# PILLAR III DISCLOSURES AND MARKET DISCIPLINE

# FOR THE YEAR ENDED 31 DECEMBER 2016

**Under Directive 144-2014-14 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**

## April 2017

**Contents**

# 1. Introduction

## 1.1 Corporate information

The Company is a Cyprus Investment Firm ("CIF") with license no. 210/13 granted by the Cyprus Securities and Exchange Commission ("CySEC") on 20 August 2013. The Company activated its license on 10 November 2013.

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

| **Investment Services** |
|---|
| Reception and transmission of orders in relation to one or more financial instruments |
| Execution of orders on behalf of clients |
| 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 |
| Foreign exchange services where these are connected to the provision of the above investment services |

| **Financial Instruments** |
|---|
| (1) Transferable securities<br>(2) Money-market instruments<br>(3) Units in Collective Investment Undertakings<br>(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<br>(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)<br>(6) Options, futures, swaps, and other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or an MTF |

| Investment Services | Ancillary Services | Financial Instruments |
|---|---|---|
| | | (7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point III(6) above 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<br>(8) Derivative instruments for the transfer of credit risk<br>(9) Financial contracts for differences (for differences in relation to MiFID instruments, currencies, interest rates or other financial indices)<br>(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 that by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, 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. |

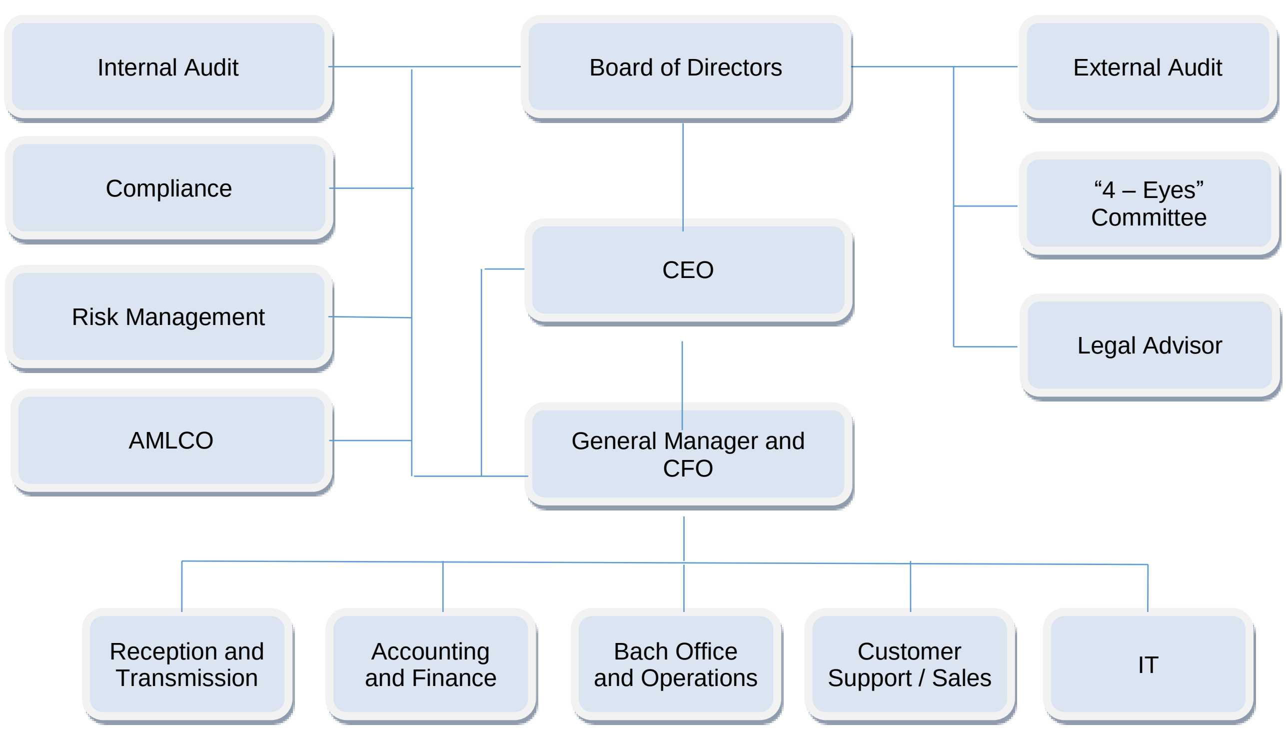
## 1.2 Scope of Application

This report has been prepared in accordance with the requirements 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 CySEC for the Prudential Supervision of Investment Firms. It relates to the year ended 31 December 2016 and it is prepared on an individual (solo) basis.

