



# **Omega Funds Investment Ltd**

Risk Management Disclosures Year ended 31st December 2019

“This document has been prepared in accordance with the provisions of Title II (“Technical Criteria on Transparency and Disclosure”), Articles 435-455 of Regulation (EU) No 575/2013 of 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms”

1. INTRODUCTION.....	4
1.1 Corporate information.....	4
1.2. Regulatory Framework and scope of Application.....	5
1.3. Purpose and frequency of disclosure.....	5
2. ELIGIBLE OWN FUNDS .....	6
3. ADDITIONAL CAPITAL BUFFERS .....	6
4. RISK AND CAPITAL MANGEMENT .....	7
4.1. The company’s approach to risk management .....	7
4.2. Risk management frameworks .....	8
4.3. Internal governance .....	8
4.4. Disclosure on Governance Arrangement. ....	10
4.4.1. Recruitment procedure in relation to the selection of members of the Board of Directors	10
4.4.2. Diversity procedure in relation to the selection of members of the Board of Directors .....	11
4.4.3. Number of Directorships held by members of the Board (including position in the Board of the Company) .....	11
4.4.4. Investment Committee (In its Risk Management role) .....	11
4.5. Risk appetite.....	12
4.6. Capital Management .....	13
5. MINIMUM CAPITAL REQUIREMENTS .....	14
6. ANALYSIS OF RISKS.....	15
6.1. Credit and Counterparty Credit Risk.....	15
6.1.1. Limits to large exposure .....	15
6.1.2. Exposures to Directors .....	16
6.1.3. Exposures to shareholders .....	16
6.1.4. Geographical distribution of exposures. ....	16
6.1.5. Counterparty Limits .....	17
6.2. Market Risk.....	18
6.2.1. Foreign Exchange (FX) Risk.....	19
6.2.2. Interest Rate Risk .....	20
6.3. Operational Risk.....	21
6.3.1. Compliance/AML Risk.....	22
6.3.2. IT/Data Security Risk .....	24
6.3.3. Other Matters .....	25
6.3.4. Operational Risk Capital Adequacy.....	25
6.4. Reputational Risk.....	26

Pillar III Disclosures 2019

7. LEVERAGE.....	26
8. REMUNIRATION POLICY AND PRACTICES .....	28

## 1. INTRODUCTION

### 1.1 Corporate information.

Omega Funds Investment Ltd (hereinafter called the “Company”) is an investment firm regulated by the Cyprus Securities and Exchange Commission (License No. 102/09).

The Company obtained its license to operate as a Cyprus Investment Firm (hereinafter, “CIF”) from the Cyprus Securities Exchange Commission (hereinafter, “CySEC”), with authorisation number (CIF 102/09) on 6 August 2009. The table below illustrates the Company’s license information as of 31 December 2019.

#### *Omega Funds Investment Limited License Information*

Financial Instruments	Investment services and activities									Ancillary Services						
	I (1)	I (2)	I (3)	I (4)	I (5)	I (6)	I (7)	I (8)	I (9)	II (1)	II (2)	II (3)	II (4)	II (5)	II (6)	II (7)
III (1)	√	√	√	√						√	√		√			
III (2)	√	√	√	√						√	√		√			
III (3)	√	√	√	√						√	√		√			
III (4)	√	√	√	√						√	√		√			
III (5)	√	√	√	√						√	√		√			
III (6)	√	√	√	√						√	√		√			
III (7)	√	√	√	√						√	√		√			
III (8)	√	√	√	√						√	√		√			
III (9)	√	√	√	√						√	√		√			
III (10)	√	√	√	√						√	√		√			
III (11)																

#### Investment services (Core services)

I - (1) Reception and transmission of orders in relation to one or more financial instruments.

I - (2) Execution of orders on behalf of clients.

I - (3) Dealing on own account.

I - (4) Portfolio Management.

#### Ancillary (Non-core) services

II - (1) Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.

II - (2) Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.

II - (4) Foreign exchange services where these are connected to the provision of investment services.

#### Financial Instruments

III – (1) Transferable securities;

III – (2) Money-market instruments;

III – (3) Units in collective investment undertakings;

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

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

III – (6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;

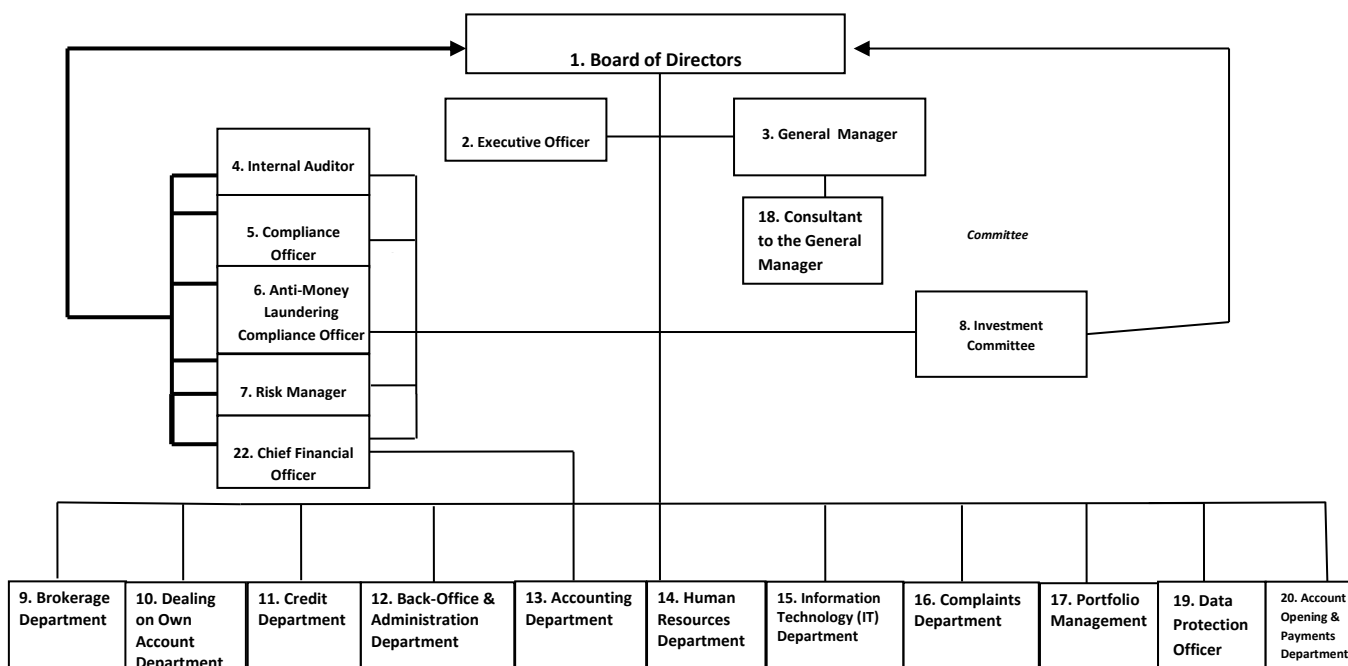
III – (7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6) of this Part and not being for commercial purposes, which have the characteristics of other derivative financial instruments;

III – (8) Derivative instruments for the transfer of credit risk;

III – (9) Financial contracts for differences (“CFDs”);

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

**Diagram 1: Omega Funds Investment Ltd’s Organizational structure as at 31.12.2019**



**1.2. Regulatory Framework and scope of Application**

The Risk Management Disclosures (hereinafter called “the Disclosures”) are provided to clients and potential clients and to all market participants in accordance with the provisions of “Specific publication requirements” as stipulated in paragraph 32 of Section 4 of Part II (“Supervisory measures and powers”) of the Cyprus Securities and Exchange Commission (hereinafter “CySEC”) Directives DI144-2014-14 and DI144-2014-14(A), and the requirements of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (the “CRR” or the “Regulation”).

