



**Disclosures in accordance with Capital  
Requirements Regulation (EU) No 575/2013 of 26 June  
2013 on prudential requirements for credit institutions  
and investment firms**

**As at 31 December 2019**

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## **1. Introduction**

### **1.1 Corporate Information**

Mega Equity Securities & Financial Services Public Ltd (the 'Company' or 'Mega Equity') was incorporated on 17 December 1999 as a limited liability company under the Cyprus Companies Law.

The Company was granted a license from the Cyprus Securities and Exchange Commission (the 'CySEC') to operate as a Cyprus Investment Firm (CIF) on 12 May 2003 and it has been trading under license number 011/03 ever since.

The principal activities of the Company involve the provision of brokerage and investment services.

Under its license the Company is entitled to provide the following investment and ancillary services:

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients
- Dealing on own account
- Investment advice
- Safekeeping and administration of financial instruments including custodianship and related services
- Granting credits or loans to one or more financial instruments
- Foreign exchange services where these are connected to the provision of investment services.

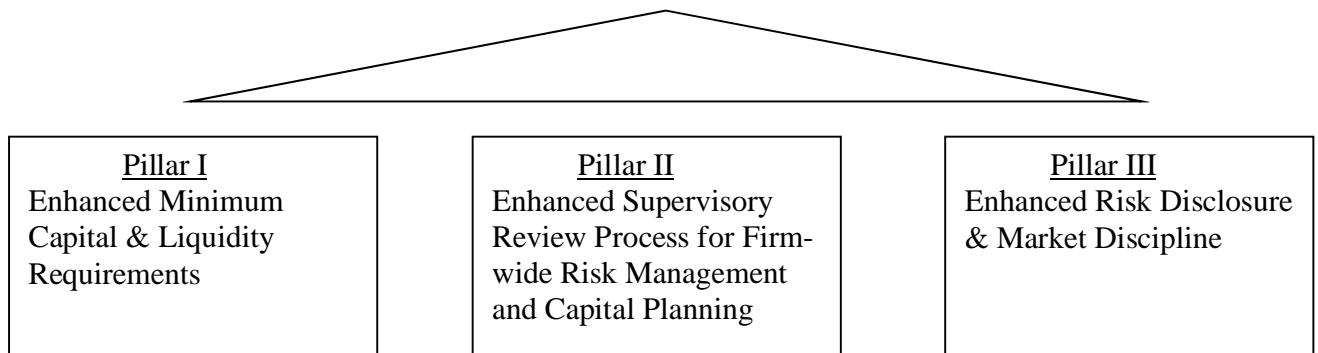
It also has a license to provide Cross Border Services to Member States and countries outside the EU.

### **1.2 Pillar III Regulatory Framework**

#### *Regulatory framework overview*

Mega Equity has an obligation to disclose annually information in accordance to CySEC Directive DI144-2014-14 for the Prudential Supervision of Investment Firms and the Directive DI144-2014-15 on the discretions of the CySEC arising from Regulation (EU) No 575/2013 ('CRR'). The Directive DI2014-144-14 was published in the Cyprus Official Gazette on 19 December 2014 and repeals Directives DI144-2007-05 and DI144-2007-06.

Basel III comprises of three Pillars:



**(a) Pillar I – Minimum capital requirements**

It sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk.

**(b) Pillar II – Supervisory review process (SRP)**

It includes rules to ensure that adequate capital is in place to support any risk exposures of the Company and requires appropriate risk management, reporting and governance policies. Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company. The Company is internally assessing its capital needs in relation to its undertaken risks within the framework of Internal Capital Adequacy Assessment Process (ICAAP).

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

It sets out required disclosures that are designed to allow market participants to have a full picture of the risk profile of the Company, to assess key information relevant to the capital structure, risk exposures, risk management and internal control processes.

*Basis and frequency of disclosure*

The Pillar III disclosures report for the year 2017 sets out both quantitative and qualitative information required in accordance with the Articles 431 to 455 of the Regulation (EU) No 575/2013 (Part 8 'Disclosures by Institutions').

