cyprus

2.1.1 Board of Directors responsibilities

The Board shall be responsible for ensuring that the Company complies with its obligations under the Law. The Board assesses and periodically reviews the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law and takes appropriate measures to address any deficiencies. In general, the Board shall:

a) Determination of the Company's strategy;

The Board of Directors is responsible for determining the Company's strategy. The Board of Directors must from time to time determine and explicitly state the goals that the Company is aiming to achieve. It is then the Board of Director's responsibility to monitor the Company's progress towards the achievement of its strategic goals and to identify and work towards the removal of any obstacles. The Board of Directors shall meet at least twice a year, and whenever the need arises, to discuss strategic issues and to reformulate strategy where this is necessary on account of changes and developments, whether internal to the Company or external in its market environment. Any changes in the Company's strategy can be brought about only as a result of a decision of its Board of Directors.

b) Determination of the Company's structure and hierarchy;

The Board of Directors is responsible for determining the internal structure of the Company, by creating the appropriate departments and officers, each assigned with specific duties and responsibilities and endowed with the powers necessary for effectively carrying them out. The

Board of Directors shall also determine the hierarchy within which departments will be placed, the lines of communication and accountability between departments and within departments and the tasks which each department and each employee is to perform. It is the responsibility of the Board of Directors to ensure that the structure of the Company is such that will further the achievement of the strategic goals of the Company.

c) Company's policy and internal operations manual;

Having set the Company's strategic goals and structure, the Board of Directors is responsible for leading the Company towards their achievement through the creation of appropriate policies, procedures and rules for the Company's internal operations. These are described in detail in this Manual, instructing the Company's employees on how each is expected to perform his or her duties. The suitability of the policies, rules and procedures described in this Manual is reviewed by the Board at least once a year.

d) Supervision of the Company's policies and procedures and their effectiveness;

The Board of Directors shall meet at least once a year to determine, record and approve the general policy principles of the Company in relation to the prevention of money laundering and terrorist financing and communicates them to the compliance officer.

The Board of Directors shall receive at least annually written reports on the policies and procedures designed to detect any risks associated with:

- Failure of the Company to comply with the Law;
- Deficiencies in the Company's activities, processes and systems; and
- Effectiveness of the Company's internal control mechanisms.

The report should also include measures to address any deficiencies in these policies and measures. The Board of directors shall establish a clear and quick reporting chain based on which information regarding suspicious transactions is passed without delay to the compliance officer. The Board of Directors shall consider the Internal Auditor and the Compliance Officer's suggestions for improvements in the Company's audit and compliance risks and procedures and, where appropriate, accept these suggestions and amend these policies and procedures and the appropriate sections of this Manual. The minutes of the annual meeting of the Board of Directors on Internal Audit and Compliance procedures shall be submitted to the Commission within 20 days from the day on which the meeting took place.

2.1.2 Board of Directors meetings and quorum

The Company's Board of Directors shall meet at least once a year to discuss issues relating to internal audit and compliance. The Internal Auditor shall prepare and submit to the Board detailed reports as to the audits performed during the past year and any conclusions reached as to the effectiveness of the internal audit system, and any suggestions as to its improvement.
The Board of Directors will go through the Internal Auditor's reports and discuss the issues which have arisen. The Board of Directors will reach its own conclusions and make any decisions it considers appropriate.

The Company will submit to the Commission the abovementioned written report along with a copy of the minutes of the yearly meeting within 20 days from the day on which the meeting took place.

2.1.3 Number of Directorships held by the Board members

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.

The table below provides the number of directorships that each member of the management body of the Company holds at the same time in other entities, including the one in CEX Markets Ltd:

Table 2:Directorships of Board Members

Full name of Director	Position/Title	Executive	Non-Executive
Charalambos Christodoulides	Chief Executive Officer	1	2
Raffi Mahdessian	General Manager	1	2
Oleksandr Lutskevych	Director	1	1
Andreas Charalambides	Non-executive Director	-	2
Marios Athanasiou	Non-executive Director	1	1

2.2 Board recruitment policy

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

Recruitment of Board members combines an assessment of both technical capability and competency skills referenced against the Company's regulatory and operational framework. It seeks to resource the specific experience and skills needed to ensure the optimum blend (diversity) of individual and aggregate capability having regard to the Company's long-term strategic plan.

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

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

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

2.3 Governance Committees

The Company has formed the below governance committees based on its current scale and complexity of its operations and the necessary level of elaborate governance oversight to adequately monitor its operational effectiveness and its potential risks.

2.3.1 Risk Management Committee

The Risk Management Committee is formed with the view to ensure the efficient management of the risks inherent in the provision of the investment services to clients, as well as the risks underlying the operation of the Company, in general.

Towards this direction, the Company shall adopt and maintain risk management policies, which identify the risks relating to the Company's activities, processes and systems and sets the level of risk tolerated by the Company. Also, the Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of the risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

The Risk Management Committee reports directly to the Board and consist of two (2) Independent Non-executive Directors, Marios Athanasiou and Andreas Charalambides.