The Directive is based on three pillars:

- Pillar 1 has to do with the standards that set out the minimum regulatory capital requirements required for credit, market and operational risk.
- Pillar 2 covers the Supervisory Review Process which assesses the Internal Capital Adequacy Assessment Processes. Investment Firms have to evaluate and assess their internal capital requirements.
- Pillar 3 covers transparency and relates to the obligation of Investment Firms to publicly disclose information with respect to their risks, their capital and the risk management structures they have in place

## 1.3 Organisational Structure



## 1.4 Disclosure Policy

This Disclosure & Market Discipline Report ("the Report") has been prepared by Spot Capital Markets Ltd ("SCM" or "the Company"). The information that the Company discloses herein relates to the year ended 31 December 2016.

**Information to be disclosed**

This Report contains information in relation to the risks that Spot Capital Markets Ltd faces and the strategies it has in place to manage and mitigate those risks, its own funds and its capital adequacy, as detailed in the Regulation.

**Frequency**

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

**Preparation and Availability of Report**

This Report is prepared annually and is available electronically on the Company's website (www.spotcapitalmarkets.com) four months after the financial year end. A hard copy of this Report is available upon request.

**Verification**

This Report has been verified by the Company's external auditors and submitted to the CySEC, accompanied by the external auditor's verification, five months after the financial year end.

# 2. Governance

## 2.1 Board of Directors

The Board has overall responsibility for the business. It sets the strategic aims for the business and ensures that the Company's operations are performed 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.

## 2.2 Risk Management Committee

The Company's Risk Management Committee is consisted by the following persons:
Athos Demetriou – Non Executive Director (Chairman)
Nir Menashe – CFO / Director
Valeria Papasavva – Head of Legal and Compliance / Director
Nicos Demetriades – Head of Accounting and Finance / Risk Manager
The composition of the committee is according to the complexity, nature and scale of the Company.
The committee is meeting at the end of each quarter to discuss the relevant matters and be updated for the risk management updates.

## 2.3 Recruitment Policy

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework. Board recruitment is subject to the approval of the CEO and General Manager. Regulatory approval is coordinated through the Compliance Officer. Reference is made to the most recent Board Skills review to establish the specific experience and skills needed to ensure the optimum blend.

## 2.4 Number of Directorships held by members of the Board

The table below provides the number of directorships each 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. It shall be noted that, the Company is not considered significant in terms of its size, internal organization and the nature, scope and complexity of its activities.

| Name of Director | Position within Spot Capital Markets Ltd | Directorships – Executive in other companies | Directorships – Non Executive in other companies |
|---|---|---|---|
| Mr. Niels Vahman | Executive Director | 1* | 1 |
| Mr. Nir Menashe | Executive Director | 1* | 0 |
| Mrs. Maria-Valeria Papasavva | Executive Director | 1 | 0 |
| Mr. Panos Markou | Non- Executive Director | 0 | 4** |
| Mr. Athos Demetriou | Non- Executive Director | 1 | 4** |

*In the same group as Spot Capital Markets Ltd
**Includes directorships in entities that belong to the same group as Spot Capital Markets Ltd

## 2.5 Diversity policy

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

## 2.6 Information Flow on risk to the management body

The information flow on risk to the management body is achieved as follows:

- An Internal Audit report is prepared on an annual basis and presented to Senior Management and the Board.
- The Risk Manager submits his reports to the Senior Management and Board on a frequent basis, and at least annually, indicating whether the appropriate remedial measures have been taken in the event of any deficiencies.

- An Anti-Money Laundering and Terrorist Financing report is prepared on an annual basis and presented to Senior Management and the Board.

# 3. Risk management Objectives and Policies

The Company's risk management policies are established to identify and analyse the risks faced by the Company. Their purpose is to set appropriate risk limits and controls, to monitor risks and adherence to limits, to manage the Company’s financial risk and to minimize the effects of fluctuations in financial markets on the value of the Company’s financial assets and liabilities. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

## 3.1 Risk Management Function

The Company's Risk Management Policy has been reviewed. Adequate and effective risk management policies have been established in order to present all actions followed by the Company for the purpose of facilitating the monitoring and mitigation of the risks to which the Company is exposed. The Risk Manager, as the head of Risk Management function, is responsible for implementing the Risk Management Policy set by the Board of Directors and ensuring that it is properly followed.