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

The Company is making the disclosures on an solo basis

**1.3. Purpose and frequency of disclosure**

The purpose of these disclosures is to provide information on the basis of calculating Basel III capital requirements and on the risk governance and risk management arrangements of the Company.

The report is published annually on the Company’s website [www.omegainvest.com.cy](http://www.omegainvest.com.cy) in accordance with regulatory guidelines.

## 2. ELIGIBLE OWN FUNDS

In accordance with the provisions of the Regulation, own funds of investment firms (i.e. the Regulatory Capital) constitute of Common Equity Tier I Capital, Additional Tier I Capital and Tier II Capital.

Items such as paid up capital (plus the related share premium), profits and losses brought forward as a result of the application of the final profit or loss (retained earnings), accumulated other comprehensive income, other reserves and funds for general investment firm risks (which the investment firm decides to put aside to cover such risks) less the book value of intangible assets, losses for the current financial year, deferred tax assets that rely on future profitability (subject to transitional provisions), defined benefit pension fund assets on the balance sheet etc. constitute CET1 Capital. The CET1 Capital of investment firms is also subject to certain prudential filters that are mentioned in separate paragraphs of the Regulation.

The Company's regulatory capital consists of CET1 Capital only and no prudential filters (as stated in articles 32-35 of the Regulation) were applied.

A full reconciliation of the Company's eligible own funds presented below:

Own funds as at 31 <sup>st</sup> December 2019	EUR '000
<b>Common Equity Tier 1 ("CET1") capital</b>	
Share Capital	1,000
Retained Earnings	15,102
Profit & loss for the period	1,537
Other Reserves	-4
<b>Total Tier 1 Capital before deduction</b>	<b>17,635</b>
<b>Deductions from Tier 1 Capital</b>	
Other intangible assets	-242
Contribution to the Investor Compensation Fund	-101
<b>Total deduction from Tier 1 capital</b>	<b>-343</b>
<b>Total Tier 1 capital</b>	<b>17,292</b>
<b>Additional Tier 1 Capital</b>	<b>0</b>
<b>Tier 2 Capital</b>	<b>0</b>
<b>Eligible Own Funds</b>	<b>17,292</b>

In line with Article 492(3) of the Regulation, as well as Article 5 of Regulation 1423/2013, the transitional and fully phased-in own funds presented below:

Own funds as at 31 <sup>st</sup> December 2019	Based on transitional provisions	Based on fully phased-in provisions
	EUR '000	EUR '000
<b>Common Equity Tier 1 ("CET1") Capital</b>		
Share Capital	1,000	1,000
Retained Earnings	15,102	15,102
Profit & loss for the period	1,537	1,537
Other Reserves	-4	-4
<b>Deductions from Tier 1 ("CET1") Capital</b>		
Other intangible assets	-343	-343
Contribution to the Investor Compensation Fund	-101	101
<b>Total Common Equity Tier 1 ("CET1") Capital</b>	<b>17,292</b>	<b>17,292</b>
<b>Additional Tier 1 Capital (AT1)</b>	<b>0</b>	<b>0</b>
<b>Tier 1 Capital (T1=CET1+AT)</b>	<b>17,292</b>	<b>17,292</b>
<b>Tier 2 Capital</b>	<b>0</b>	<b>0</b>
<b>Total Capital</b>	<b>17,292</b>	<b>17,292</b>
<b>Total risk exposure amount</b>	<b>38,793</b>	<b>38,793</b>
<b>CET-1 Capital ratio (%)</b>	<b>44.58%</b>	<b>44.58%</b>
<b>Total capital ratio (%)</b>	<b>44.58%</b>	<b>44.58%</b>

## 3. ADDITIONAL CAPITAL BUFFERS

As the designated macroprudential authority of Cyprus, the Central Bank of Cyprus ("CBC"), requires CIFs to hold capital buffers, in addition to the CET1 capital maintained to meet the own funds requirements of 4.5% on RWAs, and as a result the total capital ratio of 8%. Note that the capital buffers

apply to CIFs which are authorized to provide the investment services of: (a) dealing on own account; and/or (b) underwriting with firm commitment.

In particular, the following macroprudential capital buffers apply to Cypriot CIFs that fulfil the abovementioned criteria:

- 1) **Capital Conservation Buffer (“CCB”)**, as indicated in the below table:

Period	Capital Conservation Buffer (%)
From 01/01/2019 and onwards	2.50%

- 2) **Other systemically important institutions buffer (“O-SII buffer”)**, for which an additional capital buffer of 2% of the total exposure amount for the designated O-SIIs must be maintained. Note that the Company is not included in CBC’s list of O-SIIs; therefore, the O-SII buffer is not applicable.
- 3) **Institution-specific Countercyclical Capital Buffer (“CCyB”)**, which is designed to counter the build-up of excessive credit at a macroeconomic level, avoiding having over-heated economies with disproportionate credit expansion, and ensuring a more stable credit supply. Its purpose is to be build-up during periods of economic growth and drawn down during economic downturns and it is used when preparing the geographical exposures breakdown COREP form (i.e. Form 144-14-09). CCyB was set to 0% by Central Bank of Cyprus for thr reporting as at 31.12.2019

#### 4. RISK AND CAPITAL MANGEMENT

##### 4.1. The company’s approach to risk management

Managing risk effectively in a multifaceted organization, operating in a continuously changing risk environment, requires a strong risk management culture. As a result, the Company has established an effective risk oversight structure and the necessary internal organizational controls to ensure that the Company undertakes the following:

- the adequate risk identification and management;
- the establishment of the necessary policies and procedures;
- the setting and monitoring of the relevant limits; and
- compliance with the applicable legislation.