The Risk Management Committee formally meets at least annually. Furthermore, extraordinary meetings can be called by any member of the Risk Management Committee. Minutes of all meetings will be kept in writing and on file in the Company's premises.

2.3.2 Remuneration and Nomination Committee

CIFs which are significant in terms of their size, internal organization and the nature, the scope and the complexity of their activities, must establish a remuneration committee. The Remuneration Committee is constituted in such a way as to enable it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity.

The Company has established a Remuneration Committee which is comprised exclusively of non-executive directors and it is responsible for reviewing and determining the Company's remuneration policy (the "RP") and practices. The Remuneration Committee is also responsible to monitor the Company's compliance towards the approved policy and to identify and work towards any deficiencies. The Remuneration Committee meets at least once a year, and whenever the need arises, to discuss issues and to reformulate the policy where this is necessary on account of changes and developments, whether internal to the Company or external in its market environment. Any changes in the Company's remuneration policy can be brought about only as a result of a decision of its Board of Directors that has the power to approve and implement the Remuneration Committee's proposed remuneration policy.

The Remuneration and Nomination Committee comprises of the two independent non-executive directors, Marios Athanasiou and Andreas Charalambides.

2.4 Information flow on risk to the Board of Directors

The flow of risk-related information to the management body of the Company, is presented in the table below:

Table 3:Information flow on risk to Board

No.	Report Description	Responsible Officer	Frequency
1	Risk Management Report	Risk Manager	Annually
2	Pillar I (CySEC F061 form)	Risk Manager	Quarterly
3	ICAAP (Pillar 2) Report	Risk Manager	Annually
4	Pillar 3 Disclosures	Risk Manager	Annually
5	Escalation of key risk (when applicable)	Risk Manager	Ad hoc
6	Internal Audit Report	Internal Auditor	Annually
7	Compliance Report	Compliance Officer	Annually
8	AMLCO Report	AMLCO	Annually
9	Suspicious transactions involving money laundering and terrorist financing	AMLCO	Ad hoc

3 Risk Management Objectives and Policies

3.1 Approach to Risk Management

There is a formal structure for monitoring and managing risks across the Company comprising of detailed risk management frameworks (including policies and supporting documentation) and independent governance and oversight of risk.

First line of defense - Managers are responsible for establishing an effective control framework within their area of operations and identifying and controlling all risks so that they are operating within the organizational risk appetite and are fully compliant with Company policies and where appropriate defined thresholds.

Second line of defense - 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. Risk 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.

Third line of defense comprises the Internal Audit Function which is responsible for providing assurance to the Board and senior management on the adequacy of design and operational effectiveness of the systems of internal controls.

3.2 Risk Appetite

Risk Appetite limits the risks which the business can accept in pursuit of its strategic objectives. Risk Appetite is formally reviewed annually and is monitored on an ongoing basis for adherence. The Company's strategy, business plan and capital and liquidity plans are set with reference to Risk Appetite.

The Board approves the Risk Appetite, which defines the level of risk that the Company is prepared to accept to achieve its strategic objectives and is translated into specific risk measures that are tracked, monitored, and reported to the Board. The Risk Appetite framework has been designed to create clear links to the strategic long-term plan, capital planning, stress testing and the Company's risk management framework. The review and approval process is undertaken at least annually.

The Company's Risk Appetite covers three core areas, financial risk, reputational risk, and operational risk. The 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.

3.3 Risk Management Function

The Risk Management function is independent from other operational functions, possesses the necessary authority for the fulfilment of relevant duties and responsibilities, as well as direct access to the Company's Board of Directors.

The Risk Management Function operates under the leadership of the Risk Manager who reports directly to the Senior Management and the Board. The role of the Risk Manager is undertaken in-house by an executive director with specific expertise and structured to provide analysis, challenge, understanding and oversight of each of the principal risks faced by the Company.

The Risk Manager is responsible for the following tasks:

a) to establish, implement and maintain adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company;
b) to adopt effective arrangements, processes and mechanisms to manage the risks relating to the Company's activities, processes and systems, in light of that level of risk tolerance;
c) to monitor the following:
   i. the adequacy and effectiveness of the Company's risk management policies and procedures;
   ii. the level of compliance by the Company and its relevant persons with the arrangements, processes and mechanisms adopted in for managing relevant risks; and
   iii. the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons of the Company to comply with such arrangements, processes and mechanisms or follow such policies and procedures.
d) to provide reports and advice to the BoD at least annually, on the adequacy of risk management policies and procedures designed to identify and manage risks relating to the Company's activities, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies; and
e) Provision of ICAAP training to relevant employees and senior management.

3.4 Risk Management Framework

The Company' 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.

3.4.1 Risk Identification

The Risk Identification process provides guidance on the sources to investigate and research in order to identify new and emerging risks and sets out consistent principles, which should be applied.

3.4.2 Risk Assessment

The Risk Assessment process is the means through which the Company understands and estimates the effect of risk on the business and the processes, systems and controls that mitigate those risks to an acceptable level.

3.4.3 Risk monitoring and control

Based on the Risk Assessment findings and having the Risk Appetite as a benchmark the Company decides to eliminate, mitigate, or tolerate the risks faced and accordingly takes appropriate actions and measures to achieve the decision being made. The actions and measures are monitored for performance and change achievement.