The risk management function is responsible to:

- Implement policies on risk management and internal control.
- Identify and evaluate the fundamental risks faced by the Company.
- Provide adequate information on a timely manner to the Board of Directors on the status of risks and controls.
- Provide daily, weekly and monthly reports for consideration by the Chief Executive Officer, with details of the Company's total exposures.
- Undertake a quarterly review of the effectiveness of the system of internal control and report any deficiencies to the Board of Directors.

The Risk Manager's responsibilities are to:

- Identify and evaluate the fundamental risks faced by the Company.
- Adopt and implement effective arrangements and procedures to manage all types of risks that arise due to the Company's operations in respect of the level of risk tolerance.
- Monitor the adequacy and effectiveness of the Company's risk management policies and procedures.
- Monitor the level of compliance by the Company and the persons employed to the measures and arrangements set for the managing of the risk exposures of the Company.
- Monitor 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.

In addition, the Risk Manager shall submit reports to the Senior Management and Board on a frequent basis, and at least annually, indicating whether the appropriate remedial measures have been taken in the event of any deficiencies.

### 3.2 Internal Audit

The Internal Audit Function examines and evaluates the adequacy and effectiveness of the Company's policies, procedures and internal control mechanisms in relation to its regulatory obligations. On-site inspections are carried out at the Company's headquarters, recommendation reports are issued and compliance with regulatory requirements is verified. An Internal Audit report is prepared on an annual basis and presented to Senior Management and the Board. The approved report is then submitted to CySEC.

### 3.3 Money Laundering and Compliance Officer

The Anti-Money Laundering and Terrorist Financing Function establishes and implements adequate policies and procedures to detect the risk of the Company failing to comply with Anti-Money Laundering regulations and implementing relevant policies and procedures.

The AMLCO responsibilities are:

- Designing the internal practice, measures, procedures and controls relevant to the prevention of money laundering and terrorist financing, and describing and explicitly allocating the appropriateness and the limits of responsibility of each department that is involved in the abovementioned.
- Developing and establishing the customers’ acceptance policy and submitting it to the Board of Directors for consideration and approval.
- Preparing a risk management and procedures manual regarding money laundering and terrorist financing.
- Monitoring and assessing the correct and effective implementation of the AML policy, the practices, measures, procedures and controls and in general the implementation of the AML risk management and procedures manual.
- Receiving information from the Company’s employees which is considered to be knowledge or suspicion of money laundering or terrorist financing activities or that might be related with such activities.
- Evaluating and examining the information received as per the previous point, by reference to other relevant information and discussing the circumstances of the case with the informer and, where appropriate, with the informer’s superiors. The evaluation of this information is being done on an "Internal Evaluation Report".
- If following the evaluation described in the previous point, the AMLCO decides to notify MOKAS, then he completes a written report and submits it to MOKAS the soonest possible. It is provided that, after the submission of the AMLCO’s report to MOKAS, the accounts involved and any other connected accounts, are closely monitored by the AMLCO and following any directions from MOKAS, thoroughly investigates and examines all the transactions of the accounts.
- If following the evaluation described above the AMLCO decides not to notify MOKAS, then he fully explains the reasons for such a decision on the "Internal Evaluation Report".

- Acting as the first point of contact with MOKAS, upon commencement and during an investigation as a result of filing a report to MOKAS.
- Ensuring the preparation and maintenance of the lists of customers categorized following a risk based approach, which include the names of customers, their account number and the date of the commencement of the business relationship. Moreover, ensures the updating of the said lists with all new or existing customers, in the light of additional information obtained.
- Detecting, recording and evaluating, at least on an annual basis, all risks arising from existing and new customers, new financial instruments and services and updates and amends the systems and procedures applied by the Company for the effective management of the aforesaid risks.
- Evaluating the systems and procedures applied by a third person on whom the Company relies for customer identification and due diligence purposes and approves the cooperation with that person.
- Providing advice and guidance to the employees of the Company on subjects related to money laundering and terrorist financing.
- Acquiring the required knowledge and skills for the improvement of the appropriate procedures for recognizing, preventing and obstructing any transactions and activities that are suspected to be associated with money laundering or terrorist financing.
- Determining the Company's departments and employees that need further training and education for the purpose of preventing money laundering and terrorist financing and organizing appropriate training sessions/seminars. In this regard, prepares and applies an annual staff training program, and assesses the adequacy of the education and training provided.
- Preparing correctly and submits timely to the CySEC the monthly prevention statement and provides the necessary explanation to the appropriate employees of the Company for its completion.
- Responding to all requests and queries from MOKAS and the Commission, providing all requested information and fully cooperating with MOKAS and the Commission.

