



**Teletrade – DJ International Consulting Ltd**

**DISCLOSURES AND MARKET DISCIPLINE REPORT FOR 2017**

**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**

**May 2018**

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## Abbreviations

<b>ARM</b>	Annual Risk Management Report
<b>AT1</b>	Additional Tier 1
<b>Basel III</b>	BIS current enforced global regulatory framework
<b>BoD</b>	Board of Directors
<b>CEO</b>	Chief Executive Officer
<b>CET1</b>	Common Equity Tier 1 Capital
<b>CIF</b>	Cyprus Investment Firm
<b>CRD</b>	Capital Requirements Directive - Directive 2013/36/EU
<b>CRM</b>	Credit Risk Mitigation
<b>CRR</b>	Capital Requirements Regulation - Regulation (EU) No. 575/2013 (the “Regulation”)
<b>CySEC</b>	Cyprus Securities & Exchange Commission
<b>EC</b>	European Commission
<b>ECAI</b>	External Credit Assessment Institution
<b>EU</b>	European Union
<b>ICAAP</b>	Internal Capital Adequacy Assessment Process
<b>RAF</b>	Risk Appetite Framework
<b>RAS</b>	Risk Appetite Statement
<b>SREP</b>	Supervisory Review and Evaluation process
<b>T1</b>	Tier 1 Capital
<b>T2</b>	Tier 2 Capital

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## 1. Introduction

### 1.1 Scope of Application

The present report is prepared by Teletrade – DJ Consulting Ltd (the “Company”) a Cyprus Investment Firm (“CIF”) authorized and regulated by the Cyprus Securities and Exchange Commission (the “CySEC”, the “Commission”) under the license number 158/11 and operates in harmonisation with the Markets in Financial Instruments Directive (“MiFID”).

The current EU Capital Requirements Directive 2013/36/EU (“CRDIV”) and Regulation No. 575/2013 (“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.

Following the publication of the CRD IV package, consisting of the CRDIV and the CRR which are applicable from 1 January 2014 and repeal Directives 2006/48/EC and 2006/49/EC, along with CySEC’s Directive DI144-2014-14 for the prudential supervision of Investment Firms and Directive DI144-2014-15 on the discretions of the CySEC arising from the CRR, the Company successfully implemented the new prudential provisions in order to fully comply with the current legislature.

Furthermore, the Company has prepared these disclosures (hereinafter the “Pillar III disclosures”) in accordance with the requirements of the CySEC’s Directives DI144-2014-14 and DI144 2014 15.

The CRR introduced significant changes in the prudential regulatory regime applicable to banks and investment firms including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. The current regulatory framework comprises three pillars:

- **Pillar I** covers the calculation of risk weighted assets for credit risk, market risk and operational risk
- **Pillar II** covers the Supervisory Review and Evaluation Process (“SREP”), which assesses the Internal Capital Adequacy Assessment process (“ICAAP”) and provides for the monitoring and self-assessment of an institution’s capital adequacy and internal processes.
- **Pillar III** covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

Under this regulatory obligation Teletrade DJ International Consulting Ltd (hereinafter the “Company”) is obliged to provide information on its risk management, capital structure, capital adequacy, its risk exposures as well as the most important characteristics of the Company’s corporate governance including its remuneration system. The scope of these disclosures is to promote market discipline and to improve transparency of market participants.

The Company’s Pillar III Market Discipline and Disclosure reports are published on the Company’s website at <http://www.teletrade.eu/>, on an annual basis at a minimum. This Report should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2017 which contain supplementary information relating to the requirements of the Directive and CRR.

The Company is making the disclosures on an individual basis.

The information that the Company discloses herein relates to the year ended 31 December 2017.

## 1.2 Investment Firm

Company name	Teletrade – DJ International Consulting LTD
CIF Authorization date	14/12/2011
CIF License number	158/11
Company Registration Date	01/09/2010
Company Registration Number	HE272810
<b>Investment Services</b>	
Reception and transmission of orders in relation to one or more financial instruments	
Execution of Orders on Behalf of Clients	
Dealing on Own Account	
Portfolio Management	
Investment Advice	
<b>Ancillary Services</b>	
Safekeeping and administration of financial instruments, including custodianship and related services.	
Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.	
Foreign exchange services where these are connected to the provision of investment services.	
Investment research and financial analysis or other forms.	

## 1.3 Regulatory (Prudential) Supervision

The Law and Regulations published by the European Parliament and Council as well as the Cyprus Securities and Exchange Commission that govern the operations of Cyprus Investment Firms and set out the obligations and requirements that shall be met in the aspect of capital adequacy and market discipline are comprised by the following:

- Law 144(I)/2007-2014– Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereafter “the Law”)
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation
- Regulation (EU) No. 648 / 2012 – European Markets Infrastructure Regulation
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directive 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV
- Directive DI144-2014-14: For the prudential supervision of Investment Firms
- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013

Note: It should be noted that Law 144(I)/2007-2014 has been replaced by Law 87(I)/2017 which came into force January 3rd 2018. Therefore, the new Law requirements will be reflected in the 2018 year end Disclosures.

## **Disclosure Policy**

The Company discloses information in relation to its capital requirements on an annual basis. The disclosures should be published on the website of the Company in conjunction with the date of publication of the financial statements. In addition, these disclosures must be verified by the external auditor of the Company.

## **2. Risk Management**

### **2.1 Risk Management Framework and Function**

Risk is the potential that the Company's financial performance and financial position suffer loss and deviate from the expected values. The Company has allocated financial and other resources in order to set up procedures that will enable the management of the risks so that to avoid losses, achieve stability and also to increase its profitability.

Responsible for the Company's internal control system and the management of its risks are the following:

- Board of Directors
- Senior Management
- Risk Manager
- Anti-Money Laundering Compliance Officer
- Compliance Officer
- Internal Audit Function (outsourced)

Overall Risk Management responsibility for the Company lies on the Board of Directors. In order to fulfill its responsibilities, the Company has designed and implemented a risk management framework that considers all the risks the Company is exposed to. This framework works as per the below levels:

- Identifying the risks
- Assess the Risks
- Decide to Eliminate / Mitigate / Tolerate
- Take Action
- Monitor Performance / Change
- Reporting the risks to the Senior Management, Board or to the regulator (CySEC) when necessary.

Some responsibilities that arise under the risk framework are delegated to the Company's staff that has the appropriate skills and capabilities in terms of education, knowledge and experience to perform them.