The Report is published annually on the Company's website <http://www.megaequity.com>

*Verification*

The report has been prepared by the Compliance Officer and has been reviewed and approved by the Board of Directors. While it is recommended to read this report in conjunction with the audited financial statements of the Company for the year ended 31 December 2019, the disclosures are prepared as a stand-alone document with the view to explain how the Company manages risks under the requirements of CySEC and how much capital is assigned to these risks for their management.

## **2. Risk Management Objectives and Policies**

### **2.1 Risk Management Framework**

Mega Equity operates in a complex and dynamic financial markets environment, therefore the Management recognizes that risk is embedded in all the Company's activities. Risk is about uncertainties – that may have either a positive (constructive) or negative (destructive) impact. A risk is an opportunity that will not be realized or a threat that an event or action will materialize. That missed opportunity or unmanaged threat in turn damages an organization's ability to deliver results for stakeholders and to achieve business objectives.

The unpredictability of financial markets may have adverse effects on the Company's financial performance therefore, identifying, assessing, monitoring and controlling each type of risk is important for the Company's financial stability, performance and reputation.

The Company's ability to identify, evaluate, monitor and manage each type of risk to which the Company is exposed is an important factor in its performance, reputation and the achievement of its strategic objectives.

The Company's Management is satisfied that the risk management arrangements provide assurance that the risk management mechanisms and/or systems that are in place are adequate given the risk profile of the Company.

### **2.2 Risk Management Process**

The Risk Manager is responsible for the determination, evaluation and efficient management of the risks inherent in the provision of investment services in accordance with the provisions of the Law 144(I)/2007 and Directives issued by CySEC, as well as the internal regulations and policies approved by the Board of Directors. The Risk Manager identifies, evaluates and efficiently manages financial risks in close co-operation with each department. The Board overviews and approves the risk appetite of the Company.

Overall the Risk Managers' responsibilities are:

- (a) Establish, follow up and monitor the risk policy of the Company;
- (b) Set a risk management policy and assess credit worthiness for clients and counterparties and classify them accordingly;
- (c) Assess the risk of the Company's clients and counterparties participating in money laundering and or terrorist funding;
- (d) Monitor day-to-day operational risks;
- (e) Maintain, review and update appropriate internal control systems;
- (f) Help create a culture of risk awareness at all levels within the Company;
- (g) Engage the management in monitoring, reviewing, reporting and managing of identified risks, as well as consider new and emerging risks on a continuous basis.

The Company has established Risk Policy Guidelines the purpose of which is to address the areas which expose the Company to risk, and manage the risks accordingly.

*Risk management policy for clients*

Clients are evaluated in the early stages of their relationship with the Company through the information they provide via the questionnaires they fill and / or any other information that is obtained from third party sources such as World Check etc. Based on the information gathered it is decided whether to accept the client or not. Through the client acceptance process the Company also considers the risk of any of its clients being involved in money laundering or in terrorist activities. The clients' accounts are continuously monitored in order to identify any suspicious transactions. The Company considers that the risk of its clients being involved in money laundering or in terrorist funding is minimal.

### **3. Risk Management Functions**

As part of its business activities, the Company faces a variety of risks, the most significant of which are credit risk, market risk and operational risk (including litigation risk) and are further described below.

#### **3.1. Credit Risk**

Credit risk is defined as the uncertainty in counterparty's ability to meet its obligations with the Company.

The Company is mostly exposed to credit and counterparty risk on the balances it maintains with banks and financial institutions (e.g. Cyprus Stock Exchange ('CSE'), Athens Stock Exchange ('ASE'), Investors Compensation Fund, etc.) and trade and other receivables. The Company establishes counterparty relationships only with reputable banks regulated by national regulators which are rated by international rating agencies and which carry acceptable ratings. The credit ratings as well as the financial position of the banks are regularly monitored given the ongoing financial markets and economic uncertainty.

The actual exposures by financial institution are reviewed daily and the level of credit risk is limited through the allocation of the balances on various financial institutions.