The principal responsibilities of the Board, the Senior Management, the Internal Auditor and the Risk Manager in relation to the management of the Company’s risks include the following:

- the Board reviews and discusses, during its meetings, the written reports prepared by the Risk Manager and identifies the risks faced by the Company.
- the Company’s Senior Management also reviews the written reports prepared by the Risk Manager, applies the decisions of the Board with respect to risk management and monitors whether all the Company’s risk management procedures are followed.
- the Internal Auditor evaluates the adequacy and effectiveness of the Company’s internal control systems, policies and procedures with respect to risk management.
- the Risk Manager ensures efficient and effective management of the Company’s risks in the provision of the investment and ancillary services to Clients, as well as the risks underlying the operations of the Company, in general. Furthermore, the Risk Manager bears the responsibility to monitor the following:
  - the adequacy and effectiveness of the risk management policies and procedures that are in place;
  - the level of compliance by the Company and its relevant persons with the adopted policies and procedures (related to risk management), in addition to the Company’s obligations stemming from the relevant laws (related to risk management); and
  - the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures that are in place, including failures by the Company’s relevant persons to comply with those policies and procedures.

Moreover, the Risk Manager is responsible for making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified, as aforementioned.

#### **4.2. Risk management frameworks**

The Company has a full time Risk Manager who heads the Risk Management function of the Company. The Risk Manager, on a continuous basis, identifies, measures, monitors and manages the Company's exposures to all financial and non-financial risks.

As mentioned above, the Company's Risk Manager identifies, measures, monitors and manages the Company's exposures to external and internal risks. The Board's Investment Committee (which currently monitors and controls the work of the Risk Manager and which evaluates the effectiveness of the risk management policies and procedures), in close coordination with the Risk Manager, defines and suggests risk management limits with respect to risks identified, updates/amends the internally determined risk management measurement methodology when such necessity arises, monitors and assesses the Company's internal control mechanisms and risk management policies and procedures, recommends the imposition of additional risk mitigation mechanisms/controls and the allocation of additional capital with respect to risks not adequately covered or totally ignored in the context of regulatory requirements, et cetera. Nevertheless, the Company's Board bears and shall continue to bear the ultimate responsibility and has the final call as regards final decisions and approvals.

Subsequent to their identification, the Risk Manager profiles each risk using two parameters; the risk's potential financial impact and its probability of occurrence. In determining these parameters, the Risk Manager's competent, but subjective, judgment along with her applicable experience but also the Company's current financial position are seriously taken into consideration. The ending risk profile of each risk is of course determined by the interaction of the aforementioned rated parameters. In the case where such profile indicates materiality, which corresponds to a risk exposure falling outside the Company's risk tolerance, additional analysis is conducted and proposals are made to the Board's Investment Committee as regards the necessity for the allocation (i.e. the preservation) of additional capital (based on a fraction of the potential financial impact) or whether additional risk control mechanisms need to be developed and implemented in order to mitigate the Company's exposure to such risks.

The Risk Manager also carefully examines and monitors the Company's capital adequacy, large exposures and the financial results of the Company based on management accounts received by the Company's Accounting Department.

All employees of the Company receive continuous support, on the job training and proper guidance on internal and regulatory risk management matters by the Company's Risk Manager and they are fully aware that risk related issues should be promptly reported to her.

#### **4.3. Internal governance**

The Company has adopted an effective internal governance framework as part of its overall corporate governance, on the basis of which the Company's processes and procedures are governed on a daily basis and which, in combination with additional allocation of capital (where deemed necessary) and/or additional risk controls, ensures mitigation of risks. The Company considers that its Internal Control Mechanisms are sufficient and adequate, taking under consideration the Company's level of complexity and operating model. A summary of the principal responsibilities of the Board, the Senior Management, the Internal Auditor, the Compliance Department, the Investment Committee and the Risk Management Function in relation to the management of the Company's risks is provided in the following subsections.

The Board of Directors has unequivocal responsibilities as regards the approval and the efficient monitoring of all risks identification and management mechanisms as aggregated within the Company's risk management framework (based on recommendations received by the Investment Committee and the Company's Risk Manager), the internal control mechanisms and the Company's capital adequacy. The Board is responsible for determining the Company's risk profile in terms of its overall risk tolerance/appetite and for arranging for the necessary work to be conducted in order for the Company to be able to operate within this predetermined risk profile at all times. Further, the Board is responsible for



evaluating and monitoring the adequacy of the Company's capital both with respect to regulatory imposed limits and in proportion to the nature and level of material risks to which the Company is or might be exposed.

In addition to the above, the Board reviews and discusses, during its meetings, the written reports generated by the internal control functions of the Company (and approves the relevant Annual Reports), namely the Risk Management, the Internal Audit, the Compliance Department and the Money Laundering Compliance Department, so as to remain up to date with the Company's position as regards the aforementioned functions. Lastly, the Board is responsible to address any deficiencies identified throughout the said reports at the soonest possible, especially where there is a breach of the regulatory framework, something which could potentially have adverse consequences on the Company.

In accordance with the governing regulatory framework, the Company is required to have a Senior Management function, also named as the "4-Eyes" function, which will be responsible to ensure that the Company complies with its continuous obligations arising from its day to day operations. Given that the Company's "4-Eyes" function consists of two Executive Directors, its involvement in the ongoing operations is both direct and effective, ensuring the exercise of an efficient overall supervision, the provision of on the job advice/guidance on risk management related matters and the prevention of the possibility of a breach of the legal framework and/or the Company's internal policies and procedures.

The aforementioned executive directors, under their capacity as the "4-Eyes" of the Company, are responsible to perform frequent assessments and reviews of the Company's policies in order to ensure that they remain fully updated and reflective of the actual operations of the Company and that they provide a complete, detailed and transparent picture of all the operations, internal controls and functions within the Company. In addition to the aforementioned, the Senior Management performs frequent assessments of any arrangements and procedures put in place which are not documented through the Company's IOM (i.e. internal department-specific procedures followed) so as to ensure that the Company is, at all times, in compliance with its obligations deriving from the relevant regulatory framework. Moreover, the "4-Eyes" function is responsible to decide on which corrective measures to be taken in cases where deficiencies are identified, which can potentially harm the financial performance and reputation of the Company if not addressed timely. It is also responsible to apply the decisions of the Board with respect to risk management. As a tool to ensure that the monitoring performed is both efficient and effective, the Senior Management ensures that written reports are provided by the Company's Compliance Officer, Internal Auditor and Risk Manager presenting each person's/function's findings as per their inspections performed throughout the year.

The Internal Audit Function (which is currently outsourced) evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures with respect to risk management. The Internal Audit Function reports to the Senior Management and the Board of the Company and is separated and independent from the Company's other functions and activities.

The Internal Auditor's aim is to ensure compliance of procedures included in the IOM with applicable regulatory framework, compliance of different departments of the Company with the IOM and its procedures in place and with the relevant decisions taken by the Board. This independent function is allowed full access to the software and to all documents, files and data of the Company and receives all necessary assistance by the employees and management of the Company in the course of exercising its duties. The conclusions of the regular or extraordinary audits are submitted in the form of a report to the Company's Board alongside with possible suggestions/recommendations in respect of any corrective and/or further action to be taken by the Company, at least annually.