3.4.4 Stress Testing

Stress Testing is the process by which the Company's business plans are subjected to severe stress scenarios in order to assess the impact of those potential stresses on the Company's business including the projected capital and liquidity positions.

The Company is required to prepare and make available upon request periodic ICAAP reports which set out future plans, their impact on capital availability and requirements and the risks to capital adequacy under potential stress scenarios.

3.5 Internal Capital Adequacy Assessment Process

The Company has established an Internal Capital Adequacy Assessment Process which it has documented in an ICAAP Report and a relevant policy manual. Currently the Company is in the process of producing its updated ICAAP Report for financial year 2019, as per the Guidelines GD-IF-02 & GD-IF-03. Upon CySEC's request the ICAAP Report shall be submitted to CySEC.

The ICAAP report describes how the Company has implemented and embedded the management of the various risks to which it is subject, within its business. The ICAAP also describes the Company's Risk Management framework, which includes - among others - its risk profile and the extent of risk appetite, the risk management limits where relevant, as well as the measures that need to be taken and, if necessary, the Pillar II capital to be held for the most material risks (including risks other than the Pillar I risks) faced by the Company.

In performing its ICAAP, the Company has adopted the "Pillar I" approach. In particular, the Company uses simple methods to quantify the capital requirements, over and above the Pillar I minimum requirement, as more advanced approaches are considered unsuitable for the size and complexity of the Company and require extensive use of resources and time to produce. The allocation of capital for Pillar II takes into consideration the risks that have been assessed internally by the Company as “material”, through the risk assessment as well as the capital planning and stress test exercises performed. All risks falling outside the Company’s risk appetite are considered to be threats to the Company and are covered with additional capital and/or additional controls.

3.6 Board Declaration - Adequacy of the 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. The Risk Manager is responsible to prepare a Risk Management report at least annually which is submitted to the BoD for review and approval. The members of the BoD are responsible to review the issues identified and see that the senior management take mitigating actions where necessary by taking into account the principle of proportionality.

3.7 Board Risk Statement

Considering its current nature, scale and complexity of operations, the Company has developed a policy that establishes and applies processes and mechanisms that are most appropriate and effective in monitoring activities.

The aim is to promptly identify, measure, manage, report and monitor risks that interfere with the achievement of the Company’s strategic, operational and financial objectives. The policy 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.

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

Table 4:Key Risk Measures

Risk Area	Metrics	Comment	Measure as at 31/12/19
Capital risk	Core Equity Tier1 (CET1), Tier 1, Total capital ratio, Capital Conservation buffer (CCB), Institution specific countercyclical buffer	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 least 2% points above the required level (4.5% CET1, 6% T1, 8% TCR and 2.5% CCB and 0% Institution Specific CCyB).	CET1: 34.42% Tier 1: 34.42% Total capital ratio: 34.42%
Liquidity risk	Cash Ratio	The Company aims to keep its Cash Ratio i.e., (Cash & Cash Equivalents)/Current Liabilities at values exceeding 1.0.	Cash Ratio: 67x
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 100% of its overall cash positions or less and maintains exposure to any one institution at levels of 100% of its own funds or less.	Currently all exposure is to a single institution therefore the highest exposure to a single institution of 100% is in effect.

4 Pillar I Risks and Minimum Capital Requirements

4.1 Capital Management

This is the risk that the Company will not comply with capital adequacy requirements. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company.

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

In addition, the Company needs to maintain the Capital Conservation Buffer ("CCB"). The CCB is designed to ensure that CIFs build up capital buffers outside periods of stress which can be drawn down as losses are incurred. It needs to be maintained at all times and only utilized in exceptional circumstances. The CCB is set to 2.5% of the total risk exposure amount calculated in accordance with Article 92(3) of the Regulation (par. 52 of the Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms).

Furthermore as per par 53 and 56 of Directive DI144-2014-14, the Company is required to maintain an institution-specific Countercyclical Capital Buffer ("CCyB") equivalent to their total risk exposure amount multiplied by the weighted average of the countercyclical buffer rates to that apply in the jurisdictions where the relevant credit exposures of the Company are located.

4.1.1 Capital Base

The own funds/capital base of the Company as at 31 December 2019 comprised solely of Common Equity Tier 1 (CET1), as shown in the table below.

Under the Law, Own Funds consists mainly of paid up share capital, share premium, retained earnings less any proposed dividends, translation differences and audited current year losses.

Table 5:Composition of Capital Base

Capital Base	**2019**
	€000
Share Capital	1
Share premium	899
Other reserves	83
Accumulated losses	(169)
Total Common Equity Tier 1 Capital	**773**
Additional Tier 1 Capital	-
Tier 2 Capital	-
Adjustment to CET1 due to prudential filters	
(-) Other intangible assets	(0)
(-) Additional deductions of CET1 Capital due to Article 3 CRR (ICF)	(41)
Total Own Funds & Eligible capital	**773**

4.1.2 Capital Requirements and Capital Adequacy

The Company's objectives when managing capital are:

- to comply with the capital requirements set by the CySEC;
- to safeguard its ability to continue as a going concern; and
- to maintain a strong capital base to support the development of its business.