The Company identifies and monitors credit related risks which include:

- (a) Counterparty credit risk: the Company's credit exposure products with other counterparties. The Company also has policies to ensure that credit limits are granted to clients with an appropriate credit history and the ageing profile of each client is monitored on a daily basis.
- (b) Settlement risk: the risk that counterparty fails to deliver the terms of a contract with the Company.
- (c) Issuer risk: the risk to earnings arising from a credit deterioration of an issuer of instruments in which the Company has invested. The Company manages this risk through the diversification of its portfolio across industries and sectors.
- (d) Concentration risk: the risk that arises from the uneven distribution of exposures to individual borrowers or by industry, economic sector or geographical regions. Some concentration of credit risk exists with respect to trade receivables as the Company has high exposures to some clients. The Management monitors these amounts on a daily basis and action is taken accordingly.

- (e) Country risk: the Company's credit exposure arising from lending and/or investment or the presence of the Company to a specific country. Concentration risk also exists due to the fact that the majority of the clientele is based in Cyprus and mainly trading in the CSE and ASE. For this reason the Company is continuously seeking to attract clients from other countries and has expanded its services by becoming a member of XNet thus giving clients the ability to trade in foreign markets.

### **3.2 Market Risk**

Market risk is the risk associated with changes in the market prices such as changes in equity prices, in interest rates and in foreign exchange rates, which may eventually impact the Company's net income or the value of the assets and liabilities.

#### **(a) Price risk**

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the balance sheet as at fair value through profit or loss. The Company is not exposed to commodity price risk.

#### **(b) Interest rate risk**

Interest rate risk is that which exists in an interest-bearing asset, due to the possibility of a change in the asset's value resulting from the variability of interest rates.

#### **(c) Foreign exchange risk**

Currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Company's financial assets and liabilities are primarily denominated in Euro which is the functional currency of the Company. The Company is not exposed to any significant foreign exchange risk as it does not have any significant financial assets or financial liabilities in a foreign currency.

### **3.3 Liquidity risk**

Liquidity risk is defined as the risk to the Company's earnings or capital from its inability to meet its financial obligations as they fall due. It arises from the management of its assets and liabilities. The Company maintains sufficient liquidity to manage known and unanticipated funding needs.

Liquidity is managed in accordance with a framework of policies and controls such as

- maintaining sufficient cash deposits and highly liquid assets
- performing daily reconciliations of cash balances and payments

### **3.4 Operational Risk**

Operational risk is defined as the risk of loss and the material adverse impact resulting from inadequate or failed internal processes, systems and personnel or from events

external to the Company. It is inherent in every business organization and covers a wide range of issues.

It includes potential losses arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events. Further, operational risk encompasses certain other risks such as information security and Information Technology (IT) risk, legal/litigation risk, taxation risk, reputational and compliance risk.

The Company manages operational risk through a control based environment in which all processes are monitored and documented and transactions are reconciled and monitored. Day to day operational risks and procedures at all levels of the Company's hierarchy are monitored by the Compliance Officer, the Risk Manager and the internal auditors. Any incidents detected are monitored to ensure they are not repeated.

Any issues arising are dealt with immediately and monitored until being resolved and ensure they are not repeated.

**(a) Legal, Compliance and Regulatory risk**

Legal, Compliance and Regulatory risk is the risk of financial loss including fines and other penalties, which could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards. If materialized, it could trigger the effects of reputation and strategic risk.

The Company may, from time to time, become involved in legal proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Company and in the event that legal issues are not properly dealt with by the Company.

The risk is limited to a significant extent due to the detailed internal policies and controls implemented and the supervision applied by the Compliance officer and the reviews performed by the internal auditors at least annually.

**(b) Reputational risk**

Reputational risk is 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 clientele, 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 about an opportunity or threat 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.

The Management acknowledges that reputation is the single most valuable asset and the one that differentiates the Company from 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 the maintenance of relationships, both at high level and as routine contacts e.g. possible customer complaints. The Company has in place policies and procedures when dealing with customer complaints in order to provide the best possible service. The



likelihood of complaints is low as the services provided to the clients are agreed and signed beforehand. In addition, the Company's Directors are made up of high caliber professionals who are recognized in the industry for their integrity and ethos. The Company is highly sensitive to the handling of ethics and integrity issues, paying particular emphasis on anti-fraud, bribery and corruption measures.

**(c) IT risk**

IT risk could occur as a result of inadequate information technology, processes and procedures or inadequate use of the Company's information technology.