Pursuant to the regulatory obligations of the Company and with the view to complement its Internal Governance Framework, the Board has appointed a full time Compliance Officer to head the Compliance and the Money Laundering Compliance Functions of the Company. The said Officer monitors and manages the Company's exposures to compliance and money laundering compliance risks. The main responsibilities of the Compliance Function is the establishment, the implementation and the maintenance of effective policies and procedures designed to detect any risk of failure by the Company to comply with its obligations under applicable legislation, to put in place adequate measures and procedures designed to minimize such risks and to enable the competent authorities to exercise their powers effectively.

The Compliance Officer monitors the day to day operations of the Company and the actions of its personnel in order to ensure that such actions will conform to the internal control procedures and the laws and regulations governing the financial services industry and any other applicable laws and regulations. With respect to AML Compliance risk, the said function establishes and maintains adequate policies and procedures designed to detect potential threats related to Money Laundering and Terrorist Financing. The Compliance Officer is responsible to ensure the establishment and implementation of appropriate internal policies and procedures designed to prevent and suppress Money Laundering and Terrorist Financing in accordance with the provisions of applicable legislation and relevant FATF recommendations.

In order to ensure the independent and unhindered access of the Compliance Function to information necessary to exercise its duties and responsibilities, the Compliance Officer has wide access to the Company's information technology infrastructure, accounting records and to all client transactions and reports directly to the Company's Board. At least once a year, the Compliance Officer's Compliance and Anti Money Laundering Compliance Reports are discussed and approved by the Board which undertakes the responsibility of implementing corrective actions when necessary.

The existence of the Investment Committee ensures the efficient management of the Company's risks in the provision of the investment and ancillary services to clients, as well as the risks underlying the operation of the Company, in general. Despite the fact that it is primarily responsible for managing and evaluating the credit, market and operational risks of the Company, this committee bears the responsibility to monitor the adequacy and effectiveness of all risk management policies and procedures, the level of compliance by the Company and its relevant persons with such policies and procedures as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures, including failures by the Company's relevant persons to comply with those policies and procedures. The Investment Committee is actually a subcommittee of the Board. It monitors and evaluates the work of the Company's Risk Manager, whose recommendations are received and discussed during regular and/or ad-hoc meetings and are subsequently submitted to the Board for final approval. The Committee shall convene at least quarterly. Currently, as aforementioned, the risk management related responsibilities of the soon to be established Investment Committee are undertaken by the Board's Investment Committee which is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties. From this point onwards the phrases Investment Committee and Investment Committee shall be used interchangeably.

The Risk Manager (heading the Risk Management Function) identifies, measures, monitors and manages the Company's financial and non-financial risks and ensures that all exposures to different types of risks taken by the Company are in compliance with its requirements stemming from applicable legislation, with its internally determined limits of risk tolerance and that all necessary risk management policies and procedures are in place and are implemented efficiently. Moreover, the Risk Manager is responsible for making recommendations to the Investment Committee and to the Board and for indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified.

#### **4.4. Disclosure on Governance Arrangement.**

##### ***4.4.1. Recruitment procedure in relation to the selection of members of the Board of Directors***

The Company follows an internal procedure for selecting the members of its Board of Directors. Firstly, they must have a clear criminal record and they must present a certificate of non-bankruptcy along with their detailed curriculum vitae. Secondly, they must be recognized in the industry for the integrity of their character, their ethos and their business culture. References are always required. They must also have the necessary academic and/or professional qualifications and definitely the relevant work experience. Further, they must ideally come from different sectors of the financial industry in order to sufficiently complement each other and they must have diverse skills and be competent enough in order to effectively exercise their duties. Furthermore, they need to have relevant financial knowledge and risk management experience in order to understand the risk characteristics of products/services offered by the Company. The current members of the Board identify and evaluate, based on the aforementioned criteria, potential candidates who would be able to respond to the requirements of the Company. The Company had not officially documented its recruitment policy up to the date of preparation of this report; however, it is currently in the process of doing so.

**4.4.2. Diversity procedure in relation to the selection of members of the Board of Directors**

The Company understands the necessity of having a Board constituted by members of diverse skills, financial knowledge and work experience. Diversity is one of the variables that is seriously taken into consideration in the identification and selection of members of the Board; hence, in the determination of its ultimate composition.

**4.4.3. Number of Directorships held by members of the Board (including position in the Board of the Company)**

Name of director	Function	Directorship Executive	Directorship Non-Executive
Mr. Marinos Vassiliou (Resigned on 07/01/2020)	Executive Director	1	-
Mr. Roman Levshin	Executive Director	1	-
Mr. Pavel Vashchenko (Appointed on 15/01/2020)	Executive Director	1	-
Mr. Marios Kyriakou (Resigned on 07/01/2020)	Non-Executive Director	-	1
Mrs. Marina Droushiotou (Resigned on 07/01/2020)	Non-Executive Director	-	1
Mr. Pavel Vashchenko (Appointed on 24/09/2019. Resigned on 15.01.2020)	Non-Executive Director	-	1
Mr. Andrey Shvachko (Appointed on 15/01/2020)	Non-Executive Director	-	1
Mrs. Ioanna Solomou (Appointed on 15/01/2020)	Non-Executive Director	-	1

**4.4.4. Investment Committee (In its Risk Management role)**

As mentioned in section 4.3, “Internal Governance”, the Investment Committee of the Company is a subcommittee of its Board of Directors which ensures the efficient management of the Company’s risks in the provision of the investment and ancillary services to clients, as well as the risks underlying the operation of the Company, in general. Despite the fact that it is primarily responsible for managing and evaluating the credit, market and operational risks of the Company, it bears the responsibility to monitor the adequacy and effectiveness of all risk management policies and procedures, the level of compliance by the Company and its relevant persons with such policies and procedures as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures, including failures by the Company’s relevant persons to comply with those policies and procedures.

The composition of the Investment Committee is as follows:

- Roman Levshin – Executive Director
- Marinos Vassiliou– General Manager (Resigned on 07/01/2020)
- Pavel Vashchenko – Executive Director
- Vladislav Pankov - Head of DOA Department

The Investment Committee's members discharge their duties solely in the joint interest of the clients and the Company, and exercise the level of care, skill, prudence and diligence that a prudent person, acting in a like capacity, would be expected to exercise in discharging such duties.

The Investment Committee targets to meet at least quarterly and all its decisions are taken on a majority vote. A quorum constitutes two persons present either physically or through conference calls. Quorum must be achieved before meetings can be considered open. The decisions of the Investment Committee are communicated to all relevant departments, in a timely manner relevant to their significance/urgency.

As aforementioned, the Investment Committee meets on a quarterly basis, at a minimum, except where the circumstances require extraordinary meetings, which can be called by the Risk Manager or by any member of the Investment Committee. In general, the Investment Committee presents its findings to the Board; however, the Company's Board may decide to grant permission to the Investment Committee to approve the Company's risk management policies and procedures and to take decisions on risk management related matters, on its behalf.