In addition, a report on Anti-Money Laundering and Terrorist Financing is prepared on an annual basis and presented to Senior Management and the Board.

## 3.4 Risk Management Procedures

### 3.4.1 Credit Risk Management

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has credit exposure to the banks with which it deposits funds and certain other counterparties with which it does business. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and takes the necessary measures to limit its credit risk exposure to any single financial institution or to groups of connected institutions or counterparties in general.

### 3.4.2 Market Risk Management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest trades and equity prices will affect the Company's income or the value of its holdings of financial instruments. Market risk changes in line with fluctuations in market prices, such as foreign exchange rates, interest rates, equities and commodities prices.

These market prices affect the Company's income or the value of its holdings of financial instruments. The Company has limited exposure to Market risk.

**Interest Rate Risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company considers interest rate risk to be significantly low.

### 3.4.3 Operational Risk Management

Operational risk is the risk that derives from the deficiencies relating to the Company's information technology and control systems as well as the risk of human error and natural disasters. The Company's systems are evaluated, maintained and upgraded continuously. The directors are responsible for managing operational risk and have identified the following risks which are considered significant to the Company:

***Technology***

The Company’s operations are highly dependent on technology and advanced information systems. Its ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of the business. Such dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. The Company has business continuity procedures and policies in place which are designed to allow the Company to continue trading in its core markets and its systems are designed to mitigate the risk of failure of any component.

Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that, where possible, multiple providers and data routes are utilized. To remain competitive, the Company must continue to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

## 3.5 Internal Capital Adequacy Assessment Process

Capital adequacy is monitored monthly by the Finance Department with quarterly reporting provided to the CySEC. In addition, capital planning forms a key element of the Company’s budgeting and Long Term Plan (LTP) processes. As part of the LTP, the

Finance Department prepares a forward looking capital plan. The capital plan ensures the Company has sufficient Own Funds to support the business and strategic objectives.

During the year the Company has established a comprehensive ICAAP process. This process constitutes the Company's internal assessment of capital adequacy and is designed to address the requirements under Pillar 2 of the Basel framework. The ICAAP process considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against these risks, both currently and in the future. The Company operates at all times over and above the required minimum capital requirements at the level that it considers adequate to mitigate the various risks to which the business is exposed. The Company's ICAAP provides a background to its business, projected financial and capital plans, the approach to managing risk, the impact of sensitivities and scenarios on the plans and the overall approach to managing capital. The reference date for the report is the 30th September 2016, and is formally approved by the Company's BOD.

## 4. Declaration of Management Body

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 regards to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

## 5. Board Risk Statement

The Board express the Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across four categories:

a. Financial: credit, market, liquidity risks;
b. Reputational: regulatory and external reputational risk;

c. Operational & People: the risk associated with the failure of key processes or systems and the risk of not having the right quality and number of people to operate those processes and systems.
d. Technology Risk: the risk associated with the failure of or interruption of technological systems

For further details refer to Appendix I.

## 6. Own Funds

**Minimum required own funds**

The Own Funds of the Company as at 31 December 2016 consisted solely of Tier 1 capital and are analysed in Table 1 below:

| **Table 1: Capital Base (€'000)** | |
|---|---|
| **Original Own Funds (Tier 1)** | **31 December 2016** |
| Share Capital | 3 |
| Share Premium | 476 |
| Previous years retained earnings | 19 |
| Other reserves | - |
| Audited income / (loss) for the year | 86 |
| *Less:* ICF | (43) |
| **Total Eligible Own Funds** | **542** |

**Authorized Capital**

The authorized capital of the Company as at 31 December 2016 was 5.000 ordinary shares of €1 each.

