Argus Stockbrokers Ltd

RISK MANAGEMENT DISCLOSURES

YEAR ENDED 31 DECEMBER 2020

JULY 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

TABLE OF CONTENTS

1. Scope of application

The Management of Argus Stockbrokers Ltd. (hereinafter the "Company"), in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the "Regulation") and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (the "CySEC") for the prudential supervision of investment firms, has an obligation to publish information relating to risks and risk management on an annual basis at a minimum.

The Company obtained its license with number CIF 010/03, to act as a Cyprus Investment Firm, on 12 May 2003.

The Company currently has the license to offer the following investment and auxiliary services:

Investment Services
Reception and transmission of orders in relation to one or more financial instruments
Execution of orders on behalf of clients
Portfolio Management
Investment Advice

Ancillary Services
Safekeeping and administration of financial instruments, including custodianship and related services
Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings
Foreign exchange services where these are connected to the provision of investment services

The Company is a CIF authorized and licensed by CySEC and may accept Tied Agents.

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 2020 and on reports submitted to CySEC for the year under review.

This report should be published on an annual basis and the latest within five months from the end of each financial year. The disclosures are based on the audited financial statements of Argus Stockbrokers Ltd for the year ended 31 December 2020 and are presented on an individual (solo) basis.

2. Governance – Board and Committees

2.1 The Board

The Board has the overall responsibility of the business. It sets the strategic aims for the business, in line with delegated authority from the shareholder and in some circumstances subject to shareholder approval, within a control framework which is designed to enable risk to be assessed and managed.

The Board independently verifies that financial controls and systems of risk management are robust. The Board comprises of 2 executive directors, 2 independent non-executive directors and 2 non-executive directors.

2.2 Board - Recruitment and Diversity Policy

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company's leadership 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.

When a person is selected to become a member of the management body, the anticipated time commitment for the position is recorded in writing and the prospective member confirms in writing that he or she can devote that amount of time to the role. The effective appointment for the position does not take place without such a written confirmation by the prospective member.

The prospective members of the management body should have an up-to-date understanding of the Company's activities and related skills, the Company's governance arrangements, the prospective positions and responsibilities. This includes an appropriate understanding of those areas for which an individual member is not directly responsible but is collectively accountable together with the other members of the management body.

As regards the education, consideration is given to the level and profile of the education and whether it relates to financial services or activities or any other relevant area of knowledge described above (financial accounting and reporting, strategic planning and so forth). For this purpose, the Company takes into consideration both the theoretical knowledge and skills attained through education and training as well as the practical experience gained in previous occupations by the prospective member.

As regards the practical experience, consideration is given to the practical and professional experience gained from a managerial position over a sufficiently long period. Short term or temporary positions are considered in the assessment but are usually not sufficient to support adequate expertise.

The Company will perform a periodical review of these Policies, at least once a year. The Policies in line with the Company's operational model, and therefore in case of any changes in the operations, these will be properly reflected in these policies.

2.3 Risk Committee

The Company established a Compliance, Audit and Risk Committee (CAR Committee). The Committee met once in 2020.

2.4 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 table below does not include the position of each director in the Company.

Name of Director	Position within Argus	Directorships Executive	Directorships Non-Executive
Christos Akkelides	Executive Director	-	-
Andri Tringidou	Executive Director	-	-
Neoclis Nicolaou	Independent Non – Executive Director	-	2
Soteris Kyriacou	Independent Non – Executive Director	-	-
Themis Papadopoulos	Non – Executive Director	-	-
Yiannos Mouzouris	Non – Executive Director	-	-

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

2.5 Governance Committees

The Company operates an Investment Committee. The Investment Committee meets and takes decisions always under the Articles of Association and is oriented to serve the interest of investors.

The decisions of the Investment Committee are based on the provisions of the code of business conduct for investment firms and CySEC. It is responsible for formulating the overall investment policy, and for providing guidance to the Company's managers to move to a specified range of options. The Investment Committee has an advisory and supervisory character in relation to the desired and lawful structure of the portfolio, down under management.