The Company's policy on capital management is focused on maintaining the capital base sufficient in order to keep the confidence of customers, creditors and other market participants at satisfactory levels and to secure the future development of the Company. Capital adequacy and the use of the regulatory capital are monitored by the Company's management through its Internal Capital Adequacy Assessment Process as analyzed in Section 3.5. The Company is further required to report on its capital adequacy quarterly. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. All reports are regularly submitted to the Regulator as required.

Based on the Company's authorization, quarterly Capital Adequacy Reports are prepared and submitted to Cyprus Securities and Exchange Commission. The Capital Adequacy Reports is prepared on a solo basis and the reporting currency is Euro.

According to the Regulation and the Law the minimum capital adequacy ratio is 8% and the minimum own capital is €730,000. The CySEC is also required to maintain a Capital Conservation Buffer of 2.5% for the period on the total exposure amount bringing the total capital ratio requirement to 10.50%. As at 31 December 2019, the Company's total risk exposure amount was €2,245 thousand, resulting in a total capital ratio of 34.42%, considerably higher than the minimum required of 10.50%. Moreover, the Company's total eligible capital of €773,000 is above the minimum capital threshold required based on the services it is authorized to provide.

Table 6:Own Funds and Capital Adequacy Ratio

Own Funds and Capital Adequacy Ratio	**2019**
	€000
Total Capital (Own Funds) & Total Eligible Capital	**773**
Risk Weighted Exposures	
Credit Risk	160
Operational risk	2,085
Total Risk Exposure Amount	**2,245**
CET1 Capital ratio	***34.42%***
T1 Capital ratio	***34.42%***
Total capital ratio	***34.42%***

Publication of disclosures

According to the CySEC Directive, the risk management disclosures should be included in either the financial statements of the investment firms if these are published, or on their website. In addition, these disclosures must be verified by the external auditors of the investment firm. The investment firm 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 have been made by the external auditors and sent to CySEC. Verification of these disclosures will be made by the external auditors and sent to CySEC by the end of 31st August 2020 in line with the extended submission deadline for audited financial statements as per Circular C381.

4.2 Market Risk

Market risk is the risk associated with the Company's balance sheet positions where the value or cash flow depends on financial markets. Fluctuating risk drivers resulting in market risk include:

4.2.1 Position risk – equity instruments

The Risks arising from equity, debt, money market or derivative 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, debt assets, deposits, option contracts, direct holdings in real estate, or listed real estate company shares and funds.

As at 31 December 2019, the Company did not hold any equity instruments on its own account or balance sheet.

4.2.2 Position risk – traded debt instruments

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

As at 31 December 2019, the Company did not hold any debt instruments on its own account or balance sheet.

4.2.3 Foreign currency exchange risk

The Company is exposed to foreign exchange risk. Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency (Euro).

At the year-end, the Company had no cash or receivable balances denominated in currencies other than euro.

4.3 Credit Risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. Generally, credit risk can be derived from the following areas:

- Cash and cash equivalents;
- Debt instruments;
- Receivables; and
- Other Assets.

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, and the Company has policies to manage the specific risks within the various subcategories of credit risk.

For calculating its Credit risk capital requirement, the Company uses the Standardized Approach. The following table represents the Company's RWAs and minimum capital requirement for Credit risk as at 31 December 2019, broken down by asset class:

Table 7:Credit risk summary table: by asset class

Asset classes	**Total Exposure Amounts**	**Risk Weighted Exposure**
	2019	**2019**
	€000	**€000**
Institutions	780	156
Other items	4	4
Total	**784**	**160**

Table 8:Credit risk summary table: by country distribution of exposure

Country Distribution of Exposures as at 31 December 2019	Cyprus	Total
Total Exposure Amounts	**2019**	**2019**
	€000	**€000**
Institutions	780	**780**
Other items	4	**4**
Total	**784**	**784**

4.3.1 Exposures to central governments

As described in Article 114(4) of the CRR Exposures to Member States' central governments and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk weight of 0%.

As at 31 December 2019, the Company did not have exposure to the Republic of Cyprus government in respect of refundable VAT.

4.3.2 Exposures to institutions

The Company's Credit risk stems mainly from its cash balances with only one (1) credit institution. However, the Company has policies in place to diversify risks and to limit the amount of credit exposure to any particular financial institution in compliance with the requirements of the Directive. The Company is allowed to keep in one institution not more than 80% of its own funds, and this limit at the moment is exceeded. In addition, the Company reviews a list of acceptable cash counterparties based on current ratings and outlook, taking into account analysis of fundamentals and market indicators.

According to Article 119 of the CRR, exposures to institutions of a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight that is one category less favorable than the preferential risk weight, as described in Article 114(4) to (7) of the CRR, assigned to exposures to the central government in which the institution is incorporated in accordance with the table below:

Article 114 (2) - Table 1						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	0%	20%	50%	100%	100%	150%

Exposures to Member States' central governments, and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk weight of 0%.