The Company monitors its IT risk through a range of controls such as back-ups, software and hardware maintenance procedures, anti-virus controls, user right controls etc. The Company is currently in the process to re-organise its IT environment taking into account the provisions

*Policies for mitigating operational risk*

In case of disruption the Company can continue to provide services through a desk in the Cyprus Stock Exchange.

**3.5 Other risks**

The Department Managers are encouraged to identify risks in the areas of Money laundering and know your customer, internal and external fraud and continuity of operations.

**4. Governance**

**Risk Management Governance**

**4.1 Number of directorships held by members of the Board**

The overall responsibility for approving and monitoring the Company's overall strategy and policies for managing risks lies with the Board of Directors.

Name	Position within Mega Equity	Directorships – Executive	Directorships – Non Executive
Andreas Papacharalambous	Non-executive Chairman	1	9
Nicolas Papacostas	Executive Director	2	-
Charidemos Charidemou	Executive Director	2	-
Charalambos Assiotis	Executive Director	1	1
Peter Economides	Non-executive Director	24	47
Nicos Hadjiioseph	Non-executive Director	7	2

## **4.2 Recruitment and diversity policy in relation to the selection of members of the Board of Directors**

One of the Board of Directors' main duties is to identify, evaluate and select candidates who would be able to respond to the demands as member of the Board of Directors of the Company.

The Company recognizes the benefits of having a diverse Board of Directors and even though there is not a written policy in relation to the selection and appointment of the members of the Board, the persons proposed for the appointment should have specialised skills, knowledge and experience to enhance the collective knowledge of the Board and must be able to commit the necessary time and effort to fulfil their responsibilities.

Members of the Board are chosen for their high academic and professional qualifications, diversity, skills and experience with local and international financial matters, as well as for their integrity and honesty. Diversity is taken into consideration in determining the optimum composition of the Board of Directors.

The Board of Directors consists of 3 Executive and 3 Non-executive members.

### *Andreas Papacharalambous - Non Executive Chairman*

Andreas Papacharalambous studied at the National and Kapodistrian University of Athens (B.A. (Athens)). Since 1976 he has been practising law in Nicosia where he co-founded Papacharalambous & Angelides LLC in 1983. In October 2014 he had joined Koushos & Korfiotis LLC and had formed a new scheme, namely Koushos, Korfiotis Papacharalambous LLC, in which he is currently a senior partner.

Andreas deals with all areas of law and is in charge of the overall administration of the office as well as maintaining contacts with overseas clients. He particularly specialises in listing Companies on the Cyprus Stock Exchange.

Amongst many positions held, he was appointed President of the Cyprus Athletics Organisation (KOA) from 2000 to 2003. Andreas has also lectured in Constitutional Law and Political Sciences at various colleges in Nicosia.

Andreas has been a member of the Cyprus Bar Association Committee, which he has represented at an international level.

### *Nicolas Papacostas - Executive Director*

Nicolas Papacostas studied at Saint John's in New York and has an MBA in Financial Services. He is a holder of the professional title of Chartered Financial Analyst (CFA). He commenced his career in 1992 as an Investment Manager in Interamerican. Since 1996 he is a broker and financial analyst and in 2002 he was appointed Executive Director in Mega Equity. He is a registered stockbroker representative of CSE and ASE and has been approved by CySEC as supervisor of underwriting section, of dealings in financial instruments for own account section and of customer portfolio management.

### *Charidemos Charidemou - Executive Director*

Charidemos Charidemou studied Accounting and Finance at the University of Carbondale in the United States and holds an MBA degree in Finance. He commenced his career as a Sales Manager in Coopers & Lybrands (now PwC). In 1996, he co-founded Benchmark Securities

Ltd with CDB Bank and served as an Executive Director until 1999. Mr. Charidemou currently serves as an Executive Director of Mega Equity Securities & Financial Services Public Ltd, which he co-founded in 2000.

*Charalambos Assiotis - Executive Director*

Charalambos Assiotis studied Commerce (BCom) at the University of Concordia in Montreal and has an MBA from the British Columbia University in Vancouver. He commenced his career in Severis & Athienitis as an Investment Advisor and later as a licensed stockbroker. Since 2000 he is an Executive Director in Mega Equity Securities & Financial Services Public Ltd, which he co-founded. He is a registered stockbroker representative of CSE and ASE and has been approved by CySEC as supervisor of underwriting section, of dealings in financial instruments for own account section and of customer portfolio management.