The Investment Committee tasks include:

- The formation of the investment policy of the Company with respect to market developments, in terms of both the company's portfolio and customer portfolios of which the company is managed on a discretionary or advisory basis.
- The monitoring of market developments and the adjustment of the investment policy where necessary.
- Monitoring the evolution of the institutional framework of operation and provides proposals to the Company's Management for the necessary adjustments to the policy followed.
- Exploring the possibilities and makes proposals to provide new services/products to customers of the company.
- Establishing classes of customer allocation criteria per credibility and financial position.
- Defining the pricing policy of the company.
- Selecting Stock markets and individual financial instruments to which the company will turn on.
- Pursuing or avoiding specific investment movements.
- Any other matter directly or indirectly related to the investment activities carried out by the company.

2.6 Risk Management Framework

The Board of the Directors has the overall responsibility for establishing and overseeing the risk management framework of the Company.

The risk management policies of the Company are established to identify and analyze the Company’s risks, to set appropriate risk limits and controls, and to monitor risks and compliance to limits. The Company’s policies and risk management framework are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company is exposed mainly to the following risks:

- Credit risk
- Capital risk
- Liquidity risk
- Market risk
- Operational risk
- Legal risk

3. Information flow on risk to the management body

The Company submits annually to the Board of Directors the annual Compliance report, the AML report, the Financial Statements, the Suitability report and the risk management report for Board approval prior of submitting it to CySEC. The above-mentioned reports are submitted to the Board of Directors by the Compliance Department.

In addition to the above, once per year, the Board of Directors receives written reports on internal audit matters, indicating any deficiencies revealed following their independent audit, as well as the Internal Capital Adequacy Assessment Process report (ICAAP).

4. Board Declaration – Adequacy of risk management arrangements

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 verifies 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.

5. Board Risk Statement

The Company's strategic objective is to provide efficiently to its customers, the financial services and the financial instruments and have the clients' loyalty and trust. The Company operates with a strong customer focus and provides a variety of financial instruments aiming to deliver value to its clients' portfolios. The Company has implemented and maintains adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company has adopted effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable. The Company's strategy is pursued within a defined Risk Appetite.

The Board expresses the Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across the following two categories:

- Operational: marketing and advertising risk, regulatory reporting risk, client communication risk, damage to physical assets business disruption and systems failure risk, employment practices and workplace safety risk, fraud risk, conflicts of interest risk;
- General: systematic risk, credit risk, market risk, country risk, liquidity risk, interest risk

The main key ratios the company includes as part of its risk appetite are CET1 capital ratio, T1 capital ratio and Total Capital ratio which should be at least 4.5%, 6.0% and 8.0% respectively.

6. Capital Management

The adequacy of the Company's capital is monitored in accordance with the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the "Regulation" or the "CRR") and Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission (the "CySEC") for the prudential supervision of investment firms,

The Basel III consists of three pillars:
(I) Minimum capital requirements – Pillar I
(II) Supervisory review process – Pillar II
(III) Market discipline – Pillar III

Pillar I – Minimum Capital Requirements

The Company follows the Standardised approach for Credit and Market risk and the Fixed Overhead approach for Operational risk.

According to the Standardised approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, according to their characteristics and exposure class to which they belong.

The Standardised approach for market risk adds together the long and short market risk positions according to predefined models to determine the capital requirement.

For operational risk, the Company is required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year.

Pillar II – The Supervisory Review and Internal Capital Adequacy Assessment Processes

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

The Company follows an internal process for assessing its capital adequacy ("ICAAP"). During the evaluation process, the Company reviews the strategies and procedures followed in order to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the Company; and that is maintained on an ongoing basis, the amount, composition and distribution of the internal capital that is considered adequate to cover the nature and level of risks it has taken or might take the company.

In performing its ICAAP, the Company has adopted the “Pillar I Plus” approach.

The ICAAP is determined using the following steps:
- Identification / risk assessment
- Measures to reduce / mitigate risk
- Estimation of the requirements for extra capital (or not).

At the same time for purposes of determining Pillar II capital requirements, the Company performs stress tests in its three-year budgets.