Until 31 December 2017, the same risk weight shall be assigned in relation to exposures to the central governments or central banks of Member States denominated and funded in the domestic currency of any Member State as would be applied to such exposures denominated and funded in their domestic currency. However, in 2019, the calculated risk weighted exposure amounts shall be 50 % of the risk weight assigned to these exposures in accordance with Article 114(2).

According to Article 119 of the CRR, exposures to institutions for which a credit assessment by a nominated ECAI is available shall be risk-weighted in accordance with the tables below.

Article 120 (1) - Table 3						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	50%	50%	100%	100%	150%

Article 120 (2) - Table 4						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	20%	20%	50%	50%	150%

Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned in accordance with the table below.

Article 121 (1) - Table 4						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	100%	150%

Given the above, the Company uses a nominated ECAI to derive to the following Risk weighted exposure to institutions of residual maturity of less than three (3) months and of residual maturity of more than three (3) months (both rated and unrated). The summary is provided in table 9 below.

Table 9:Credit risk summary table: exposures to institutions

Credit Quality Steps	**Risk Weight**			**Moody's Credit Rating**	**Exposure amount**			**Risk weighted**
					2019			**2019**
					€000	**€000**	**€000**	**€000**
	Less than 3 months maturity	More than 3 months Rated	More than 3 months Unrated		Less than 3 months maturity	More than 3 months Rated	More than 3 months Unrated	
CQS1	0%	20%	20%	Aaa to Aa3	-	-	-	**-**
CQS2	20%	50%	50%	A1 to A3	780	-	-	**156**
CQS3	50%	50%	100%	Baa1 to Baa3	-	-	-	**-**
CQS4	100%	100%	100%	Ba1 to Ba3	-	-	-	**-**
CQS5	100%	100%	100%	B1	-	-	-	**-**

Credit Quality Steps	Risk Weight			Moody's Credit Rating	Exposure amount			Risk weighted
					2019			2019
					€000	€000	€000	€000
				to B3				
CQS6	150%	150%	150%	Caa1 and below	-	-	-	-
Total risk weighted exposure								***156***

4.3.3 Corporate exposures

As described in Article 122 (2), exposures to corporate entities for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight of 100%. As at 31 December 2019, the Company did not have such exposures.

4.3.4 Other exposures

As described in Article 134 (1), tangible assets within the meaning of Article 4(10) of Directive 86/635/EEC shall be assigned a risk weight of 100%. As at 31 December 2019, the Company had €4 thousand of exposure towards operational computer hardware. Risk weight of 100% has been assigned to the above exposures.

As described in Article 134 (2), prepayments and accrued income for which an institution is unable to determine the counterparty in accordance to Directive 86/635/EEC, shall be assigned a risk weight of 100%. As at 31 December 2019, the Company did not have of such exposures on which a risk weight of 100% has been assigned.

4.4 Operational Risk

Operational risk is defined by the Basel Committee for Banking Supervision as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". Major sources of Operational risk include inadequate operational processes, IT security, dependence on key service providers and implementation of strategic change, fraud, human error, recruitment training and retention of staff. The Company's systems and controls are evaluated, maintained and upgraded continuously. Furthermore, the Company has a "four-eye" structure and board oversight ensuring the separation of power and authority regarding vital functions of the Company.

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

- Reviewing risks and controls as part of the Internal Audit function; Regular review and updating of policies;
- Monitoring of the effectiveness of policies, procedures and controls by Internal Audit;
- Maintaining Risk Registers by following the risk monitoring program in order to ensure that past failures are not repeated;

- Maintaining a four-eye structure and implementing board oversight over the strategic decisions made by the heads of departments;
- Access to the Company's systems (client administration) is limited and the end-users are properly authorized. The system is in a network protected by firewalls and other hardware and software intrusion security tools to block any external intruders from accessing it;
- The Company has performed due diligence on its system providers and has ensured that their service can be delivered uninterrupted. The due diligence performed covered the areas of a business continuity policy, acceptable downtime, accessibility, security features, and server location(s). The provider is a reputable software developer with years of experience in system provision for the financial industry;
- A Disaster Recovery Plan has been designed in order to be used in the event of a force majeure affecting the Company's internal systems and databases. This plan is structured around departments, with each having a set of specific responsibilities; and
- A Business Continuity Policy has been implemented which helps protect all the Company's information databases including data, records and facilities.

In addition to its overall framework, 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.

Following the implementation of the Regulation, and the issuance of Directives DI2014-144-14 and DI2014-144-15, the Company has been categorized as an investment firm that falls under Article 95(1) of the CRR. Given its categorization, the Company compulsorily adopted the provisions of Article 92(3) as the calculation method to calculate its total risk exposure amount.

Under the Basic Indicator approach, the own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator as set out in Article 316 of the Regulation. The Regulation requires that institutions calculate the average over three years of the relevant indicator based on the last three twelve-monthly observations at the end of the financial year. When audited figures are not available, institutions may use business estimates.

Moreover, the CRR stipulates that where an institution has been in operation for less than three years it may use forward-looking business estimates in calculating the relevant indicator, provided that it starts using historical data as soon as it is available. Therefore, for the purposes of the Company, the triennial financial forecast in line with the business plan submitted to CySEC for obtaining the relevant authorization and activation has been utilized to calculate the relevant indicator.