The Company has established a Risk Management function which is headed by the designated Risk Manager. The Board of Directors, Senior Manager, Risk Committee, Internal Audit, Risk Manager, Compliance and Anti-Money Laundering Officer perform control function in risk management at the level of responsibilities devoted to them. The Company considers the arrangements appropriate and proportionate for its size and complexity and does not consider them to give rise to any conflict of interest. In addition to the dedicated in-house resource the Company also engages external consultants and when necessary specialized risk advisors.

During 2017, the duties of the Risk Manager were to:

- Implement and update the Risk Management policy
- Provide Risk management reports and advice to Senior Management
- Evaluate customer financial data
- Conform to relevant rules comprised in the Company Code of Business Conduct
- Evaluate the adequacy and effectiveness of the Company's risk management policies and procedures
- Evaluate the level of compliance by the Company and its relevant persons with the arrangements, processes and mechanisms adopted.
- Evaluate 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.
- Follow up of the Company's solvency and exposures and the proper calculation of its capital adequacy.
- Examine the capital adequacy and the exposures of the Company.
- Provide reports and advice the Senior Management, as per legal requirements
- Maintain a record of all the clients and counterparties risk and limits involved
- Development and maintaining an effective risk identification, assessment, reporting, management and mitigation framework as assign by the Board
- Reporting to the Senior Management, Risk Committee and Board
- Preparation of Pillar 1, Pillar 3, annual review of ICAAP, and other necessary forms from CySEC concerning risk management
- Monitors the risk profile of the Company against the Board 's risk appetite

The scope of the Risk Manager work concerning risk management is to provide their services in accordance with the provisions of the applicable laws and the Directives issued by CySEC, as well as the internal regulations of the Company.

The Senior Management bears the responsibility to monitor the adequacy and effectiveness of 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 to respect with those policies and procedures that are in place.

In addition, the Senior Management is responsible for ensuring that all employees comply with these procedures. This is achieved in four steps:

- Setting selection criteria for the staff in order to hire those who have the necessary skills and are capable of performing their work efficiently and in accordance with the Company's policies;
- Training the staff on the Company's policies and procedures and on their significance;
- Making the staff aware of their responsibilities and the consequences for non-compliance;
- Constant monitoring of the staff's compliance with the policies and procedures and making the necessary recommendations.



The Senior Management together with Risk Manager is responsible for the practical implementation of procedures designed by the Risk Manager and approved by the Board. All employees of the Company can at all times approach the General Manager and inform him of any deficiencies they have noted in the Company's procedures and systems. Subsequently, the General Manager and Risk Manager inform the Board of Directors.

The Board of Directors evaluates the Risk Management procedures of the Company and makes any necessary changes. As it was mentioned above the overall risk management of the Company lies on the Board of Directors.

The Risk Management Function of the Company is supervised by the Senior Management and the Risk Committee. The Senior Management and the Risk Committee bear the responsibility to monitor the adequacy and effectiveness of 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 Committee along with the Senior Management are responsible for advising the Board on risk-related matters and risk governance and for non-executive oversight of risk management and internal controls (other than over financial reporting).

The Risk Manager prepares and provides the Annual Risk Management Report ("ARM") to Senior Management and is responsible for evaluating and managing the Company's risks at all times. The ARM is also presented to the Board of Directors and minutes of such meetings attached to the relevant reports are submitted to CySEC within twenty (20) days from the day of the meeting.

Processes are continuously being reviewed with the intent of further strengthening through the implementation of guidance provided by both the industry and new regulatory requirements.

## **2.2 Internal Audit**

The Company maintains Internal Audit function separate and independent from the other functions and activities of the Company. Furthermore, the internal audit unit is an independent unit reporting directly to the Board of Directors through a written internal audit report prepared on an annual basis.

It is an element of the internal control framework established by management to examine, evaluate and report on financial and other controls on operations. Internal audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls.

### **2.3 Compliance Officer**

The Company is required to establish and maintain a permanent and effective Compliance Function which operates independently and which has, inter alia, the responsibility to monitor and to assess the adequacy and the effectiveness of the measures and procedures in place and the actions taken to address any deficiencies in the Company's compliance with its obligations under the Law.

For the year under review, the Compliance Office notified the Company in regards to new legislation, directives and Circulars published from CySEC and advised on what has to be implemented by the Company.

The Compliance Officer reports directly to the Board of Directors and is responsible for:

- Overseeing the Client's legal and regulatory compliance with the Law and applicable legislation
- Providing regulatory and compliance advice to the Senior Management and the Board of Directors of the Client
- Preparation and submission of regular written Compliance Reports to the Board of Directors
- Advising on implementation of the provisions of the Law and applicable legislation
- Ensuring that employees of the Client attend training sessions in compliance with applicable laws, rules and regulations
- Advising and assisting employees to comply with the Company's obligations under the applicable laws and Directives
- Recommending specific remedial measures in case of detection of any weakness or failure by the Company to comply with its regulatory obligations

### **2.4 Anti-Money Laundering Compliance Department**

During 2017, the Anti-Money Laundering Compliance Department consisted of the AMLCO and AML Assistants to help AMLCO with the daily workflow. The AMLCO is in charge of the Company's employees report their knowledge and/or suspicion of transactions involving Money Laundering and terrorist financing to the AMLCO, who when investigates and if considered necessary, reports to the Board and if necessary to the relevant authorities.

The Anti-Money Laundering Compliance Officer reports directly to the CEO and Board of Directors of the Company and is responsible for:

- Preparing, updating and implementing the AML Policy and AML procedures (client acceptance policy) of the Company
- Preparing and implementing the Deposits & Withdrawals Policy of the Company
- Approving all new clients of the Company via CRM software
- Approving deposits and withdrawals from client accounts
- Reviewing clients on an annual basis
- On-going monitoring of client accounts and transactions
- Reporting to the Board of Directors
- Preparing the monthly prevention forms to be sent to the CySEC
- Reviewing and implementing any changes/updates to the AML legal framework

- In case of any suspicious activity – receiving internal suspicion reports/preparing internal suspicion reports/liaising with MOKAS
- Monitoring fraud alerts received from the payment service providers

## **2.5 Risk Culture**

The BoD has a critical role in strengthening risk governance, including setting the ‘tone at the top’ reviewing strategy, and approving the Risk Appetite Statement. It is the BoD that is ultimately responsible and accountable for risk governance.