*Nicos Hadjiioseph - Non-executive Director*

Nicos Hadjiiosif studied Accounting and Finance (BSc) at the Polytechnic of Central London and has an MSc in Accounting from the London School of Economics. He commenced his career in Hellenic Bank as Credit Officer. He currently serves as Director in Hadjiioseph, Zapites & Asprides Ltd, Soph. Hadjiioseph Ktimatiki Ltd and Gladiotus Estates Ltd.

#### **4.3 Information flow on risk to management body**

The information flow to the management body of the Company is considered as very adequate. The heads of all departments communicate to the executive directors the information that emanates from their respective areas of expertise. Examples of information circulated include but are not limited to: quarterly management accounts, annual Risk Management report, quarterly portfolio performance report, quarterly Capital Adequacy report, and on a continuing basis announcements, issuance of Directives and updates in legislation, and regulatory issues.

#### **4.4 Remuneration policy**

The Company's remuneration policy is determined by the Board of Directors as there is no separate Remuneration Committee. The remuneration of the Company's employees is based on fixed salaries with no performance related pay. Furthermore the Company does not have any shared-based compensation or any other variable component schemes. The Board is responsible for any salary increases, bonuses or any other form of remuneration.

*Non-executive directors*

The remuneration of non-executive directors is not linked to the profitability of the Company. The remuneration of non-executive directors is fixed and is based on the number of the Board Meetings they attend.

*Executive directors*

The BoD sets the remuneration of executive directors. It consists of fixed salary plus bonus. No bonus was recommended by the BoD for the year 2019.

There are no Retirement Benefit Schemes / Share Options / Other Benefits granted to the executive / non-executive directors.

The total remuneration of the Directors for the year ended 31 December 2019 was as follows:

	No of employees	€
Non-Executive Directors fees	3	-
Executive Directors Remuneration	3	75.308
Senior Management	1	1.050
		<u>76.358</u>

The above remuneration comprises fixed remuneration and consultancy fees. The Non-Executive Directors waived their right to receive remuneration as of 2016.

## 5. Minimum required own funds for credit, market and operational risk

### 5.1 Capital Base

Under the Directive, Own Funds consist of original funds (Tier 1) and additional own funds (Tier 2).

**Common Equity Tier 1** items of institutions include the following:

- (a) capital instruments
- (b) share premium accounts
- (c) retained earnings
- (d) accumulated other comprehensive income
- (e) other reserves

**Additional Tier 1** items include the following:

- (a) capital instruments subject to conditions
- (b) share premium

The following (amongst others) are deducted from Common Equity Tier 1:

- (a) losses for the current financial year
- (b) intangible assets
- (c) deferred tax assets

**Tier 2** items include the following:

- (a) capital instruments and subordinated loans subject to conditions
- (b) the share premium of the above instruments and loans
- (c) the general credit risk adjustments up to the amount of 1,25% of the weighted exposure of credit risk are added back, while other transitional adjustments are added or deducted.

Mega Equity calculates its regulatory own funds and capital adequacy ratio on a solo basis. The Company's Eligible Own Funds includes only Original Own Funds (Tier 1 Capital). Tier 1 capital is a core measure of a Company's financial strength from a regulator's point of view. It is composed of share capital, share premium and reserves (excluding revaluation reserves) including the profits and losses brought forward as a result of the application of the final profit or loss.

The table below shows a breakdown of the own funds as at 31/12/2019.

	€000
Share capital	4.832
Share premium	182
Reserve	-3.226
Income from Current year	-84
Total Com Equity Tier 1	1.704
Deduction from Common Equity Tier 1 Capital	
CYSEC Guarantee Deposit	-141
Total Own Funds	1.563

## 5.2 Capital Requirements

According to the Directive, the Company's management has decided that the most appropriate methods for measuring the capital requirements under Pillar I are:

- The Standardised Approach has been used to calculate the minimum capital requirements Credit Risk and Market Risk.
- The Basic Indicator Approach has been used to calculate the Operational Risk capital requirements.