The Operational Risk component was calculated based on the Basic Indicator approach and the following were considered in the calculation as per Article 316 of the Regulation:

a. Commissions/fees receivable;
b. Commissions/fees payable;
c. Interest receivable and similar income; and
d. Interest payable and similar charges.

Table 10:Relevant Indicator requirement calculation:

Total Operational Risk Exposures	**Year 1**	**Year 2**	**Year 3**
	€000	**€000**	**€000**
Commissions/fees receivable	445	1,579	1,833
Commissions/fees payable	(59)	(208)	(241)
Interest receivable and similar income	-	-	-
Interest payable and similar charges	(2)	(5)	(6)
Relevant Indicator Amount	**385**	**1,365**	**1,585**
Total risk exposure amount for operational risk	**2,085**		
Own fund requirements for operations risk	***167***		

4.5 Other Risks

4.5.1 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. The Company also ensures that it has sufficient accessible 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 institution and its liquidity and own fund ratios are at a satisfactory level.

4.5.2 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 in order to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

4.5.3 Reputation Risk

Risks to the Company's reputation include the risk that an act or omission by the Company or any of its employees could result in damage to the reputation or loss of trust among its stakeholders. Every risk type has potential consequences for the Company's reputation, and therefore, effectively managing each type of risk helps reduce threats to its reputation.

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 includes integrity and good business practice. The Company centrally manages certain aspects of reputation risk, for example external 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.

4.5.4 Business Risk

Business risk includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions.

Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. Additionally, reports from external providers are constantly reviewed. All these are analyzed and taken into consideration when implementing the Company's strategy.

The Company's Board regularly reviews the economic and market conditions and responds to any changes.

4.5.5 Regulatory non-compliance risk

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

The 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.

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

4.5.6 Concentration Risk

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

The Company carries out regular analyses of the exposures, including estimates of the trends, and takes into account the results of these analyses in setting and verifying the adequacy of the processes and limits, thresholds or similar concepts for concentration risk management. Examples of elements of such analysis, although not exhaustive are:

- undertaking a more detailed review of the risk environment in particular sector(s);
- reviewing with greater intensity the economic performance of borrowers;
- reviewing approval levels for business;
- reviewing risk mitigation techniques, their value and their legal enforceability;
- reviewing outsourced activities and contracts signed with third parties (vendors);
- reviewing the funding strategy, so as to ensure the maintenance of an effective diversification in the sources and tenor of funding; and
- reviewing the business strategy.

No significant concentration of credit risk was identified as the Company has established procedures to collect fees and commissions within the predetermined payment period.

4.5.7 Specific risks arising from Covid-19 impact

During the first quarter of 2020, the global markets - financial and non-financial - have been severely and unprecedently impacted by the spread of Covid-19 virus and the national and international remedial measures taken to contain it. In summary, global financial markets have up to mid-April 2020 faced significant losses while volatility has increased materially. These come in response of the continued economic activity shutdown in almost all global economies and the majority of industries. In response governmental and international economic support is provided to businesses and households as a remedy towards the immediate cash-flow crisis; however, in the resulting cumulation of government and corporate debt designate an inevitable medium to long term recession in the real global economy.

As expected, the Company has been impacted by these volatile circumstances. Based on the underlying operating model and main financial service lines of the Company it is expected that the financial performance in 2020 will be negatively impacted compared to the forecasted performance.

Due to the operational size, complexity and most importantly the volume of the client base of the Company, the impact of the market turmoil has been negligent for the Company. During the year and for the first four months of 2020, the Company has not onboarded any clients and there was no volume of transactions. Moreover, the Company did not anticipate nor has budgeted any volume of transactions during the first months of the year.

Nevertheless, the Company indicates the below existing mitigants as well as preliminary actions taken to remedy the impact:

- The Company will revisit its financial forecast for 2020, 2021 and 2022 to reflect a more pragmatic activity level for the remainder of the year in regard to delayed projects or reduced activity level. The focus is focused on the timing of the initiation of client-facing business activities which may be delayed in comparison to the original plans; and
- During the shutdown, the Company has implemented a business continuity plan and remained fully operational. To the extent possible it has continued to develop the pending projects and to remain in contact with prospective business growth opportunities.

Based on the preliminary assessment of Management as of April 2020, it is not expected that the Company will face any issues in regard to its capital adequacy or liquidity at least for the following 12 months.

5 Leverage Ratio

The leverage ratio is a monitoring tool which will allow the competent authorities to assess the risk of excessive leverage in their respective institutions. According to the CRR, the investment firms have to report all necessary information on the leverage ratio and its components.

According to the CRR, the requirement for institutions to start disclosing the leverage ratio (Form 144-14-07) from 1 January 2016, depends on the category of the institution as detailed in the to the table below extracted from the relevant CySEC Circular by which the Company is classified in the 'Full scope' category. According to Article 429(2) of the CRR, the leverage ratio shall be calculated as an institution's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage. The Leverage Ratio for the period was 98.54%.