A robust risk culture is a substantial determinant of whether the CIF will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that the CIF wishes to build is reflected in procedures and these are closely aligned to its Risk Appetite. Risk culture is manifested in the day-to-day decisions that indicate how risk is identified, understood, discussed and acted upon.

## **2.6 Risk Appetite Framework**

Risk Appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, reputational and compliance risk.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the board and management confidence to avoid risks that are not in line with the strategic objectives.

The risk appetite states the Company’s strategy through desirable and undesirable risk exposures. It is the aggregate level and types of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives & business plan. As a result, Risk Appetite and strategic plan occur and evolve in parallel. The Risk Appetite enables the organization to demonstrate that the achievement of its strategic goals has not been the result of fortuitous circumstances.

The risk capacity represents the upper limit beyond which a breach is likely to result in failure.

Taking into consideration the Company’s size, services offered, complexity and operations, the risks that are considered significant and / or material for the Company are credit, market, operational risk and large exposures. In regards to the above, setting the corporate risk appetite without taking into account the risk capacity of the entity may have serious consequences.

The BoD and Senior Management understand how the risk capacity impacts on the business and have taken the necessary steps in order to be in constant awareness, mitigating any potential threats.

## **2.7 Risk Appetite Statement**

The Company regularly monitors its Capital Adequacy Ratio and ensures that it is not lower than required minimum of 8% plus capital buffers, where applicable. In the case where the Capital Adequacy Ratio falls below the required minimum, the Company based on its strategic plan takes immediate actions to restore compliance. The Company has set an internal minimum Capital Adequacy Ratio of 9.5% for 2017 and 10% for 2018. In terms of operational issues, the Company has a low appetite for risk. The Company makes resources available to control operational risks to acceptable levels. The Company recognizes that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation and efficiencies within business practices.

### **3. Corporate Governance**

#### **3.1 Board Recruitment and Diversity Policy**

The recruitment of the members of the Board of Directors follows the Guidelines issued by the Cyprus Securities and Exchange Commission on recruitment of Directors. Recruitment into the Board is also subject to the approval of the Board of Directors and the candidates are provided to the Board by the Remuneration and Nominations Committee that has been established in 2015. The Remuneration and Nominations Committee consists of two Non-Executive directors which should meet at least annually and decide on the issues within its remit.

Candidate to the Board members should possess an appropriate mix of skills and experience to provide the necessary breadth and depth of knowledge and experience to meet the Board's responsibilities and objectives. The candidate also must have good repute and moral credibility.

The Board also aims to reflect diversity in its composition by recruiting members with varied geographical, social, economic, environmental, business and cultural background. The major responsibilities of the Remuneration and Nominations Committee are ensuring that there is an appropriate balance of skills and experience across the Board of Directors, recommend to the Board the composition of the Board Committees, review the leadership needs of the Company in order to ensure the continued ability of the Company to compete effectively in the market place and assess the structure, size, composition and performance of the Board and make recommendations to the Board with regard to any changes.

It is noted that the Company's Board of Directors has varied experiences and backgrounds, including investment services, accounting, risk management, etc. Additionally, each independent Director has a strong background in his field adding a strong value to the Company's Board of Directors.

Factors considered in the review of potential candidates include:

- Specialized skills and/or knowledge in investment services, accounting, finance, banking, law, business administration or related subject.
- Knowledge of and experience with financial institutions (“fit-and-proper”).
- Integrity, honesty and the ability to generate public confidence.
- Knowledge of financial matters including understanding financial statements and financial ratios.
- Demonstrated sound business judgment.

### **3.2 Diversity of the Board of Directors**

Diversity is increasing seen as an asset to organizations and linked to better economic performance. It is an integral part of how we do business and imperative to commercial success. The Company recognizes the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practices in the Corporate Governance Code of many EU countries.

The Company recognizes the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, and background between directors. A balance of these differences will be considered when determining the optimum composition of the BoD.

### **3.3 Responsibilities of the Board of Directors**

The Board of Directors is responsible for overseeing the operations of the Company. With respect to the management of risk, it has overall responsibility for the establishment and oversight of the Company's risk management framework.

The major duties of the Board of Directors of the Company are:

- To carry the overall responsibility for proper implementation of the relevant laws and regulations
- To formulate the Company's business strategy in terms of the development of existing and new services and the Company's presence in the local and international financial markets
- To govern the Company by broad policies and objectives, formulated and agreed upon by the chief executive and employees
- To ensure that sufficient resources are available to the Company to carry out its operations
- To ensure that it receives on a frequent basis, at least annually, written reports of the Anti-Money Laundering Compliance Officer (AMLCO), Compliance Officer, Risk Manager, Internal Auditor and External Auditor and take the appropriate remedial measures in case of identified deficiencies
- To ensure that the Risk Manager, Compliance Officer and Anti-Money Laundering Compliance Officer has full access to all documents and information necessary for the execution of their duties and responsibilities
- To approve the general policy principles of the Company in relation to the prevention of money laundering and terrorist financing, risk management and other risk related policies such as the Company's Risk strategy/appetite/tolerance
- To assess and periodic review of the effectiveness of the policies, arrangements and procedures put in place to comply with the Company's obligations under the Law and applicable legislation and implementation of appropriate measures to address any deficiencies
- To establish a clear and quick reporting chain for transmission of information to the AMLCO, Risk Manager, Compliance Officer and other personnel
- To assess the Money Laundering function, Compliance function, Risk Management Function and others

- To assess the Internal Audit Department's members and the efficiency of the mechanisms of internal control
- To evaluate and adopt strategies to improve the operation of the internal audit mechanism
- To approve the Company's financial statements
- To review the suitability report prepared by the Company's external auditors as well as other reports from external auditors
- To take decisions on important matters of the Company during Board meetings

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 Company's risk management framework seeks to ensure that there is an effective process in place to manage risk across the Company. 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 board's judgment was made on the basis of the material and reports presented to the Board by the company's Senior Management, Internal Auditor, the company's Risk Manager, AMLCO and Compliance Manager, and on the basis of supplementary information and statements obtained by the board.

### **3.4 Risk Committee**

The Risk Committee was established in 2015 and consists of two members of the Board (non-executive directors). During 2017 no Risk Committee minutes had been held as all and any issues with respect to control of risks have been handled directly and immediately at the level of Senior Management.