**Issued and fully paid**

The issued ordinary share capital of the Company as at 31 December 2016 amounted to €3.400 with a share premium of €476.200.

**Capital Adequacy Ratio**

As at 31 December 2016, the Company's Capital Adequacy ratio was 33,9% based on the end of year audited figures. The purpose of capital is to provide sufficient resources to absorb the losses that a firm does not expect to make in the normal course of business (unexpected losses). The Company aims to maintain a minimum capital adequacy ratio which will ensure there is sufficient capital to support the Company during stressed conditions.

# 7. Minimum Capital Requirements

The Company follows the Standardized Approach for the measurement of its Pillar 1 capital requirements for Credit Risk and Markets Risk and the Fixed Overheads Approach for Operational Risk.

The total capital requirements of the Company as at 31 December 2016 amounted to €128 thousand and are analysed in Table 2 below:

| **Table 2: Minimum Capital Requirements (€'000)** | |
|---|---|
| **Risk Category** | **Minimum Capital Requirements** |
| Credit Risk | 18 |
| Market Risk | - |
| Operational Risk | - |
| *Additional due to Fixed Overheads* | 109 |
| **Total** | **128** |

## 7.1 Credit Risk

The Company follows the Standardised Approach for the calculation of its minimum capital requirements for credit risk.

Table 3 presents the allocation of credit risk per exposure class in accordance with the

Standardised Approach:

| Table 3: Exposure Classes and Minimum Capital Requirements (€'000) | | | |
|---|---|---|---|
| **Exposures at 31 December 2016** | **Total Exposure Value** | **Risk-weighted amounts** | **Minimum Capital Requirements** |
| **Exposure Class** | | | |
| CORPORATE | 9 | 9 | 0.8 |
| INSTITUTION | 980 | 196 | 15.7 |
| OTHER ITEMS | 25 | 25 | 2 |
| PSE | - | - | - |
| **Total** | **1,015** | **231** | **18** |

Table 4 presents the exposures of the Company per risk weight:

| Table 4: Exposure amount per risk weight (€'000) | |
|---|---|
| **Risk Weight** | **Exposure Amount** |
| 20% | 979 |
| 100% | 36 |
| **Total** | **1,015** |

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

**Institutions**

For its exposures to Institutions, the Company used the credit ratings of Standard & Poor's, Moody's and Fitch as these stood as of 31 December 2016. The Company has used the Credit Quality Step mapping table below to map the credit assessment to risk weights:

| Credit Quality Step | Fitch | Moody’s | S&Ps |
|---|---|---|---|
| 1 | AAA to AA- | Aaa to Aa3 | AAA to AA- |
| 2 | A+ to A- | A1 to A3 | A+ to A- |
| 3 | BBB+ to BBB- | Baa1 to Baa3 | BBB+ to BBB- |
| 4 | BB+ to BB- | Ba1 to Ba3 | BB+ to BB- |
| 5 | B+ to B- | B1 to B3 | B+ to B- |
| 6 | CCC+ and below | Caa1 and below | CCC+ and below |

**Corporate & Other Items**

Exposures to Corporates and Other Items were unrated. As a result, a 100% risk weight was used.

Table 5 below provides a breakdown of credit risk exposures by Credit Quality Step:

| **Table 5: Exposure amount per CQS (€’000)** | |
|---|---|
| **Credit Quality Step** | **Exposure Amount** |
| 1-6 | - |
| Unrated/Not Applicable | 1,015 |
| **Total** | **1,015** |

**Residual Maturity of Credit Risk Exposures**

Table 6 presents the residual maturity of the Company’s credit risk exposures by asset class:

| **Table 6: Exposure Classes and Residual Maturity (€’000)** | | | |
|---|---|---|---|
| **Exposures at 31 December 2016** | **Maturity ≤ 3 months** | **Maturity > 3 months or Not Applicable** | **Total** |
| **Exposure Class** | | | |
| CORPORATE | 9 | - | **9** |
| INSTITUTION | 979 | 1 | **980** |
| OTHER ITEMS | 25 | - | **25** |
| PSE | - | - | **-** |
| **Total** | **1,014** | **1** | ***1,015*** |