#### **4.5. Risk appetite**

The Company's risk appetite, to be approved by the Board of Directors of the Company, determines the maximum risk that the Company is willing to assume in order to meet its business targets.

In order to ensure coherence between the Company's strategic considerations as regards risk taking and the day-to-day decisions, the Management reviews and when deemed necessary updates the Company's risk appetite statement which is submitted for Board approval.

The Risk Manager proposes that the following principles constitute the Company's risk appetite:

- Available regulatory capital over the total Risk Weighted Assets (hereinafter, "RWAs") for Pillar I is targeted to be at least equal to 10.5% or EUR 730K whichever is the highest in value;
- CET1 ratio should under no circumstances fall below the minimum regulatory requirement imposed by CySEC – which is 4.5% of total RWAs, plus applicable Pillar I buffers, plus any capital needed under ICAAP;
- The trading book portfolio of the Company to mainly include Eurobonds with low price volatility and rated Ba3 or higher, with a maturity of 6 years or less, the target Yield-to-maturity of portfolio is 4-5%. The size of initial investment into the portfolio is to be USD 6.0m, which should be leveraged via REPO trades by a total of 3 times (up to USD 18.0m). The leverage may be smaller in case of unappropriated cash availability, but is not to exceed x3. The company understands that it is exposed to credit risk from the Issuers of the above-mentioned instruments, but taking into account issuer's credit ratings we consider this investment as medium to low risk.
- A small part of the Company's own funds is budgeted for speculative purposes. The above-mentioned amount could be invested in equities and commodities mostly through DMA. The abovementioned investments in a short-term basis.
- As part of its trading activities, the DOA department traded on the forex market. The following describes the characteristics of the said activity.

1. Investment Universe List:

- a) The G10 currencies: EUR, USD, GBP, CHF, JPY, CAD, AUD, NZD, NOK, SEK
- b) Exotics: BRL, MXN, TRY, RUB, CNY, CZK, PLN, ZAR

The list is to be corrected in accordance to our counterparty's capacities.

2. Tenors of Deals:

All trades will be made on a spot basis T+2 as maximum.

- The Company has zero tolerance in regards to regulatory compliance risks, including non-regulatory compliance with client leverage limits. Therefore, all departments are required to operate at all times in compliance with respective regulatory requirements, relevant laws and regulations;
- The Company has limited tolerance towards operational risks, such as internal fraud, unauthorized trading limit excesses, data security risks and GDPR non-compliance. Operational risks inherited in the business operations of the Company are managed proactively.

#### **4.6. Capital Management**

The Company manages its capital to ensure that it will be able to continue as a going concern whilst maximising shareholder value. However, the Company also has a regulatory obligation to monitor and implement policies and procedures for capital management. Specifically, the Company is required to test its capital against specific regulatory requirements and has to maintain a minimum level of regulatory capital in accordance with the provisions of the CRR. CySEC has adopted the rules established by the Basel Committee in relation to the adequacy of an investment firm's capital. Currently, there are three (3) pillars:

##### **- Pillar I - Minimum Capital Requirements**

The Company has adopted the Standardized approach for Credit and Market risks and the Basic Indicator approach for Operational risk.

In accordance with the provisions of the Standardized approach for calculating the minimum capital requirements with respect to credit risk, risk weights are assigned to exposures (after taking into consideration various risk mitigating factors) according to the exposure class to which they belong. For certain exposures, the risk weight also depends on the term and maturity of the exposure. The categories of exposures the Company is exposed to with respect to credit risk, are exposures to public sector's entities, regional government, institutions, corporate and other exposures (including equity), as previously shown.

The Standardized approach for calculating the minimum capital requirements with respect to market risk adds up the long and short foreign exchange positions per currency in order to arrive at the net exposure per currency. Subsequently and in accordance with predefined models the capital requirements with respect to market risk are calculated. In general, the main sources of market (i.e. foreign exchange risk) for the Company are mismatches between the Company's liquid assets (i.e. long positions) and the largest part of the liability side of its statement of financial position (i.e. short positions).

For operational risk, the Basic Indicator approach calculates the average, over a three (3) year horizon, of gross income to be used in the risk weighted assets calculation.

##### **- Pillar II - The Supervisory Review Process (SRP)**

The SRP provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputational risk and business risk and any external factors affecting the Company. Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

The purpose of the ICAAP is the alignment of three (3) parameters within the Company:

1. The Company's strategic plan;
2. The risks inherent in its strategic plan; and,

3. The capital needs for the implementation of its strategic plan based on the risks born.

In other words, the Company must have adequate capital in order to be able to cover all the risks (actual and potential) inherent in its strategic plan. Put it simply, the Company’s Regulatory Own Funds (i.e. Total Eligible Funds), as defined within the legal framework, must be equal or less to the Company’s Internal Capital (i.e. to the level of capital that the Company, after the application of its internal risk assessment process, considers as adequate for the coverage of all the risks, both Pillar I and II, that is, or could be, exposed to).

In accordance with the requirements of Pillar II, the Company determines the level of capital required in order to cover itself for actual and potential risks (i.e. it determines its Internal Capital Requirements by estimating the level of capital that is considered adequately sufficient to cover the Company’s exposures to Pillar I and Pillar II risks). Upon demand from CySEC, the results of the ICAAP, including the composition of additional own funds requirements based on the supervisory review process, have to be included in the Disclosures.

**- Pillar III - Market Discipline**

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of the minimum capital requirements based on audited figures, together with concise information as to the composition of original own funds. In addition, as aforementioned, the results and conclusions of the ICAAP are disclosed upon demand from the competent authority.

This is the risk where the Company does not comply with capital adequacy requirements (as stipulated in the CRR) or may not be able to continue as a going concern. The primary objective of the Company with respect to capital management is to ensure that the Company complies with the minimum capital requirements stipulated in the CRR (under Pillar I) in regards to the minimum Common Equity Tier 1 (CET1) ratio (being 4.5% of risk weighted assets, plus applicable capital buffers discussed in Section 5.1.4.), Tier 1 (T1) ratio (6% plus applicable capital buffers), Tier 1 and Tier 2 (Total) ratio (8% plus applicable capital buffers). Additionally, recall that the Company’s eligible own funds shall at all times exceed the EUR 730K minimum initial capital requirement as specified under the Article 28 (2) of the CRD.

The Senior Management as well as the Risk Manager monitor such reporting 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 undertakes the following measures to prevent the capital adequacy ratio from falling below the regulatory ratio:

- the Company has set limits for DOA trading, discussed and approved by the Investment Committee. The aforementioned limits are consistently being reviewed and adjusted when needed. Any positions and deals taken are checked and verified on a pre-trading basis to meet the limits; and
- the Company has implemented a position monitoring procedure.

During the period under review, the Company’s Own Funds remained above the minimum initial capital requirement and capital ratios over the four quarters of 2019. The Company’s total capital instruments (paid-up equity capital) as at 31.12.2019 amounted to EUR 1,000,000, while the Company’s eligible own funds for solvency purposes (CET1) amounted to EUR 17,292,000.