The responsibilities of the Risk Committee are:

- The Risk Committee must advise the Board on the Company overall current and future risk appetite and strategy and assist the Board in overseeing the implementation of that strategy by senior management. The Board must retain overall responsibility for risks.
- The Risk Committee must review whether prices of liabilities and assets offered to clients take fully into account the Company's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the Risk Committee shall present a remedy plan to the Board of Directors.
- Reports all material risks that are identified and measured.
- Determine the nature, the amount, the format, and the frequency of the information on risk which it is to receive. In order to assist in the establishment of sound remuneration policies and practices, the Risk Committee shall, without prejudice to the tasks of the Remuneration and Nomination Committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.
- Establish a strategic and pro-active approach to risk management across the Company, based on the strategy and risk appetite set by the Board.

### 3.5 Number of directorships held by members of the Board

The table below provides the number of directorships a member of the management body of the Company holds at the same time in other entities including Teletrade. 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. Furthermore, directorships in entities that belong to the same group are reported as one in the following table.

*Table 1 Number of directorships held by the BoD*

<b>Name of Director</b>	<b>Position within Teletrade</b>	<b>Directorships – Executive</b>	<b>Directorships – Non-Executive</b>
Serhiy Matviychuk	Executive Director	1	0
Petr Nekrasov	Executive Director	1	0
Andreas Samatas	Non – Executive Director	0	1
Andreas Karavias	Non – Executive Director	2	2
Oleg Suvorov	Non – Executive Director	0	1
Michael Constantinides	Non – Executive Director	1	1

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

### 3.6 Reporting and Control

As it was mentioned the Risk Management Function of the Company is supervised by the Senior Management and Risk Committee. The Senior Management and Risk Committee are responsible for advising the Board on risk-related matters and risk governance and for non-executive oversight of risk management and internal controls (other than over financial reporting).

The General Manager has also direct access to the Board of Directors at all times, at which he/she has the opportunity to inform the Board of Directors for anything related to risk management. The General Manager also notifies the Board of Directors of any breach of the established procedures and provides recommendations for the improvement of the risk management procedures.

The information flow on risk to the management body is achieved through the reports of the Risk Manager, the Risk Committee, the Internal Audit, the Anti-Money Laundering Compliance officer, the Compliance officer, and any other reports or minutes prepared and presented to the board.

All reports are reviewed and discussed by the Board of Directors prior to the approval.

All procedures in regards to Internal Audit, Risk Management and Compliance are reviewed periodically and approved by the Board of Directors.

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



Table 2 Reporting & Control

Report Name	Report Description	Preparer	Recipient	Frequency
<b>Annual Compliance Report</b>	To inform the Senior Management & the BoD of the Company regarding the Performance of Compliance function during the year.	Compliance Officer	BoD	Annual
<b>Annual Internal Audit Report</b>	To inform the Senior Management & the BoD of the Company regarding their findings and recommendations during the year.	Internal Auditor	BoD	Annual
<b>Annual Risk Management Report</b>	Represents the work & activities undertaken by the Risk Manager during the year.	Risk Manager	BoD	Annual
<b>Pillar III Disclosures (Market Discipline and Disclosure)</b>	The Company is required to disclose information regarding its risk management, capital structure, capital adequacy and risk exposures.	Risk Manager	BoD	Annual
<b>Financial Reporting</b>	It is a formal record of the financial activities of the CIF.	External Auditor	BoD	Annual
<b>Capital Adequacy Reporting</b>	A measure of the CIF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world.	Risk Manager / Accounting	Senior Management	Quarterly
<b>Pillar II - ICAAP</b>	It is a report on the Internal Capital Adequacy Assessment Process of the Company.	Risk Manager	BoD	Annual

#### **4. Capital Management**

The adequacy of the Company's capital is monitored by reference to the provisions of the European Regulation 575/2013 and the Capital Requirements Directive (Directive 2013/36/EU), referred to as CRDIV package, the regulatory provisions of Basel III Framework.

The Basel III consists of three pillars: Pillar I - minimum capital requirements, Pillar II - supervisory review process and Pillar III - market discipline.

##### ***(a) Pillar I – Minimum Capital Requirements***

Pillar I covers the calculation of Risk Weighted Assets for credit risk, market risk and operational risk, set out the enhanced minimum capital and liquidity requirements of firms to cover credit, market and operational risk.

The Company adopted the Standardised approach for Credit and Market risk and the Basic Indicator 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 measurement method for the capital requirement for market risk adds together the long and short positions according to predefined models to determine the capital requirement.

For operational risk, the Basic Indicator approach calculates the average, on a three year basis, of net operating income to be used in the risk weighted assets calculation.

##### ***(b) Pillar II – The Supervisory Review and Internal Capital Adequacy Assessment Processes***

Further to the requirements of Pillar I, a more detailed approach on managing risks is achieved through the preparation of the Pillar II requirements and more precisely the Internal Capital Adequacy Assessment Process (ICAAP) Report which follows the requirements under Regulation (EU) No. 575/2013 and relevant guidelines issued by CySEC.

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 Supervisory Review Process (SREP) 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 such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

The Company is assessing on a regular basis the adequacy of its internal capital to support current and future activities based on the scope and complexity of the Company's operations.

The ICAAP has been designed and implemented in the following steps:

1. Identification and articulation of future business plans and objectives
2. Procedure for identification and assessment of risks before and after internal controls
3. Aggregation of identified risks
4. Assessment of the impact of stress test scenarios on forecasted capital plan
5. Capital allocation in accordance with the profile of the risks identified and in line with stress test results.

Moreover, the ICAAP enables the Board of Directors and Senior Management to assess on an ongoing basis the risks inherent in the Company's activities, and to this extent, it forms an integral part of the Company's risk management process and decision making culture.

The Report includes an assessment of the primary risks faced by the Company (credit, market and operational) and also other risks as well as stress testing for the capital adequacy position and performance of the Company in case of extreme circumstances.

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

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

If the stress testing scenarios reveal vulnerability to a given set of risks, management should make recommendations to the BoD for remedial measures or actions. These may vary depending on the circumstances and include one or more of the following:

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

The Company taking into consideration the requirements of the Law has an updated ICAAP report as of June 2017.

***(c) Pillar III – Market Discipline***

Pillar III specifies a set of enhanced risk disclosure requirements which enable market participants to assess information on firms' risks, capital, risk management procedures and internal control processes.

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

The risk management disclosures should be included in either the financial statements of the investment firms if these are published, or on their websites. 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.

## 5. Regulatory Capital

In line with CRR, the Company's own funds for prudential purposes do not differ from the financial accounting breakdown of equity therefore there is no need to provide further reconciliation on the amounts presented in the composition below.