ANNEX VI – Summary of reporting requirements

Category	Minimum initial capital	Form 144-14-06.1	Form 144-14-07	Form 144-14-08.1	Form 144-14-08.2	Form 144-14-08.3	Form 144-14-09
Full scope [1]	€730.000	submit	submit	submit	submit	submit	Submit
Under art. 95(1) of CRR[2]	€125.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	exempted
Under art. 95(2) of CRR [3]	€50.000	Submit (calculation based on FOH)	exempted	exempted	exempted	exempted	exempted
Under art. 96(1) (a) of CRR	€730.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	submit
Under art. 96(1) (b) of CRR	€730.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	submit
Exempted under art. 4(1) (2) of CRR [4]	€50.000	exempted	exempted	exempted	exempted	exempted	exempted

6 Remuneration Policy and Practices

As from 1st January 2015 the Company must comply with Directive DI144-2014-14 of the CySEC for the Prudential Supervision of CIFs, regarding Remuneration policies (paragraph 20), Variable elements of remuneration (paragraph 21).

The Remuneration Policy is the internal document approved by the BoD of the Company and its provisions are applicable to each Director, Officer and Employee. The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels, which reflect the knowledge level, experience, accountability, and responsibility needed for an employee to perform each position/role.

The Company when establishing and applying the total remuneration policies, including the salaries and discretionary pension benefits, for categories of staff, including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on their risk profile, must comply with the following principles in a manner and to the extent that is appropriate to their size, internal organization and the nature, scope and complexity of their activities:

1. The RP is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Company;
2. The RP is in line with the business strategy, objectives, values and long-term interests of the Company, and incorporates measures to avoid conflicts of interest;
3. The Company's board of directors adopts and periodically reviews the general principles of the RP and is responsible for overseeing its implementation;
4. The implementation of the RP is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the board of directors;
5. Staff engaged in control functions are independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control;
6. The remuneration of the senior officers in the risk management and compliance functions is directly overseen by the remuneration committee;
7. The RP, taking into account national criteria on wage setting, makes a clear distinction between criteria for setting:
    - Basic fixed remuneration, which should primarily reflect relevant professional experience and organisational responsibility as set out in an employee's job description as part of the terms of employment; and
    - Variable remuneration which should reflect a sustainable and risk adjusted performance as well as performance in excess of that required to fulfil the employee's job description as part of the terms of employment.

For variable elements of remuneration, the following principles shall apply in addition to, and under the same conditions as, those set out in the first paragraph:

1. Where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall results of the Company and when assessing individual performance, financial and non-financial criteria are taken into account;
2. The assessment of the performance is set in a multi-year framework in order to ensure that the assessment process is based on long-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of the Company and its business risks;
3. The total variable remuneration does not limit the ability of the Company to strengthen its capital base;
4. Guaranteed variable remuneration is not consistent with sound risk management or the pay-for-performance principle and shall not be a part of prospective remuneration plans;
5. Guaranteed variable remuneration is exceptional, occurs only when hiring new staff and where the Company has a sound and strong capital base and is limited to the first year of employment;
6. Fixed and variable components of total remuneration 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;
7. The Company has set appropriate ratios between the fixed and the variable component of the total remuneration, whereby the following principles shall apply:
    - The variable component shall not exceed 100% of the fixed component of the total remuneration for each individual.
    - The Company's shareholders may approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided the overall level of the variable component shall not exceed 200% of the fixed component of the total remuneration for each individual.

Any approval of a higher ratio must be carried out in accordance with the following procedure:

i. The shareholders must act upon a detailed recommendation by the Company giving the reasons for, and the scope of, an approval sought, including the number of staff affected, their functions and the expected impact on the requirement to maintain a sound capital base;
ii. Shareholders must act by a majority of at least 66% provided that at least 50% of the shares or equivalent ownership rights are represented or, failing that, must act by a majority of 75% of the ownership rights represented;
iii. The Company must notify all its shareholders, providing a reasonable notice period in advance, that an approval under the first subparagraph of this point will be sought;
iv. The Company must, without delay, inform the Commission of the recommendation to its shareholders, including the proposed higher maximum ratio and the reasons therefore and must be able to demonstrate to the Commission that the proposed higher ratio does not conflict with the Company's obligations under the Directive and under Regulation (EU) No 575/2013, having regard in particular to the Company's own funds obligations;
v. The Company must, without delay, inform the Commission of the decisions taken by its shareholders, including any approved higher maximum ratio, and the Commission

must use the information received to benchmark the practices of the Company in that regard. The Commission shall provide EBA with that information and EBA shall publish it on an aggregate home Member State basis in a common reporting format;

vi. Staff who are directly concerned by the higher maximum levels of variable remuneration must not, where applicable, be allowed to exercise, directly or indirectly, any voting rights they may have as shareholders;

vii. The Company may apply the discount rate to a maximum of 25% of total variable remuneration provided it is paid in instruments that are deferred for a period of not less than five years.