**5. MINIMUM CAPITAL REQUIREMENTS**

Type of risk	December 31, 2019	
	Risk Weighted Assets (RWAs):	Minimum Capital Requirement

	EUR '000	EUR '000
Credit Risk	2,797	224
<i>of which institutions</i>	769	62
<i>of which corporates</i>	1495	119
<i>of which retail</i>	176	14
<i>of which other</i>	357	29
Market Risk	25,708	2,056
<i>of which foreign exchange market risk</i>	17,753	1,420
<i>of which traded debt instruments market risk</i>	7,726	618
<i>of which equity market risk</i>	230	18
Operational Risk	10,287	823
<b>Total</b>	<b>38,793</b>	<b>3,103</b>
<b>Capital Adequacy Ratio</b>	<b>44.58%</b>	

## 6. ANALYSIS OF RISKS

### 6.1. Credit and Counterparty Credit Risk

Credit risk, as defined in the IOM, is the risk to current or prospective risk to earning and capital arising from an obligor's failure to meet the terms of a contract with the Company. The counterparty risk is the risk to each party of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk is a risk to both parties and should be considered when evaluating a contract.

Credit risk capital requirements are calculated by the Standardized Approach as specified in the CRR. Additionally, note that the Company categorizes the assets in respect to their exposure class and uses the Credit Quality Step methodology to determine its respective Risk Weights ("RWs"). Note that the Company's available capital as at 31.12.2019 consisted solely of CET 1 capital, calculated after relevant deductions.

It is pointed out that the Company's credit risk mainly arises from the Company's: (i) deposits in financial institutions; (ii) exposures to brokers and other corporates; (iii) exposure to derivative contracts; and (iv) exposure to REPOs.

The Company considers that there is limited counterparty credit risk deriving from trading operations since the vast majority of transactions are executed on a Delivery Versus Payment (DVP) basis, thus eliminating any settlement Counterparty Risk.

The Company uses the Standardizes Approach for measuring Credit Risk. In particular, the Company's exposure to credit risk represents 7.2% of the total RWAs as at 31.12.2019.

Asset Class	December 31, 2019	
	Risk Weighted Assets (RWAs):	Minimum Capital Requirement
	EUR '000	EUR '000
Institutions	769	62
Corporates	1495	119
Retail	176	14
Other	357	29
<b>TOTAL</b>	<b>2,797</b>	<b>224</b>

#### 6.1.1. Limits to large exposure

Limits to large exposures are calculated in accordance with the CRR and CySEC's Directive DI144-2007-06 of 2012. According to the regulatory definition, 'large exposure' means the exposure of an Investment Firm to a person or a group of connected persons where its value is equal to or exceeds 10% of the Company's eligible own funds. Types of exposures for which regulatory limits apply are: (i) institutions (i.e. credit institutions and investment firms); (ii) non-financial institutions (i.e. corporate or business entities, physical persons); and (iii) sovereigns.

In general, the Company shall comply with the Large Exposure limits laid down below:

- A CIF shall not incur an exposure, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403 of the CRR, to a client or a group of connected clients (which are not institutions), that exceeds 25% of the Company's eligible own funds.
- Where the aforementioned client is an institution, or where a group of companies of connected clients include one or more institutions, the value of the exposure shall not exceed 25% of the Company's eligible own funds or EUR 150m, whichever the higher.
- Where the amount of EUR 150m exceeds the 25% of the Company's eligible own funds, the value of the exposure shall not exceed a reasonable and determined limit by the Company of its eligible own funds. That limit shall not be higher than 100% of the Company's eligible own funds. Separately, note that the term institutions mean credit institutions, investment firms and insurance companies based in the EEA. Where the amount of EUR 150m is applicable, the European Commission may allow on a case-by-case basis the 100% limit in terms of the Company's eligible own funds to be exceeded.

#### ***6.1.2. Exposures to Directors***

As specified in the CRR/CRD, given its licensing information (offering dealing on own account services), the Company is obliged to report to CySEC all exposures to its Directors and their connected persons. For future references, under the terms of the CRR, a CIF is generally not allowed to grant any director any exposure unless the transaction was approved by a resolution of its Board carried by a majority of 2/3 of its directors that participated in the meeting and the director concerned was not present during the discussion of this subject by the Board and did not vote on the resolution.

#### **Limitations on exposures to directors**

Note that under the provisions of the EU CRD/CRR, the total value of exposures in respect to all of its directors together shall not exceed at any time the 10% of the Company's eligible capital. At the same time, the total value of any unsecured exposures, which are granted to all the directors of the Company together shall not exceed at any time 1% of its eligible capital. Finally, it is pointed out that the total value of exposures to any director should not, at any time, exceed the amount of EUR 500K.

The Company had no exposures to Directors so no limit excess occurred.

#### ***6.1.3. Exposures to shareholders***

As specified in the CRR/CRD, given its licensing information (offering dealing on own account services), the Company is obliged to report to CySEC all exposures to its Shareholders and their connected persons.

#### **Limitations on exposures of shareholders**

Note that under the terms of the CRR, a CIF is generally not allowed to grant to all the shareholders of the CIF, that are not an institution, holding directly or indirectly more than 10% of the share capital of the CIF's exposures that in total exceed 20% of the CIF's eligible capital. At the same time, the total value of any unsecured exposures, which are granted to the Company's shareholders should not exceed at any time 2% of its eligible capital.

The Company had no exposures to Shareholders so no limit excess occurred.

#### ***6.1.4. Geographical distribution of exposures.***

In accordance to the CRD/CRR, the Company must report to CySEC the geographical distribution of its exposures, broken down in significant areas by material exposure classes, and further detailed if required. The geographical exposures form (COREP Form 144-14-09) shall be reported only if non-domestic original exposures in all 'non-domestic' countries in all exposure classes are equal to or higher than 10% of total domestic and non-domestic original exposures (as referred to Article 5(4)(1) of Regulation (EU) No 680/2014).

The Company as at end-December 2019, was mainly exposed to domestic exposures: Cyprus (mainly through links related to brokers, and non-domestic exposures, including: (i) Russia (mainly through links



connected to Russian banks and brokers); and (ii) the UK (through links connected to UK-based banks and brokers). Non-domestic exposures represented approximately 36.7% of the Company's total exposures, as of end-December 2019.