Pillar III – Market Discipline

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as information on the capital adequacy and minimum capital requirements, together with concise information as to the composition of own funds.

According to the CySEC’s Directive DI144-2014-14, 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 within five months of each financial year.

The Company has included its risk management disclosures on its website as it does not publish its financial statements. Verification of these disclosures has been made by the external auditors and sent to CySEC within five months of each financial year.

Capital adequacy ratio

The primary objective of the Company’s capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and to maximize shareholders’ value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of its activities.

The CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8%. The CySEC may impose additional capital requirements for risks not covered by Pillar I.

The Company’s capital position as at the reference date is presented in the following table.

Table 1: Capital Adequacy Ratio	
Own Funds	**31 December 2020**
	(€ '000)
Common Equity Tier 1 Capital	
Share Capital	2.020
Retained Earnings	(1.247)
Gain/(Losses) of current year	10
Less: Intangible assets	(21)
Less: Additional deductions of CET1 Capital	(108)
Less: Additional cash buffer	(26)
Total Common Equity Tier 1 Capital (CET1)	**628**
Additional Tier 1 Capital (ATI)	**0**
Total Tier 1 Capital (T1 = CET1+ATI)	**628**
Tier 2 Capital (T2)	**0**
Total Regulatory Own Funds (T1+T2)	**628**
Capital Requirements	
Credit risk	114
Additional capital due to fixed overheads (Operational risk)	17
Market *Foreign Exchange Risk*	295
Total Pillar I Capital requirements	**426**
Capital Adequacy Ratio	**11,80%**

The Capital Adequacy Ratio as at 31 December 2020 was 11,80%.

As at 31st December 2020, the Company's gross exposure to its shareholder Argus Capital Holdings Limited which related to some payments due to the Company, amounted to 53,20% of the Company's own funds, which exceeded the 20% and 10% large exposure limits set by points (f) and (g) of paragraph 61(1) of CySEC Directive 144-2014-14 with regards to a CIF's exposure to its shareholders that are not institutions and which hold more than 10% of its share capital, and their connected persons. It should be noted that this exposure was secured by eligible bank guarantees, therefore the Company's net exposure to Argus Capital Holdings Limited as at 31st December 2020 was EUR 7,000, which was below the 2% large exposure limit set by point (h) of paragraph 61(1) of the aforementioned Directive.

In addition, the said gross exposure exceeded the 10% large exposure limit for CIFs' gross exposures to their directors and their connected persons set by point (b) of paragraph 61(1) of the aforementioned Directive, however due to the guarantees mentioned above, the net exposure to this entity was below the 1% large exposure limit for CIFs' unsecured exposures to their directors and their connected persons set by point (c) of paragraph 61(1).

The Company is in the process of reducing this exposure and plans to complete this action plan by the end of 2021.

Share Capital

There were no changes in the share capital of the Company during the year 2020.

Deductions from Common Equity Tier 1 Capital

The Company deducts from its Common Equity Tier 1 Capital the intangible assets which include computer software, patents and trademarks. Computer software is carried at cost less any accumulated amortization and any accumulated impairment losses. Patents and trademarks are measured initially at purchase cost and are amortized using the straight line method over the estimated useful lives. In addition, the Company deducts from its own funds the contribution to the investors' compensation fund.

The Company falls under Article 95(2) of the Regulation therefore, it calculates its total Risk Weighted Assets as the higher of the following:
(a) the sum of the risk weighted assets calculated for credit and market risk;
(b) 12,5 multiplied by the one quarter of the fixed overheads of the preceding year

Based on the above methodology, the Company's total risk weight assets are equal to the following:

Type of risk	**Risk Weighted Assets**
	(€ '000)
Credit risk	1.427
Market risk	213
12,5 multiplied by the one quarter of the fixed overheads of the preceding year	5.321
Total as per Article 95(1) if the Regulation	**5.321**

7. Credit Risk

Credit Risk Definition

Credit Risk arises when counterparties fail to meet their obligations towards the Company for the repayment of loans or other facilities.