### 5.1 Capital Base

The Capital Base of the Company is consisted solely of Common Equity Tier 1 capital. Common Equity Tier 1 capital is comprised of share capital, share premium, retained losses and the audited income from current year. From Common Equity Tier 1 capital, the contribution to the Investor Compensation Fund is deducted.

During 2017 the Company's Share Capital and Share Premium had no change since last year. As at 31 December 2017, the Company's Share Capital amounted to €341 thousand and its Share Premium to €3.060 thousand. Also, the Company recorded Retained losses of €1.522 thousand and Audited income for the period of €1.207 thousand.

As a result as at December 2017, the Company's Own funds were €3.000 thousands, after deducting the Company's contribution to the Investor Compensation Fund of €86 thousand.

The below table shows a breakdown of the own funds as at 31/12/2017.

*Table 3 Own Funds Analysis*

	<b>31 December 2017</b> <b>(€000)</b>
<b>Common Equity Tier 1 Capital</b>	
Share Capital	341
Share Premium	3.060
Retained earnings / (losses)	(1.522)
Audited income / (loss) for the year	1.207
Contribution to ICF	(86)
<b>Total Common Equity Tier 1 Capital (CET1)</b>	<b>3.000</b>
Additional Tier 1 (AT1)	0
<b>Total Tier 1 (T1 = CET1+AT1)</b>	<b>3.000</b>
Tier 2	0
<b>Total Eligible Capital (=T1+T2)</b>	<b>3.000</b>

### **5.3 Capital Requirements and Capital Adequacy Ratio**

The primary objective of the Company with respect to its capital management is to ensure that the Company complies with the capital requirements regulation imposed by the European Union and regulated by CySEC. Under this framework, the Company needs to monitor its capital base, as mentioned in previous chapter, and maintain a strong capital adequacy ratio in order to be able to promote itself as a healthy Company, fully compliant with the legislation, to support its business and maximize shareholders' value. In this respect, the Capital requirements should not be seen as a restriction of business but rather as proactive risk management imposed to help both the Company and its client base.

The fundamental pillar of the capital adequacy framework, Pillar I, is based on the fact that the Company must have own funds which are at all times more than or equal to the sum of its capital requirements. In line with CRR, Pillar I sets out the minimum regulatory capital requirements of firms to cover credit, market and operational risk.

The Board of Directors, as well as the Risk Manager, monitor the reporting requirements and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company.

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

The Company is required to maintain a minimum Total Capital Adequacy Ratio of 8% for Pillar I risks, plus additional capital buffers as applicable.

As at 31 December 2017, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus (a) a capital conservation buffer of 1,25% as per the transitional application provisions for buffers and (b) a systemic risk buffer of 1% for its exposures to Estonia, if any, in response to the decision of the Cyprus Macroprudential Authority for the capital buffers (i.e. the Central Bank of Cyprus – “CBC”) to adopt, via reciprocity, a macroprudential measure adopted by the relevant Estonian authority. It should be noted that the company as at 31/12/2017 had no exposure to Estonia, thus no systemic risk buffer was required.

The Company was exempted from applying the institution-specific countercyclical capital buffer following a decision of the CBC to exempt small and medium-sized CIFs from this requirement. As a result, as at 31 December 2017 the Company was subject to an overall minimum requirement of 9,25% (for Pillar I plus buffers).

As at 31/12/2017 the Capital Adequacy Ratio of the Company was 6,26% (as per table II of Appendix I) which was below the minimum requirement of 9,25%. Following corrective actions by the Company, the situation was rectified as of 19 January 2018.

The capital adequacy ratio of the Company reported in the first quarter of the year 2018 was 14,51% well above the minimum capital requirements. Therefore, no additional funds were required to be injected by the Company.

The Company's Own Funds, Capital Requirements and Capital Adequacy Ratio as at 31<sup>st</sup> of December 2017, are presented in detail to Appendix I.

### Minimum regulatory capital requirements

The total capital requirements of the Company as at 31 December 2017 amounted to €3.831 thousand and are analyzed in the below table:

*Table 4 Minimum regulatory capital requirements*

<b><u>Risk Category</u></b>	<b>Minimum Capital Requirements (€000)</b>
Credit Risk	180
Credit Valuation Adjustment Risk	0
Market FX Risk	2.574
Market Commodities Risk	387
Market Equity Risk	5
Operational Risk	685
<b>Total</b>	<b>3.831</b>

## 5.4 Credit Risk

### General

Credit risk reflects the risk where a counterparty fails to meet its obligations towards the Company and as a result the Company bears a loss. The Company's credit risk results from the trading activities of its customers, the exposure to the banks, from receivables from other counterparties, and from own trading open positions (counterparty credit risk). The Company has no significant concentration of credit risk. In addition, the Company has policies to limit the amount of credit exposure to any financial institution.

### *Risk identification, Measurement, Control and Reporting*

Credit Risk arises when failures by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets in hand, at the balance sheet date. The Company's credit risk mainly arises from the Company's:

- Deposits in Financial institutions

The Company follows mitigation strategies in order to minimize the possibility of occurrence of this risk, such as:

- All Client funds are held in segregated accounts, separated from Company's funds.
- The Company maintains regular credit review of counterparties
- The Company diversifies its funds over several European banks which have high ratings based on top credit rating agencies (Moody's, S&P or Fitch).

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

## Capital Requirements

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

The below table presents the allocation of credit risk in accordance with the Standardised Approach exposure classes.

*Table 5 Exposure Classes & Minimum Capital Requirements*

<b>Exposures at 31 December 2017</b>	<b>Total Exposure Value (€000)</b>	<b>Risk-weighted amounts (€000)</b>	<b>Minimum Capital Requirements (€000)</b>
<b><u>Exposure Class</u></b>			
Institutions	2.445	698	56
Corporates	3.196	1.472	118
High risk items	14	21	2
Other Items	58	58	4
<b>Total</b>	<b>5.713</b>	<b>2.249</b>	<b>180</b>

## Nominated External Credit Assessment Institutions (“ECAIs”) for the application of the Standardised Approach

The Company made use of external credit ratings only for its exposures to institutions and corporates, but most of its corporate counterparties were unrated. As at 31 December 2017, the Company’s exposures to Institutions resulted from its deposits with credit institutions. The Company used the credit ratings of Fitch, Moody’s and Standard & Poor’s to rate its exposures and counterparties.