The table below represented geographical exposures (domestic vs. non-domestic) as of December 31, 2019 (EUR '000):

Country	31.12.2019	
	Original exposure	RWAs
Domestic exposures	3,224	1,242
Non-domestic exposures	1,868	1,555
<b>Total</b>	<b>5,092</b>	<b>2,797</b>
<b>% of non-domestic / total exposures</b>	<b>36.68%</b>	

The table below represented geographical breakdown of exposures for the calculation of CCyB buffer as of December 31, 2019 (EUR '000):

Country	Original exposure	RWAs	% of RWAs	CCyB <sup>1</sup>	CCyB*(% of RWAs)
Cyprus	3,224	1242	44.4%	0.00%	0.00%
BVI	46	46	1.64%	0.00%	0.00%
Luxembourg	4	4	0.14	0.00%	0.00%
Austria	7	1.4	0.05%	0.00%	0.00%
Russia	1,471	1418	50.7%	0.00%	0.00%
Germany	3.6	3.6	0.12%	n/a	n/a
France	0.7	0.14	0%	0.00%	0.00%
UK	168	38	1.36%	1.00%	0.04%
USA	160	36	1.29%	0.00%	0.00%
Beliz	5.9	5.9	0.21%	0.00%	0.00%
Ireland	1.5	1.5	0.05%	0.00%	0.00%
	<b>5,092</b>	<b>2,797</b>	<b>CCyB additional buffer<sup>1</sup></b>		<b>0.00%</b>
			<b>CCB buffer</b>		<b>2.5%</b>
			<b>Pillar I capital requirement</b>		<b>8.00%</b>
			<b>Total Pillar I capital requirement plus additional buffers</b>		<b>10.5%</b>

#### 6.1.5. Counterparty Limits

Large exposure limits to counterparty are in line with the EU CRR and CRD requirement as described in section 6.1.1. Such limits of large exposures are reported by the Risk Manager to the General Manager, the Board and CySEC. In case of violation with the aforementioned limits, corrective actions must be taken to maintain exposures within regulatory limits; such measures include taking on eligible letters of guarantee or other financial collateral (e.g. converting a Money Market placement to a reverse repo or cash) or mitigating the exposure.

Other than the regulatory limits on large exposures (Section 6.1.1) whose values are pre-set; other types of counterparty limits may be internally set (i.e. determined by the Company itself for its own benefit). As a result, the Risk Manager identifies the acceptable risk level for existing and new counterparties taking into account the prospect of co-operation with counterparty banks and brokerage houses, their credit quality, their license type (if regulated), their jurisdiction, and other risk factors including positive or negative recent developments around their organization and country of location/operation. The Risk Manager shall make a proposal to the Investment Committee with the limit amount and limit duration.

Limit duration should be set at least for 6 months to avoid repeated proposals in shorter intervals (with additional administrative workloads, delays, etc.).

For the renewal of existing limits, the Risk Manager shall revert with proposals at least one month prior to the expiration of the validity period; these proposals should include the following information:

- the existing approved limit amount and other restrictions;
- the usage of the said limit amount; and
- when available and if applicable, the reciprocal limits which the same counterparties have in favor of the Company.

## **6.2. Market Risk**

Market risk is considered the Company's most material risk and is managed in accordance with the Company's comprehensive risk management control framework and appetite. Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices and rates including equity and commodity prices as well as interest and foreign exchange rates. The Company is primarily exposed to the below sub-categories of market risk:

- Foreign exchange (FX) risk: the possibility for economic loss arising from movements in currency exchange rates, their volatilities or correlations. FX fluctuations may affect the Company's assets or liabilities denominated in foreign currencies as well as from positions held during forex trading.
- Interest rate risk: the possibility of economic loss arising from the change of interest rates, their volatility or correlation, including changes to the shape of interest rate curves.
- Commodities risk: the possibility of economic loss arising from uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. These commodities may be oil, metals, gas, electricity etc.
- Financial security market fluctuations or position risk: the possibility of economic loss arising from positions being traded on the Company's platform.

The following limits have been set up by the Company (included in its Risk Management Practices Manual) with the scope of proactively managing its risk exposures:

### **Setting of Client Limits**

The Company has recently amended its Risk Management Practices that need to be followed in order to ensure effectiveness of the Risk Management in the Company. The basic monitoring procedure of client limits consists of the following steps:

- 1) Based on the analysis of the Customer reports identify the Customers with Account Termination value close to 20% of the Net Asset Position;
- 2) Based on the Customer Report, identify the market risk factors in the financial instruments held by the customer;
- 3) Group customer financial instruments by the market risk factor categories: FX (for currency pair customer trading), Interest Rates (for Bonds, T-Bills, other Fixed Income customer trading), Equity (for equity stock customer trading), Commodity (for gold, oil and other commodity customer trading) etc;
- 4) For each market risk factor category gather the corresponding historical closing-day market prices, minimum time span two years or 500 data points starting from the present and going backwards;
- 5) Compute the daily returns for each price series, and then estimate the corresponding daily volatility;

- 6) Estimate the daily volatility of each market risk factor category by accounting for any correlation effects within that category, OR adopt a rather more conservative view and assume always that pair-wise correlations are perfectly positive;
- 7) Calculate the market Value-at-Risk (VaR) for each market risk factor category. The market VaR is calculated at 99% confidence level with 10-day holding period, and represents the maximum possible loss to customer holdings given the selected confidence level and holding period;
- 8) Deduct the calculated VaR from the customer corresponding holdings. That is, the calculated FX VaR is deducted from the Total Position, the calculated Interest Rate VaR is deducted from the Bonds total market value, the calculated Equity VaR is deducted from the Equity total market value, the calculated Commodity VaR is deducted from the Commodities total market value;
- 9) Recalculate Customer Net Position after the deduction of 10-day VaR values;
- 10) The Recalculated Customer Net Position represents a warning trigger and an action trigger as follows:
  - a. WARNING TRIGGER: if the revised customer Net Position value after deducting the 10-day VaR becomes zero then a warning is triggered by Omega to customer requesting customer to close some positions or top up trading account within 10 working days from warning issue; and
  - b. ACTION TRIGGER: if the revised customer Net Position value after deducting the 1-day VaR becomes zero then Omega closes customer positions and suspends trading for that customer.

With regards to the monitoring of Brokerage customer positions, the warning and action limit triggers proposed in point 1 (“Setting of Client Limits”) above, apply. However, the Risk Manager may wish to introduce additional day-time limits allowing selected customers to place orders even when their net position is near zero or negative (based on the previous day close of business value). In such cases, the Company can use day-time limits representing the maximum credit amount and the maximum duration such credit should be available to selected customers.

### **Position Limits**

The Company considers that the establishment of effective market limits is the key element for market risk management and control. Such limits may refer to: (i) end-of-day foreign exchange position; (ii) end-of-day fixed income position; and (iii) end-of-day equity position. To that end, it has set in place a framework defining the type and the level of risks that the Company is willing to accept with regards to its business.

In the case of a limit excess, the Risk Manager is responsible to confirm immediately the excess and ensure the performance of the actions to bring actual positions back into limits by placing respective close-out orders to the Head of DOA. On each case of limits breach, the Risk Manager has to issue and submit a Market Limit Excess Note to the General Manager and the Board.

#### **6.2.1. Foreign Exchange (FX) Risk**

Foreign exchange risk is the effect that adverse exchange rate changes might have, on the Company’s ability to meet its obligations and generally carry on its operations without problems.

The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, as discussed above.