The Company calculates the capital adequacy ratio on a quarterly basis and monitors its direction in order to ensure its compliance with externally imposed capital requirements. The total Capital Requirements as at 31 December 2019 are shown in the table below:

	€000	Minimum Capital Requirements €000
<b>Total Capital (Own Funds)</b>	<b>1.563</b>	
Risk weighted assets – Credit Risk	1.423	123
Risk weighted assets – Market Risk	36	4
Risk weighted assets – Operational Risk	293	34
<b>Total risks</b>	<b>1.752</b>	<b>161</b>

<b>CET1 Capital ratio</b>		
<b>T1 Capital ratio</b>	<b>89,89%</b>	
<b>Total capital ratio</b>		

The Capital Adequacy Ratio of the Company is 81,62%, which is higher than the minimum requirement of 8%. During the year 2019, the ratio did not fall below the minimum required by CySEC.

### 5.2.1. Credit Risk

According to the requirements of the Directive DI144-2014-14, under the standardized approach the Company can choose one of the three nominated External Credit Assessment Institutions (“ECAIs”) (Standard and Poor’s Rating Services, Fitch Ratings and Moody’s Investor Services) for assigning risk weights to its exposures.

The Company has chosen to use Moody’s Investor Services for the following asset classes:

- Retail exposures
- Exposures to institutions
- Exposures to corporates
- Other items
- Exposures in default
- Exposures to items associated with particular high risk

	Exposure value	Risk weights	Risk weighted exposure pre SME factor	Risk weighted exposure amount post SME factor
<b>Exposure class</b>	€000		€000	€000
Institutions	308	20%	62	62
Particularly high risk	12	150%	18	18
Default	194	180%	350	350
Other items	551	100%	551	551
Retail	528	84%	442	442
<b>Total risk weighted assets</b>	<b>1.593</b>		<b>1.423</b>	<b>1.423</b>

Average exposures by asset class:

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	Average exposure
	€ 000	€ 000	€ 000	€ 000	€ 000
Institutions	-	342	354	308	251
High Risk	12	12	12	12	12
Default	239	319	233	194	246
Other	543	543	553	551	548
Retail	603	553	589	528	568
<b>Total</b>	<b>1.397</b>	<b>1.769</b>	<b>1.741</b>	<b>1.593</b>	<b>1.625</b>

The Company mitigates such risks by assessing annually a client or counterparty's credit quality and reliability via an analysis of their financial and non-financial indicators. In addition, the Company monitors counterparty ratings issued by ECAs both prior to entering into transactions and throughout the life of a transaction. Cash balances are held with the highest credit quality local financial institutions.

If there is no independent rating, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits and credit terms are set based on the credit quality of the customer in accordance with limits set by the Board. The utilization of credit limits is regularly monitored. In addition, the credit limits granted to customers are (but not limited to) a maximum of 30% of the value of their portfolio. Each case is individually assessed.

The Company follows the preferential treatment for exposures to institutions which states:

- Exposures to Institutions of a residual maturity of 3 months or less, incorporated in a Member State Central Government/Bank, funded and denominated in the national currency of the Central Government/Bank shall be assigned a risk of 20%
- Exposures to unrated institutions with an original maturity of 3 months or less shall be assigned a risk of 20%.

The credit quality of counterparties as at 31 December 2019 is assessed as follows:

<b>Cash at bank</b>	<b>2019</b>	<b>2018</b>
	€	€
Bank with rating Caa1	33.670	7.000
Bank with rating Caa2	4.702	6.299
Bank with rating Caa3	-	-
	<b>38.372</b>	<b>13.299</b>

<b>Trade and other receivables</b>	<b>2019</b>	<b>2018</b>
	€	€
Existing debtors with movement in the last 6 months	150.000	141.170
Existing debtors with no movement in the last 6 months	184.742	328.826
Receivables from Stock Exchanges	261.486	245.705
Receivable from related parties	410.981	402.420
Receivable from shareholders	59.801	59.801
Other receivables and prepayments	15.802	19.658
	<b>1.082.812</b>	<b>1.197.580</b>

### **Exposures in default**

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets the cumulative loss which is measured as the difference between the acquisition

cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

In the case of trade receivables, a provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the statement of comprehensive income.