The Company has decided to use the ratings of all three ECAIs mentioned above in the following way:

- If only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment is used to determine the risk weight for that item;
- If two credit assessments are available from nominated ECAIs and the two correspond to different weights for a rated item, the higher risk weight is assigned;



- If more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights are referred to. If the two lowest risk weights are different, the higher risk weight is assigned. If the two lowest risk weights are the same, that risk weight is assigned.

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

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

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

*Table 6 Credit Quality Step Mapping*

<b>Table 4: Credit Quality Step Mapping table</b>			
<b>Credit Quality Step</b>	<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;Ps</b>
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

*Table 7 ECAI association with CQS*

<b>Credit Quality Step</b>	<b>Moody's Rating</b>	<b>Institution Risk Weight (Below 3 months)</b>	<b>Institution Risk Weight (Above 3 months)</b>	<b>Sovereigns Risk Weight</b>	<b>Corporate Risk Weight</b>
1	Aaa to Aa3	20%	20%	0%	20%
2	A1 to A3	20%	50%	20%	50%
3	Baa1 to Baa3	20%	50%	50%	100%
4	Ba1 to Ba3	50%	100%	100%	100%
5	B1 to B3	50%	100%	100%	150%
6	Caa1 and below	150%	150%	150%	150%

A breakdown of the Company's exposures by Credit Quality Step (CQS) is given in the following Table:

Table 8 Breakdown by CQS

Exposures at 31 December 2017	Exposure Value before Credit risk mitigation (€000)	Exposure Value after Credit risk mitigation (€000)
<b>Credit Quality Step</b>		
2	4	4
3	102	102
4	1.416	1.416
6	221	221
Unrated/Not applicable	3.970	3.970
<b>Total</b>	<b>5.713</b>	<b>5.713</b>

For Credit Institutions (i.e. banks) and custodians, the Company proceeds with a due diligence review when opening an account with the bank and thereafter, regularly, on a monthly basis. The due diligence review includes reviewing the credit ratings of the banks, the financial statements of the banks and also by watching the press news regarding the specific bank. The Company evaluates exposure to the banks according to “institutions’ based method”.

For all the other counterparties (mostly the individual customers), the Risk Assessment is initially made within the scope of Anti-Money Laundering Procedures when the customer approaches the Company to open an account and on a regularly basis (ongoing customer due diligence). For terms of credit risk assessment, the customers are regularly assessed based on their proper consequence on their payments to the Company and their general attitude. Risk Weight of the traded counterparty depends on the CQS of the rated Corporate. For the unrated customers the Risk Weight are assigned as 100% or the Risk Weight of its central government, whichever is higher in the counterparty credit risk assessment.

### Average Exposure

The average exposure of the Company in 2017, broken down by asset class, is shown below:

Table 9 Average Exposure in 2017

Exposure Class	Average Exposure (€000)
Institutions	1.913
Corporates	2.433
High risk items	14
Other Items	76
<b>Total</b>	<b>4.436</b>

## Residual Maturity of Credit Risk Exposures

Table 10 Residual Maturity of Credit Risk Exposures

Exposures at 31 December 2017	Maturity ≤ 3 months (€000)	Maturity > 3 months or Not available (€000)	Total (€000)
<b><u>Exposure Class</u></b>			
Institutions	2.445	-	<b>2.445</b>
Corporates	3.069	127	<b>3.196</b>
High risk items	-	14	<b>14</b>
Other Items	-	58	<b>58</b>
<b>Total</b>	<b>5.514</b>	<b>199</b>	<b>5.713</b>

## Geographic Distribution of Credit Risk Exposures

Table 11 Geographic Distribution of Credit Risk Exposures

	Czech Republic (€000)	Latvia (€000)	Lithuania (€000)	Ukraine (€000)	Romania (€000)	Other (€000)	Total (€000)
<b><u>Exposure Class</u></b>							
Institutions	1	777	1.415	-	-	252	<b>2.445</b>
Corporates	767	14	103	444	787	1.081	<b>3.196</b>
High risk items	-	-	-	-	-	14	<b>14</b>
Other Items	-	-	-	-	-	58	<b>58</b>
<b>Total</b>	<b>768</b>	<b>791</b>	<b>1.518</b>	<b>444</b>	<b>787</b>	<b>1.405</b>	<b>5.713</b>

## Industry of Credit Risk Exposures

Table 12 Exposures Classes by Industry

Exposures at 31 December 2017	Financial (€000)	Non-Financial (€000)	Total (€000)
<b><u>Exposure Class</u></b>			
Institutions	2.445	-	2.445
Corporates	87	3.109	3.196
High risk items	14	-	14
Other Items	-	58	58
<b>Total</b>	<b>2.546</b>	<b>3.167</b>	<b>5.713</b>

## Credit Risk Mitigation and Counterparty Credit Risk

As at 31 December 2017, the Company was exposed to Counterparty Credit Risk through FX CFD, Gold CFD, Equity CFD and Commodity CFD positions with clients. The capital requirement for this risk was calculated using the Mark-to-Market approach. The positions were also secured by cash collaterals (i.e. the margins deposited by the clients in order to be able to conduct the trades), which were used to mitigate the final exposures based on the Simple Method for Credit Risk Mitigation.

*Table 13 Counterparty Credit risk breakdown per Directive position*

<b><u>Derivative Type</u></b>	<b>Positive Fair Value (€000)</b>	<b>Negative Fair Value (€000)</b>	<b>Nominal Value (€000)</b>	<b>Exposure Amount before CRM (€000)</b>	<b>Exposure Amount after CRM (€000)</b>	<b>RWA (€000)</b>	<b>Cap. Requr. (€000)</b>
FX Derivatives	1.018	(56)	132.792	2.346	876	879	71
Derivatives on Gold	73	(7)	18.600	259	221	221	18
Derivatives on Equity	34	(2)	737	79	29	29	2
Derivatives on Commodity	93	(9)	2.125	297	128	128	10
<b>Total</b>	<b>1.218</b>	<b>(74)</b>	<b>154.254</b>	<b>2.981</b>	<b>1.254</b>	<b>1.257</b>	<b>101</b>

Table below provides a breakdown of funded and unfunded credit protection by asset class.

*Table 14 Funded & unfunded credit protection by asset class*

<b>Exposures at 31 December 2017</b>	<b>Funded Credit Protection (€000)</b>	<b>Unfunded Credit Protection (€000)</b>
<b><u>Exposure Class</u></b>		
Institutions	-	-
Corporates	(1.727)	-
High risk items	-	-
Other Items	-	-
<b>Total</b>	<b>(1.727)</b>	<b>-</b>

## Impairment of assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

## 5.5 Market and Liquidity Risk

### General

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and commodity and equity prices will affect the Company's income or the value of its holdings of financial instruments. During 2017, the Company managed market risk by monitoring the exposure on a continuous basis.