### Geographic Distribution

The Company's exposures analysed by geographical area are shown below:

| Table 7: Exposure Classes and Geographic Distribution (€'000) | | | | |
|---|---|---|---|---|
| **Exposures at 31 December 2016** | **Cyprus** | **Germany** | **Slovakia** | **Total** |
| <u>**Exposure Class**</u> | | | | |
| CORPORATE | 9 | - | - | **9** |
| INSTITUTION | 843 | 131 | 8 | **981** |
| OTHER ITEMS | 24 | - | - | **24** |
| PSE | - | - | - | **-** |
| **Total** | **877** | **131** | **8** | ***1,015*** |

### Industry Sector of Credit Risk Exposures

A breakdown of the credit risk exposures by industry, for each exposure class at year end, is provided in Table 8:

| Table 8: Exposure Classes and Industry (€'000) | | | |
|---|---|---|---|
| **Exposures at 31 December 2016** | **Financial** | **Other** | **Total** |
| <u>**Exposure Class**</u> | | | |
| CORPORATE | - | 9 | **9** |
| INSTITUTION | 981 | - | **981** |
| OTHER ITEMS | - | 24 | **34** |
| PSE | - | - | **-** |
| **Total** | **981** | **34** | ***1,015*** |

Table 9 presents the average exposure per exposure class:

| Table 9: Average Exposure (€'000) | | | |
|---|---|---|---|
| **Exposures at 31 December 2016** | **2016** | **2015** | **Average** |
| <u>**Exposure Class**</u> | | | |
| CORPORATE | 9 | 17 | **13** |
| INSTITUTION | 981 | 644 | **813** |
| OTHER ITEMS | 24 | 18 | **21** |
| PSE | - | 43 | **21** |

| | | | |
|---|---|---|---|
| **Total** | **1,015** | **722** | **868** |

**Impaired and Past due Assets**

As at 31 December 2016, the Company did not have any financial assets that were past due or impaired.

## 8. Remuneration Policy and Practices

Due to the fact that the Company is considered as small, the practice of the Company is that all the employees will be paid a fixed remuneration based on their employment contract and that there are no variable components of the total remuneration as per employee contracts.

However, management may provide extraordinary bonuses to some or all employees. The bonuses may be provided based on exceptional performance of the staff and to retain key employees whose talent contributes to the Company's success in the highly competitive sector in which it is required to operate.

The remuneration policy has been designed based on the following basic principles:

- It is consistent with and promotes sound and effective risk management and does not encourage risk taking that exceeds the level risk tolerated by the Company.
- The remuneration policy is in line with the business strategy, objectives, values and long term interests of the Company and incorporates measures to avoid conflicts of interest.
- The management body adopts and periodically reviews (at least annually) the general principles of the remuneration policy and is responsible for its implementation.

In 2016 the Company paid fixed remuneration as per its employment contracts, but also provided for extraordinary bonuses to its employees that were paid after the end of the year. The aggregate remuneration of the Company's personnel for the year ended 31st December 2016, broken down by business area, is as follows:

**Table 10: Aggregate Remuneration by Business Area**

| Annual Aggregate Remuneration by Business Area (€000) | |
|---|---|
| **Business Area** | **Aggregate Remuneration** |
| Control Functions | 62 |
| Other risk-taking functions | 257 |
| **Total** | **319** |

The table below provides information on the remuneration of Senior Management and other staff whose activities have a material impact on the risk profile of the Company, broken down by fixed and variable cash remuneration. During 2016 the Company did not provide any non-cash benefits, severance payments or deferred remuneration.

**Table 11: Aggregate Remuneration by Senior Management and Other Staff**

| Fixed and Variable Remuneration by Senior Management and Other Staff (€000) | | | | |
|---|---|---|---|---|
| | **No. of staff** | **Fixed** | **Variable** | **Total** |
| Senior Management[1] | 1 | 57 | 5 | **62** |
| Other Staff | 11 | 247 | 10 | **257** |
| **Total** | **12** | **304** | **10** | **319** |

[1] Includes the Risk Manager/CFO/MLCO and his assistant, the Head of Reception & Transmission, the Head of Back Office and the Financial Controller.

# Appendices

## Appendix I: Risk statement

### A. Financial Risk:

#### 1. Credit Risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and takes the necessary measures to limit its credit risk exposure to any single financial institution or to groups of connected institutions or counterparties in general.