As per IFRS 7 Appendix A 'Defined Terms', a financial asset is past due when a counterparty has failed to make a payment when contractually due. Past due doesn't include impaired debtors of €949.563 as at 31 December 2019.

Exposures in default by geographic area:

	Exposure value (€000)	Risk weight	Risk weighted exposure amount (€000)
Cyprus	233	150%	350

Exposures value by geographical area (pre and post Credit Risk Mitigation Techniques):

Country of risk	Institutions	Particularly high risk	Default	Other items	Retail	Grand total
	€000	€000	€000	€000	€000	€000
Cyprus	52	12	194	551	528	1.337
Greece	256	-	-	-	-	256
	<b>308</b>	<b>12</b>	<b>233</b>	<b>543</b>	<b>733</b>	<b>1.593</b>

### 5.2.2. Operational risk

Based on the Company's operations, it has been decided that the Basic Indicator Approach ("BIA"), is the most appropriate method to be used to measure the Operational Risk capital requirements.

According to the "BIA" the capital requirement for operational risk is calculated by applying 15% rate on the average sum of the net income of the last three twelve month periods, at the end of the financial year.

The requirements for operational risk, as at 31 December 2019 are presented in the table below:

Operational Risk	
	€000
Average net income for the past three years	156
Capital Requirements @ 15%	23



### **5.2.3. Market Risk**

Market risk is the risk associated with changes in the market prices such as changes in equity prices, in interest rate and in foreign exchange rates, which may eventually impact the Company's net income or the value of the assets and liabilities.

#### **(a) Price risk**

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the balance sheet as at fair value through profit or loss. The Company is not exposed to commodity price risk.

The Company's investments in equity of other entities that are publicly traded are included in the Cyprus Stock Exchange General Index and the Athens Stock Exchange Composite Index.

At 31 December 2019, if the value of the Company's portfolio had been 30% higher/lower with all other variables held constant, post tax loss for the year would have been €10.983 (2017: €15.191) higher/lower mainly as a result from the revaluation of the financial assets at fair value through profit and loss.

The Company manages market risk arising from investments in equity securities through diversification of its portfolio across industries and sectors. Diversification of the portfolio is done in accordance with the limits set by the Company's Board of Directors.

#### **(b) Interest rate risk**

Other than cash at bank, which attracts interest at normal commercial rates, the Company does not have any significant interest bearing assets and for that reason its exposure to interest rate risk is minimal.

At 31 December 2019, if the interest rates had been 0,5% higher/lower with all other variables held constant, post tax loss for the year would have been €1 (2018: €1) higher/lower.

The Company's Management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

### **5.2.4 Other risks**

Additional risks directly linked to the financial services sector are generated from the operation of the common CSE-ASE trading platform and the overall interdependence between the local market and other markets considering the general susceptibility of capital markets to foreign influences in terms of volatility through liberalization regional relations and even simple contagion. There are also risks that relate to the intensification of competition and of the possible decrease in profit margins. The activity through investments in new systems experienced personnel and continuous training of human capital aims at practicing better risk management and thus maintaining its competitiveness in the business world.

### **Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company's objectives when managing capital are:

- (i) to comply with the capital requirements set by the regulator – CySEC. In December 2014, the CySEC issued the Directives DI144-2014-14 for the Prudential Supervision of Investment Firms and the Directive DI144-2014-15 on the discretions of the CySEC arising from Regulation (EU) No 575/2013. The Company has implemented the provisions of the Directives as of 1st January 2015.
- (ii) to safeguard the Company's ability to continue as a going concern and
- (iii) to maintain a strong capital base to support the development of the business.

The Company's policy of capital management is designated to maintain the capital base sufficient to keep the confidence of customers, creditors, other market participants and to secure the future development of the Company.

Capital adequacy and the use of the regulatory capital are monitored by the Company's management. The required information is filed with the Company's regulator on a quarterly basis.

The minimum Capital Adequacy Ratio that is required for the Company is 8% and expresses the capital base of the Company as a proportion of the total risk weighted assets.

The Management monitors the financial and capital position of the Company through quarterly management accounts.