### *Risk identification, Measurement, Control and Reporting*

The Company's market risk mainly arises from foreign exchange fluctuations which affect the Company's deposits in foreign currencies as well as from positions held during forex trading.

In line with the above, the Company has policies to minimize its market risk exposures which are in accordance with the CRR. In particular it uses the following mitigation tools in order to minimize the possibility of occurrence of this risk, such as:

- Stop Loss - Limits on trading
- Margin Calls
- Variable leverage

### Foreign Exchange Risk

Foreign Exchange Risk results from adverse movements in the rate of exchange on transactions in foreign currencies.

As at year end, the Company was exposed to Foreign Exchange Risk deriving from its balance sheet exposures and open FX and Gold CFD positions denominated in currencies other than the reporting currency (EUR).

*Table 15 Foreign Exchange Capital Requirements*

<b>Foreign Exchange Net Open Positions</b>	<b>EUR '000</b>
<b>Currency</b>	
<b>Overall Net FX position</b>	28.269
<b>Gold Net Position</b>	(3.906)
<b>Total RWA</b>	32.174
<b>Capital Requirement</b>	<b>2.574</b>

### Commodities risk

Commodities risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities and notional positions in commodities such as CFDs on commodities.

The Company uses the Standardized Method to measure capital requirements for commodities risk. At the year end, the capital requirement deriving from commodities risk is €387 thousand.

### **Position risk**

Position risk refers to the probability of loss associated with a particular trading (long or short) position due to price changes. Position risk includes equity risk and interest rate risk.

### **Equities risk**

Equities risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of equities and notional positions in equities.

The Company uses the Standardized Method to measure capital requirements for equity risk. At the year end, the capital requirement deriving from equity risk is € thousand.

### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company uses the Standardized Method for the purpose of calculation interest rate risk arising from the open positions in FX CFDs, however due to the very short-term nature of these positions, the capital charge for interest rate risk is zero (zero percent for general risk).

## **5.6 Operational Risk**

### **General**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks outlined above. The directors of the Company are responsible for managing operational risk.

The following list presents some event types, included in Operational Risk, with some examples for each category:

- **Internal Fraud** – misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees.
- **External Fraud** – theft of information, hacking damage, third – party theft and forgery.
- **Employment Practices & Workplace safety** – discrimination, workers compensation, employee health and safety, third party liability.
- **Clients, Products & Business Practice** – market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.
- **Business disruption & Systems failures** – utility disruptions, software failures hardware failures, power supply failures

- **Execution, Delivery & Process Management** – data entry errors, accounting errors, processing errors, failed mandatory reporting and negligent loss of Client assets

The Company manages Operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. The Company has in place a fully operation Business Continuity & Disaster Recovery Plan site supported with business continuity metrics.

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

- The development of operational risk awareness and culture.
- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities.
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives.
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.
- Established a "four-eye" structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management and a Risk Management Committee. The board further reviews any decisions made by the Management while monitoring their activities;
- Detection methods are in place in order to detect fraudulent activities;
- Comprehensive business contingency and disaster recovery plan.

The Company applies the Basic Indicator Approach for calculating the amount of capital required under the minimum regulatory capital requirements for Operational Risk. As at 31 December 2017, the minimum capital requirements under this approach, amounted to €85 thousand.

## **6. Reference to additional significant risks**

### **6.1 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 can expose the Company to a shortfall of liquidity and limit its access to the capital markets resulting in damages. Liquidity shortages expose the Company to the risk of not having enough cash to fulfill its duties against creditor/debtors that can eventually cause regulatory sanctions and loss of business/reputation.

The Company has procedures with the object of minimizing such losses, such as maintaining sufficient cash and other liquid current assets and by having available an adequate amount of committed credit facilities and monitor the Company's exposures and diversification to avoid rise of concentration risk.

### **6.2 Equity Investments**

The Company classifies its investments in equity as available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Information with regards to the recognition, measurement and impairment method is provided in the audited financial statements of the Company.



### 6.3 Leverage

According to Article 429 of the CRR, the leverage ratio is calculated as an institution's capital measure (i.e. Institution's Tier 1 capital) divided by the institution's total exposure measure and is expressed as a percentage. Institutions shall calculate the end-of-quarter leverage ratio.

It is noted that the final calibration, and any further adjustments to the definition of Leverage Ratio, were completed within 2017, with a view to migrating to a Pillar I minimum capital requirement on 1 January 2018. The institution calculates its leverage ratio as end of each quarter.

The minimum requirement ratio for the purposes of leverage ratio is currently set to 3%.

The table below provides a reconciliation of accounting assets and leverage ratio exposures.

*Table 16 Reconciliation of accounting assets and leverage ratio exposures.*

	<b>Applicable Amounts (€000)</b>
Total assets as per published financial statements	3.491
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
Adjustments for derivative financial instruments	1.763
Adjustments for securities financing transactions "SFTs"	-
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
Other adjustments	459
<b>Total leverage ratio exposure</b>	<b>5.713</b>

As at 31 December 2017, the leverage ratio of the Company was 52,51% using a fully phased in definition, as per the table below.

Table below provides a breakdown of the exposure measure by exposure type.

*Table 17 Breakdown of the exposure measure by exposure type*

	<b>CRR leverage ratio exposures (€000)</b>
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2.818
(Asset amounts deducted in determining Tier 1 capital)	(86)
<b>Total on-balance sheet exposures (excluding derivatives, SFTs &amp; fiduciary assets)</b>	<b>2.732</b>
<b>Derivative exposures</b>	
Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)	1.218
Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	1.763
<b>Total derivative exposures</b>	<b>2.981</b>
<b>Securities financing transaction exposures</b>	
<b>Total securities financing transaction exposures</b>	<b>0</b>
<b>Other off-balance sheet exposures</b>	
<b>Other off-balance sheet exposures</b>	<b>0</b>
<b>Capital and total exposures</b>	
<b>Tier 1 capital</b>	<b>3.000</b>
<b>Total leverage ratio exposures</b>	<b>5.713</b>
<b>Leverage ratio</b>	<b>52,51%</b>

The table below provides a breakdown of total on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by asset class.