Management of Credit Risk

For the effective management of credit risk, the Accounting department of the Company monitors the exposures of each client and informs them in case of any outstanding balance that is due and has to be collected.

The company has procedures in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the aging profile of its receivables.

Policy of the Company is to provide brokerage customers transactions only after ensuring that the corresponding client account has the required capital/deposit. The risk of not meeting the needs of brokerage transactions are non-existent due to the electronic system used by the Company, which does not permit the purchase of securities without the required capital.

The Company does not provide credit facilities to customers except in very isolated cases. The criteria for granting credit and setting credit limits are clearly described in the Company's procedures. The credit assessment procedures followed, the collateral offered and the strict monitoring of accounts by the Company are considered as satisfactory measures for minimizing losses arising from credit risk.

Additionally, the Company maintains reserves/provisions for potential losses from bad debts.

Note that credit limits are reviewed on regular basis by the Company and are adjusted accordingly.

Minimum Capital Requirements

For the calculation of minimum regulatory capital for credit risk, the Company follows the Standardised Method.

It is noted that as at 31 December 2020, the Company’s exposure values before and after credit risk mitigations were equal, since the Company has not used any credit risk mitigation techniques. In addition, the company does not have any exposure to derivative instruments repurchase transactions, securities or commodities lending or borrowing transactions, hence the Company does not face Counterparty Credit Risk.

Exposure to credit risk

The table below represents the Company’s credit risk exposure and average exposure, risk weighted assets (“RWA”) and minimum capital requirement as at 31 December 2020, broken down by exposure class.

Table 2: Credit risk exposure and average exposure, risk weighted assets ("RWA") and minimum capital requirement					
Asset Class	**Exposure amount before CRM**	**Exposure amount after CRM**	**Average exposure**	**Risk weighted assets**	**Capital Requirements**
	(€ '000)	**(€ '000)**	**(€ '000)**	**(€ '000)**	**(€ '000)**
Corporates	810	477	621	477	38
High Risk Items	42	41	37	62	5
Institutions	807	1.133	964	693	55
Other Items	191	191	205	191	15
Exposures in default	4	4	4	4	-
Total	**1.854**	**1.846**	**1.831**	**1.427**	**114**

Table 3 presents table illustrates the original exposures per industry sector per asset class:

Asset Class	**Financial sector**	**Other**	**Total**
	(€ '000)	**(€ '000)**	**(€ '000)**
Corporates	317	160	477
High Risk Items	41	-	41
Institutions	1.133	-	1.133
Other Items	0	191	191
Exposures in default	-	4	4
Total	**1.491**	**355**	**1.846**

Table 4 presents the distribution of exposures, broken down by exposure class and by residual maturity.

	Table 4: Exposures by asset class and residual maturity			
Asset Class	**≤3 months**	**>3 months**	**No maturity**	**Total**
	(€ '000)	(€ '000)	(€ '000)	(€ '000)
Corporates	404	73	-	477
High Risk Items	15	26	-	41
Institutions	566	567	-	1.133
Other Items	0	-	191	191
Exposures in default	-	4	-	4
Total	**985**	**670**	**191**	**1.846**

Impaired and Past due Definitions

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated. If such evidence exists, the recoverable amounts and a respective provision for doubtful debts are calculated by the Company. The provision is recognized in the Company's income statement. The Company reviews its credit risk on a continuous basis and examines, regularly, the methodology and assumptions used for calculating the provision for bad debt.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

The Company checks for evidence regarding the probability of not recovering the amounts due from trade and other receivables. In general, the provision for doubtful debts is determined based on the repayment history and financial situation of the debtor.

The Company has adapted the IFRS 9 model as at 1 January 2018. The IFRS 9 model replaces the incurred loss model in IAS 39 with an Expected Credit Loss model. IFRS 9 lays down requirements for the recognition and measurement of financial assets, financial liabilities and certain contracts for the purchase or sale of non-financial assets.

IFRS 9 includes three main categories for the classification of financial assets as measured: amortized cost, fair value through other comprehensive income, and fair value through profit or loss. The Company recognizes a provision for impairment for expected credit losses to financial assets that are measured at amortized cost.