The Board of Directors is responsible for determining and approving the Company's remuneration policy and practices. The Board of Directors is also responsible to monitor the Company's compliance towards the approved policy and to identify and work towards any deficiencies. The Board of Directors meets at least once a year, and whenever the need arises, to discuss issues and to reformulate the policy where this is necessary on account of changes and developments, whether internal to the Company or external in its market environment. Any changes in the Company's remuneration policy can be brought about only as a result of a decision of its Board of Directors.

6.1 Design and Structure of Remuneration

The Remuneration that employees receive for their professional activities at the Company must be stipulated definitively in their employment contracts. The employment contract and any subsequent amendments must be in written form. The Board of Directors drafts and organizes the regular review of the RP with the assistance of the Remuneration and Nomination Committee and the relevant departments if required. The RP becomes effective upon approval by the Board of Directors. The RP is reviewed by the Board of Directors on a regular basis, at least once a year.

The Company's general structure of remuneration is detailed below:

Executive/Managing Directors and Senior Management Personnel:

Fixed remuneration: Executive Directors and Senior Management shall be eligible for an annual remuneration paid in 12 instalments or as may be approved by the Board of Directors or the remuneration committee always taking into consideration the scale and complexity of the Company's operations, prevailing market conditions and geographical area of operation. The shareholder may recommend increments to the existing remuneration structure and the Board of Directors may approve them.

Non-Executive/Independent Director:

The Non-Executive/Independent Directors may receive a monthly remuneration by way of Director's fees invoiced, quarterly, to the Company. All non-executive members will be required to attend frequent Board of Directors meetings. Attendance via teleconference is accepted in cases where the director cannot appear in person due to overseas travel.

Employees/other staff:

Employees are entitled to both fixed and variable remuneration. For the fixed remuneration, the employees will be entitled to an annual remuneration paid in 12 instalments as may be approved by the Board of Directors. The fixed remuneration will include any statutory contributions (such as social insurance) by the employee. The variable remuneration will be based on the individual performance of each employee and the Company's performance. Formal performance appraisals take place annually (between January and March) to evaluate the performance of each employee. The head of each department or any one of the senior management will perform the role of the appraiser.

Performance-based remuneration:

It is intended to motivate and reward high performers who strengthen long-term customer relations and generate income and shareholder value. Performance is assessed using a set of both qualitative and quantitative criteria that differ according to the position and responsibilities of the employee concerned. Specifically, sales staff is evaluated based on the number of clients introduced and the quality of customer service, among others.

Mileage allowance: The Company allows for a mileage allowance for all employees that reside outside a 45 km radius from the Company's head quarter building. The mileage allowance for daily commute is fixed and relates to the nearest city of the employee's residence. The mileage allowance for domestic business travel is variable and is calculated at 7.5 cents per kilometre.

Overseas Business Travel Allowance: The employee shall make business trips from time to time, as directed by the Employer when required in connection to the performance of his/her obligations. In the event of overseas business travel, the employee will be entitled to a business travel allowance, which will be relevant to the destination COLA standards. The Company will adapt the rates indicated by the European Commission.

Other individual benefits: May be awarded to individuals on a case by case basis in accordance with local market practice.

6.2 Link between Pay and Performance

Remuneration policies and practices implemented by the Company were intentionally simplified to the basic requirements of recruiting and maintaining high level professional personnel. The Board of Directors considers such approach as the most practical at this stage as it corresponds to the scale and complexity of the Company's operations. To this respect, the Company has decided to follow fixed remuneration scales for all employees including top Management. More complex stimulating remuneration schemes are expected to be introduced in the future depending on the Company's results and growth.

Total staff cost for the year ending 2019 was €61,392 included social insurance and other contributions for Directors.

The table below provides aggregate quantitative information on remuneration, broken down by senior management and members of staff (heads of departments) whose actions have a material impact on the risk profile of the Company:

Table 11: Quantitative information on remuneration

Description	No. of beneficiaries	Fixed remuneration	No. of beneficiaries	Variable remuneration	Total remuneration
Senior Management – Directors	2	44,775			44,775
Non-executive directors	3	7,000			7,000
Heads of departments	1	9,617			9,617

7 Conclusion

It can be concluded that the Company has a comprehensive, effective risk management that meets its requirements. Specifically, it warns the management in due time of risks as they arise and enables timely and appropriate risk control measures to be taken. The Company understands the necessity of further improvement of the existing policies for capital management and continually assesses the appropriateness of its disclosures. Moreover, the Company has a clear remuneration system which is effectively risk-based managed. The Company is not disclosing in this report all information and certain detailed data which considers immaterial or confidential. The Company through its Management is always willing to discuss these issues in more detail with any interested party upon written request.

The Company has included its risk management disclosures as required by the Directive on its website (www.eurivex.com). The Company has appointed its independent auditors SPL Audit (Cyprus) Ltd to verify its disclosures. The Company is required according to the Directive to provide a copy of the auditor's verification report to CySEC five months after the end of each financial year, at the latest. However, due to the extraordinary circumstances faced in Cyprus from the impact of Covid-19 virus, the above verification will be postponed to the end of August 2020 to concur with the extension provided for the completion of the audit of the financial statements (extended to the end of July 2020) of all regulated entities in Cyprus.