*Table 18 Breakdown of total on balance sheet exposures (excluding derivative & SFTs) by asset class*

	<b>CRR leverage ratio exposures (€000)</b>
<b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	<b>2.732</b>
Trading book exposures	0
<b>Banking book exposures, of which:</b>	<b>2.732</b>
<i>Exposures treated as sovereigns</i>	-
<i>Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns</i>	-
<i>Institutions</i>	2.445
<i>Retail exposures</i>	-
<i>Corporate</i>	215
<i>Exposures in default</i>	-
<i>Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)</i>	72

The Company monitors its Leverage Ratio on a quarterly basis and all appropriate measures are taken where deemed necessary.

The Company's leverage ratio decreased compared to previous yearend figures mainly due to the increased leverage exposure. However, its ratio remained well above the current 3% threshold.

#### **6.4 Compliance Risk**

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non – compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer and Anti-Money Laundering Compliance officer, as well as by the monitoring controls applied by the Company.

Staff receives training on compliance issues as well as AML issues, and policies and procedures are updated in line with new regulations. Objective is to fulfill all regulatory compliance requirements and ensure that the Company maintains its reputation amongst various stakeholders.

#### **6.5 Reputational risk**

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company by clients, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor client service, fraud or theft, client claims, legal action, regulatory fines and from negative publicity relating to the Company's operations whether such fact is true or false.

Similar to compliance risk mitigation the Company reacts to market changes and regulation changes by adhering to new/updated policies and procedures, staff training and monitoring its strategic goals.

#### **6.6 Remuneration**

The remuneration policy of Teletrade DJ International Consulting Ltd is set by the Senior Management and the Board of Directors in consultation with Nomination & Remuneration Committee. Decisions with regards to remuneration levels and salary increases of employees are taken by the CEO in consultation with the Board.

Performance is assessed using a set of criteria that differ according to the position and responsibilities of the employee concerned. In 2017, remuneration consisted mainly of fixed monthly salaries.

The below table presents a breakdown of the annual remuneration for those categories of staff whose professional activities have a material impact on the risk profile of the Company, by business area:

*Table 19 Aggregate Remuneration by Business Area*

<b>Business Area</b>	<b>Aggregate Remuneration (€000)</b>
Control Functions	208
Brokerage Department	112
Dealing on Own Account, Portfolio Management & Investment Advice	34
Other risk-taking functions (including categories of staff whose total remuneration takes them into the same remuneration bracket as senior management and risk takers)	159
<b>Total</b>	<b>513</b>

Control functions include the persons employed in the Legal, Risk Management, AML & Compliance Department and Senior Management.

The aggregate remuneration for 2017, broken down by Senior Management & Directors (both Executive and Non-Executive) and members of staff whose actions have a material impact on the risk profile of the Company, is as follows.

*Table 20 Aggregate Remuneration by Senior Management & Directors & other staff*

<b>Personnel</b>	<b>No. of people</b>	<b>Fixed (Cash) (€000)</b>	<b>Variable (Cash) (€000)</b>	<b>Variable (non-Cash) (€000)</b>	<b>Total (€000)</b>
Senior Management & Directors	6	145	0	0	145
Other risk Staff	22	368	0	0	368
<b>Total</b>	<b>28</b>	<b>513</b>	<b>0</b>	<b>0</b>	<b>513</b>

In the above table, the category “Senior Management & Directors” consists of the senior management, Executive Directors and the Non-Executive Directors of the Company. “Other risk Staff” includes the personnel employed in the departments/business areas mentioned above whose actions could have a material impact on the risk profile of the Company or/and other staff whose total remuneration takes them into the same remuneration bracket as senior management and risk takers. It is noted that staff in the Company’s representative offices in other countries such as Italy, Czech, Lithuania etc. are not included in the breakdown in tables above since their business line is not considered as risk taking function. The total staff cost as at 31/12/2017 is provided in Note 7 of the Company’s Financial Statements.

## Appendix I

### I. Balance sheet reconciliation

	Amounts (€000)
Share capital	341
Share premium	3.060
Accumulated losses	(315)
<b>Total Equity as per published accounts</b>	<b>3.086</b>
Regulatory adjustments	0
Contribution to ICF	(86)
Intangible assets	0
<b>Total Eligible Own Funds</b>	<b>3.000</b>

### II. Own funds disclosure template

At 31 December 2017	Transitional Definition (€000)	Full - phased in Definition (€000)
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
Capital instruments and the related share premium accounts	3.401	3.401
Retained earnings	(315)	(315)
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	0	0
Funds for general banking risk	0	0
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>3.086</b>	<b>3.086</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>		
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
Contribution to ICF	(86)	(86)
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(86)</b>	<b>(86)</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>3.000</b>	<b>3.000</b>
<b>Additional Tier 1 (AT1) capital</b>	<b>0</b>	<b>0</b>
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>3.000</b>	<b>3.000</b>
<b>Tier 2 (T2) capital</b>	<b>0</b>	<b>0</b>
<b>Total capital (TC = T1 + T2)</b>	<b>3.000</b>	<b>3.000</b>
<b>Total risk weighted assets</b>	<b>47.887</b>	<b>47.887</b>
<b>Capital ratios</b>		
Common Equity Tier 1	6,26%	6,26%
Tier 1	6,26%	6,26%
Total capital	6,26%	6,26%

## **Appendix II – Board of Directors Declaration**

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 Company's risk management framework seeks to ensure that there is an effective process in place to manage risk across the Company. 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 board's judgment was made on the basis of the material and reports presented to the board by the company's Senior Management, Internal Auditor, the company's Risk Manager, AMLCO and Compliance Manager, and on the basis of supplementary information and statements obtained by the board.

## **Appendix III – Risk Statement**

The Company's Risk Appetite remains the same as last year. The Company regularly monitors its Capital Adequacy Ratio and ensures that it is not lower than required minimum of 8% + different capital buffers (where available). The Company has set an internal minimum Capital Adequacy Ratio of 9.5% for 2017 and 10% for 2018 and 10% for 2019. In terms of operational issues, the Company has a low appetite for risk. The Company makes resources available to control operational risks to acceptable levels. The Company recognizes that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation and efficiencies within business practices.

Since implementation of Directive DI 144-2014-15 the Company adheres to it and does not have any large exposure above 25% of capital for assets classified in asset classes other than institutions and does not have any large exposure above 100% of capital for assets classified as exposures to institutions according to the provisions of the European Regulation 575/2013 (CRR).