Table 5: Impaired and Past Due Exposures and the corresponding Provisions by Counterparty Country of origin and by Industry

	Country: Cyprus	**Industry: Private Individuals**	**Total**
	€'000	**€'000**	**€'000**
Impaired Exposures	0	0	0
Past Due Exposures	4	4	4
of which Past Due But Not Impaired Exposures	4	4	4
Total Exposure Before Provisions	**4**	**4**	**4**
Provisions	**0**	**0**	**0**
Provisions of which Specific	0	0	0
Provisions of which Collective	0	0	0
Total Exposure After Provisions	**4**	**4**	**4**

Table 6 gives an analysis of exposures (net of provisions) by geographical area and asset class as at 31 December 2020.

Table 6: Exposures analyzed by asset class and geographical area						
Asset Class	**Cyprus**	**Greece**	**United Kingdom**	**British Virgin Islands**	**Other**	**Total**
	(€ '000)	**(€ '000)**	**(€ '000)**	**(€ '000)**	**(€ '000)**	**(€ '000)**
Corporates	477	-	-	-	-	477
High Risk Items	16	-	-	25	-	41
Institutions	465	542	101	-	25	1.133
Other Items	191	-	-	-	-	191
Exposures in default	4	-	-	-	-	4
Total	**1.153**	**542**	**101**	**25**	**25**	**1.846**

Table 7 shows the exposure amount by asset class secured by guarantees as at 31 December 2020:

Table 7: Exposure amount by asset class secured by guarantees	
Asset Class	**Total**
	(€ '000)
Corporates	327
High Risk Items	-
Institutions	-
Other Items	-
Exposures in Default	-
Total	**327**

The Company does not have any crypto-asset exposure (either as a derivative contract, or real crypto).

Use of External Credit Assessments Institutions' (ECAI) Credit Assessments for the determination of Risk Weights

The Company uses external credit ratings from Fitch. These ratings are used for all relevant exposure classes.

Exposures to rated institutions are risk weighted based on the credit assessment of the institution itself and the residual maturity of the exposure as per Article 120 of CRR. Exposures to unrated institutions are assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned, as specified in Article 121 of CRR. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favorable risk weights of 20% if specific conditions are met.

Exposures to corporate clients were risk weighted by 100% risk factor since they were all unrated and were incorporated in countries with credit assessment up to credit quality step 5.

The Other Items category mainly includes property, plant and equipment, VAT input and cash in hand. A risk weight of 100% was applied to Other Items, with the exception of cash at hand, for which a 0% risk weight factor was assigned.

The Public sector entity includes the Company's exposure to Investors' Compensation Fund as per paragraph 13(3) of Directive DI144-2014-15 on the national discretions of the CySEC.

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

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

Table 8 presents the exposures before and after credit risk mitigation by credit quality step.

Table 8: Exposures before and after credit risk mitigation by credit quality step		
Credit Quality Step	**Exposure amount before credit risk mitigation (€ '000)**	**Exposure amount after credit risk mitigation (€ '000)**
1	4	4
2	0	0
3	-	-
4	-	-
5	66	65
6	1	1
Unrated / Not Applicable	1.783	1.776
Total	**1.854**	**1.846**

8. Operational Risk

Definition of Operational Risk

Operational risk includes risks resulting from processing errors, losses from fraud or errors from systems malfunctions.

Operational Risk Management

Operational risk resulting from processing errors is maintained at low levels due to the automated operation of the Back Office, so that all of the acts of the day automatically recorded and printed the same day giving the necessary time to confirm their correctness.

Operational risk arising from fraud or errors is low due to the process followed by the Company for approval of all expenses and issuance of checks. Before making any order or issuance of checks, the Accounting Department of the Company gets the approval of its Directors. The Company's costs are monitored on an ongoing basis by the Company's management team in order to avoid a possible error or fraud.

Operational risk arising from failure to fulfill obligations to third parties (e.g. failure of clearing transactions by the custodian) is also very low, since before the final collaboration with the Custodian a qualitative assessment is performed on both the custodian and the client.