#### 2. Market Risk

Market risk is the risk that the value of an investment will decrease due to movements in market prices and in particular, due to changes in interest rates, foreign exchange rates and equity and commodity prices. The associated market risk factors are the interest rate risk, the currency risk, the equity risk and the commodity risk.

#### 3. Liquidity Risk Management

Liquidity risk is the risk that arises when due to the different maturity of assets and liabilities the Company is short of liquid funds to meet its obligations to counterparties. The Company employs various automated exposure limits to manage exposure to liquidity risk as well as balancing the assets and liabilities open at any given time. Therefore the Company considers liquidity risk to be significantly low.

### B. Reputational Risk:

#### 1. Legal, Compliance and Regulatory risk

Compliance risk is the risk of financial loss (including fines and other penalties) which could arise as a result of direct breach or non-compliance with current legislation, agreements with third parties or ethical standards of business. The risk is limited to a significant extent due to the supervision applied by the Compliance officer as well as other monitoring controls applied such as regular review by the internal auditors.

**2. Reputational risk**

The risk of loss of reputation arising from the negative publicity relating to the Company's operations (whether true or false), which may result in a reduction of its client base, reduction in revenue and possible legal actions against the Company. Reputational risk can derive from financial or operational activities or have an effect or outcome with financial or operational consequences. It is generally connected with hazard that has a social or ethical dimension, rather than purely a financial or operational one. For example, poor customer service, fraud or theft, customer claims and legal action. Reputation is the most valuable asset, one that distinguishes the Company among the rest. Therefore the Company has applied policies and procedures to minimize this risk. Reputation is protected, sustained and enhanced through the active management of issues and relationships, both at high level and as routine contacts, for example possible customer complaints. In addition, the Company's Board of Directors is made up of high-calibre professionals.

**C. Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, mechanisms, people and systems or from external events and it includes legal risk as well. It is inherent in all Company's business functions and can occur from a variety of circumstances such as fraud, error, omission or system failure. For this reason the Company has in place a business continuity policy that in case of business interruption, it enables the preservation or at least the timely recovery and continuation of essential operations and functions. In addition, the exposure it has to its data providers is mitigated by ensuring the daily back up of its data and the maintenance, monitoring and update of its servers and networks.

**D. Technology Risk**:

The Company's operations are highly dependent on technology and advanced information systems. Its ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of the business. Such dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. The Company has in place business continuity procedures and policies which are designed to allow the Company to continue trading in its core markets and its systems are designed to mitigate the risk of failure of any component. Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that, where possible, multiple providers and data routes are utilized. To remain competitive, the Company must continue to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

## Appendix II: Transitional Own Funds Disclosure

| At 31 December 2016 | Transitional Definition | Full - phased in Definition |
|---|---|---|
| | **€'000** | **€'000** |
| **Common Equity Tier 1 capital: instruments and reserves** | | |
| Capital instruments and the related share premium accounts | 480 | 480 |
| Retained earnings | 105 | 105 |
| **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **585** | **585** |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | |
| Intangible assets (net of related tax liability) | 0 | 0 |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | 0 | 0 |
| Investors Compensation Fund (ICF) | (43) | (43) |
| **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **0** | **0** |
| **Common Equity Tier 1 (CET1) capital** | **542** | **542** |
| **Additional Tier 1 (AT1) capital** | **0** | **0** |
| **Tier 1 capital (T1 = CET1 + AT1)** | **542** | **542** |
| **Tier 2 (T2) capital** | **0** | **0** |
| **Total capital (TC = T1 + T2)** | **498** | **498** |
| **Total risk weighted assets** | **1.599** | **1.599** |
| **Capital ratios and buffers** | | |
| Common Equity Tier 1 | 33,9% | 33,9% |
| Tier 1 | 33,9% | 33,9% |
| **Total capital** | **33,9%** | **33,9%** |

**Definitions:**

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

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

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

## Appendix III: Balance Sheet Reconciliation

| **Balance Sheet Description**<br>**(as per published financial statements)** | **(€'000)** |
|---|---|
| Share Capital | 3 |
| Share Premium | 476 |
| Previous years retained earnings | 19 |
| Other reserves | - |
| Audited income / (loss) for the year | 86 |
| *Less:* Investors Compensation Fund (ICF) | (43) |
| **Total Own Funds as per CoRep** | **542** |
| **Total Equity as per Audited Financial statements** | **542** |