Operational risk arising from system malfunctions is unpredictable but is kept at very low levels due to the continued maintenance of component materials such as computers, modernize and upgrade operating systems and software. Also, the company, backups on a daily basis all its data that include all the electronic files, emails and the website of the Company and the retention of these records for one or two weeks depending on their operational significance. The backup systems are operated by trained and qualified personnel on computer systems and network that are ready for immediate response to any problems created on computerized systems of the Company.

The Company calculates the minimum capital requirement for operational risk using the Fixed Overheads methodology as per Article 95 of the Regulation.

9. Market Risk

Definition of Market Risk

Market risk arises from the potential change in the value of assets and liabilities due to changes in market conditions. Market risk includes interest rate risk and foreign exchange risk.

Market Risk Management

The firm has established policies and procedures for the continuous monitoring, control and management of market risk. To manage the risk arising from fluctuations in interest rates and foreign currencies various specialized methods are used.

The Company is not significantly exposed to foreign exchange risk due to the limits set by the regulatory authority and the Company. The Company measures the minimum capital requirements for market risk using the Standardised Approach. The net open position in foreign currencies was low.

To effectively manage market risk, the Company's portfolio is monitored on a continuous basis by the Investment Committee, using financial data and information. Financial data and information include the financial statements of companies, profit and loss accounts, financial and market research, dividend policies and corporate returns.

In order to reduce market risk, the Investment Committee ensures that the investment in a particular issuer does not exceed the limits set by the Board. In addition, the Investment Committee has a duty to periodically review the investment portfolio on the sectors in which operate by the various issuers of investments held which are reviewed according to the economic situation in the country in which each issuer operates. The aim of the Investment Committee is to create a diversified portfolio that minimizes risk and maximizes performance.

10. Liquidity Risk

Definition of Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Liquidity Risk Management

The Company has procedures with the object of minimizing such losses, such as maintaining sufficient cash and other highly liquid current asset.

Liquidity risk by endogenous factors is controllable, due to the daily monitoring of the Company's cash flows and the proper management by the Accounting Department. Also, each year, the Company assesses its liquidity for the following year in order to identify in early stage the possible capital shortfall. The policy of the Company is to maintain its bank accounts to levels that can meet the needs of the Company in the near future.

Liquidity risk from external factors is not controllable, since it includes the inability of the secondary market to liquidate an investment, either from lack of depth to the particular investment or lack of marketability.

11. Compliance Risk

Definition of Compliance Risk

Compliance risk is the risk of financial loss, including loss of fines and other penalties resulting from non-compliance with laws and regulations of the state.

Compliance Risk Management

The Company manages compliance risk through the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

12. Coronavirus Outbreak

During the preparation of the Company's Financial Statements, the situation arisen from the pandemic of Covid-19 there is still in place and thus this imposes impact in Cypriot and world economy. The exact impact in the Company's activities for 2021 and beyond cannot be accurately predicted, however based on a risk assessment by the Company's senior management, is expected that the pandemic of Covid-19 will not have a significant impact on its activities.

13. Regulatory Developments

The capital adequacy and overall risk management requirements that currently apply to the Company under the CRR and CRDIV prudential framework, will be replaced by amended prudential rules established by the EU Regulation 2019/2033 ("Investment Firm Regulation" or "IFR") and the EU Directive 2019/2034 ("Investment Firm Directive" or "IFD"), which shall become applicable on 26th of June 2021. The new rules introduce changes in the methodologies that EU investment firms are required to apply for calculating their exposures to risk and their capital adequacy ratio and in this respect, the Company is in the process of assessing the impact that these changes are expected to have on its solvency position, in order to take timely action and be in a position to adopt the new rules.

14. Remuneration policy and practices

In accordance with the Regulation investment firms are required to disclose to the public qualitative information in relation to remuneration policies and practices of the Company and quantitative information on remuneration of those members of staff whose professional activities have a material impact on the risk profile of the Company. Those categories of staff should at least include senior management, risk takers, persons engaged in control functions and any employee whose total remuneration, including the planned discretionary pension benefits, is in the same remuneration bracket as with senior management and risk takers.

The policy of the Company takes into account the nature, scale and complexity of its activities.

Remuneration Policy

In general, the remunerations of all staff is fixed, and reflect the level and responsibility of everyone and don't give incentives to increased business risks for the Company from both staff and the senior management of the Company.

The control function staff is remunerated in relation to their individual responsibilities and objectives and not in relation to the performance of the control function units of the Company. Persons engaged in control functions include mainly those engaged in Internal Audit, Risk Management and Regulatory Compliance. The Internal Audit is outsourced.

Remuneration Categories

Type of remunerations/benefits:

- Fixed remunerations
- Variable remuneration (e.g. bonuses)
- Contributions to the social security fund and other funds
- Contributions to the social cohesion fund
- Contributions to the provident fund
- Other benefits (e.g. travelling expenses)

Fixed remunerations are determined in accordance with the level of each employee of the Company. The total remuneration of staff consists of fixed and variable components. The fixed component of the Company is set at 100% of the total remuneration and represents a high proportion of the total remuneration paid; this will allow the employees to focus on the qualitative aspects of their work in the short, medium and long term. The variable remuneration of the Employees will therefore be based on the annual appraisals performed by the General Manager and/or Board of Directors, and based on the outcome of such appraisals, a variable remuneration will be decided upon at the discretion of the General Manager and Board of Directors.

Contributions and benefits to the provident fund, social cohesion fund and social security fund are subject to the statutes of the respective fund.

Table 9 provides an aggregate analysis of remunerations during the year 2020.

Table 9: Aggregate analysis of remunerations				
Remuneration Broken down by Management area	**Number of Beneficiaries**	**Fixed Remuneration**	**Variable Remuneration**	**Total Remuneration**
		(€ '000)	**(€ '000)**	**(€ '000)**
Senior Management, including executive members	6	321		321

of the board				
Members of staff whose actions have a material impact on the risk profile of the institution and other staff, not included in category above	6	255		255
Total	**12**	**576**	**-**	**576**

The Non – Executive Directors have not received any fees/compensation from the Company for the period that they served as members of the Board.

Aggregate quantitative information on remuneration of staff members, broken down by business area are presented in Table 10.

Table 10: Remuneration break down per Business Area	
Business Area	**Total Remuneration**
	(€ '000)
Asset Management & Investment Advice	97
Accounting, IT and Back Office Departments	139
Brokerage, Reception, Transmission & execution of orders	71
Control functions	35
Executive Director	160
Total	**501**

The average number of employees employed by the Company during the year 2020 was 25.

Appendix

I. Balance sheet reconciliation

Balance Sheet Description, as per published financial statements	**Amounts**
	(€ '000)
Share Capital	2.020
Retained Earnings	(1.237)
Intangible assets/Goodwill	(21)
Additional deductions of CET1 Capital	(108)
Additional cash buffer	(26)
Total Regulatory Capital	**628**

II. Own funds disclosure template under the transitional and fully phased in definition

At 31 December 2020	Transitional Definition	Full - phased in Definition
	€'000	€'000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	2.020	2.020
Retained earnings	(1.237)	(1.237)
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	**783**	**783**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	0	
Intangible assets (net of related tax liability)	(21)	(21)
Additional deductions of CET1 Capital-Investors Compensation Fund	(108)	(108)
Additional Cash Buffer	(26)	(26)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(155)**	**(155)**
Common Equity Tier 1 (CET1) capital	**628**	**628**
Additional Tier 1 (AT1) capital	**0**	**0**
Tier 1 capital (T1 = CET1 + AT1)	**628**	**628**
Tier 2 (T2) capital	**0**	**0**
Total capital (TC = T1 + T2)	**628**	**628**
Total risk weighted assets	**5.321**	**5.321**
Capital ratios and buffers		
Common Equity Tier 1	11,80%	11,80%
Tier 1	11,80%	11,80%
Total capital	11,80%	11,80%

Capital 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 I 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 I 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 I risks.