During 2019, the Company was mainly exposed to the fluctuation of the United States Dollar (USD), Swiss Franc (CHF), Japanese Yen (JPY), Russian Rubble (RUB), Pound Sterling (GBP) and Australian Dollar (AUD) versus the Euro. Exposures to USD and RUB are mainly related to the Company’s main portfolio which includes Eurobonds nominated in USD and the Company’s biggest part of revenues are in USD, as well as RUB whereas the reporting currency is the Euro. Given the unstable situation throughout Eurozone, the management of the Company does not feel that at this point there is a need to convert and/or keep its reserves in Euro to reduce FX risk further.

Pillar III Disclosures 2019

FX risk capital requirements are calculated by the Standardized Approach as specified in the CRR, provided that the aggregate net open FX position exceeds the 2% of own funds. The capital requirement with regards to market risk as of 31.12.2019 can be found on the below tables, whereas the capital requirement as at 31.12.2019 is EUR 1,420,000.

The tables below represented Market Risk Standard approach for FX Risk as at December 31, 2019

EUR '000	31.12.2019						
<b>Memorandum Items:</b> <b>CURRENCY POSITIONS</b>	All positions		Net Positions				
	LONG	SHORT	LONG	SHORT			
<b>Euro</b>	4,593	2,739	1,854	0			
<b>Canadian Dollar</b>	17	0	17	0			
<b>GBP</b>	490	1,237		747			
<b>Yen</b>	295	13	282	0			
<b>RUB</b>	5,528	1,322	4,206	0			
<b>Swiss Franc</b>	265	0	265	0			
<b>US Dollar</b>	15,427	2,443	12,984	0			
	All positions		Net Positions		Total exposure amount	risk	Minimum Own Funds Requirement (8%)
	LONG	SHORT	LONG	SHORT			
<b>Total positions in non-reporting currencies (in Euro)</b>	11,188	5,311	17,753	0	17,753		1,420

**6.2.2. Interest Rate Risk**

Interest rate risk is the risk that the value of financial instruments (including currencies) will fluctuate due to changes in the market interest rates. The Company is exposed to interest rate risk in relation to its bank deposits.

During the period under review, the Company other than cash at bank, which attracts interest at normal commercial rates, had the investments in Eurobonds (fixed income market instruments) in the amount of EUR 5.26m. The aforementioned investments are not affected by such market fluctuations since the rates involved are fixed. None-the-less, the Risk Manager monitors the interest rate fluctuations with the assistance of the accounting function and based on the fluctuations of the relevant rates, the necessary hedging activities will be undertaken, if applicable. The Company's capital requirement for position risk in debt instruments, stood at EUR 618,000 as at 31.12.2019.

The table below represented Position risk in traded debt instruments as of December 31, 2019

EUR '000	31.12.2019
	<b>Own Funds Requirement</b>
<b>General Risk</b>	99
<b>Specific Risk</b>	519
<b>Total Own Funds Requirement</b>	<b>618</b>
<b>Total RWAs</b>	<b>7,726</b>

The table below represented Position Risk in equities as of December 31, 2019

EUR '000	31.12.2019
<b>Equities in trading book</b>	<b>Own Funds Requirement</b>
General Risk	9

Specific Risk	9
<b>Total Own Funds Requirement</b>	<b>18</b>
<b>Total RWAs</b>	<b>230</b>

### 6.3. Operational Risk

Under the CRD/CRR Basic Indicator Approach the capital requirements for operational risk stays equal to 15% of the average Gross Income over the last 3 years; where Gross Income is defined as the sum of net interest income, net fee and commissions income, income from shares and other variable/fixed-yield securities within the trading book of the company, net profit/loss on financial operations and other operating income.

Examples of operational risks that the Company could be exposed to are outlined below:

- **Internal Fraud:** losses due to acts of a type intended to defraud, misappropriate property or circumvent regulation, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party. Based on the procedures and daily reconciliations performed on any transaction involving Funds or Securities belonging either to the Company or its customers we consider such risk to be low.
- **External Fraud:** losses due to acts of a type intended to defraud, misappropriate property or circumvent regulation, the law, by a third party (theft, hacking damage, etc.). Certain controls and procedures safeguard that the Company minimizes the possibility of external theft/fraud. Hacking possibility (cyber-crime) is limited to accessing electronic data rather than performing financial fraud. The Company has bought a new Cyber security insurance policy, to mitigate the risk of losses resulting from intentional and/or unintentional leak of information, personal data etc. All internet banking access is safeguarded through tokens and strict log in protocols. We consider the external fraud risk to be low to medium.
- **Clients, Products and Business Practice:** losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including appropriateness and suitability requirements), or from the nature or design of a product. The Company only accepts and deals with Professional customers with a high understanding of the market prevailing rules and conditions. In addition, the Company's obligation to protect them is limited (due to their Professional classification). All new products that the company had traded during the reporting year (especially by DoA department) were subjected to analysis, as well as limits were set on all trading operations with new products. Due to the factors above and based on the historical evidence kept in our records (whereas the Company has never failed to meet its obligations towards its customers) we consider such risk to be low. Any upgrade of such risk to medium would only be considered due to an acute increase of clients' operations or new instruments.
- **Execution, delivery and process management:** losses from failed transaction processing or process management, in relation to trading counterparties (miscommunication, wrong data entry/handling, delivery failures, negligent loss of client assets, etc). The Company uses Euroclear to settle all OTC trades on a DVP basis. Such procedure and the operating rules of Euroclear reduce risks to the minimum. There is always a risk though, that the Company cannot timely meet its obligations towards another Counterparty/Client if in a chain of back-to-back trades, one of the Counterparties fails to timely deliver/settle its obligations against Omega Funds Investment Ltd. In that case, the Company will probably not be able to timely deliver/settle its obligations towards the rest of the Counterparties/Clients. Such cases are rare and we consider the risks emanating from such cases low to medium.
- **Employment Practices and Workplace Safety:** losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination event diversity. The nature of the Company's operations and the fact that they are performed in a controlled environment (office premises) as well as the Company's high compliance with employment requirements bring such risk to a low level.
- **Damage to Physical Assets:** losses arising from loss or damage to physical assets from natural disaster or other events (terrorism, vandalism). We consider such risk for the Company as low.

- Business Disruption and system failures: losses arising from disruption of business or system failures (hardware, software). All local PCs are working on UPS and dual servers are located in a remote location outside Cyprus. Daily back-ups are created and stored both on the remote locations as well as locally. Two internet service providers are engaged providing the Company with back-up internet channel in case of failure of the primary channel. The Company may still face system failures due to the services provided by external Service providers. The second factor may bring the risk from low to medium levels.

### **Managing Operational Risk**

The Company's exposure to operational risk is monitored through a number of functions, including business continuity management, legal/compliance, safeguarding of information, strong system of internal controls, disaster recovery plans as well as the establishment of a "four-eyes" structure and Board oversight.

Operational risk management forms part of the day-to-day responsibilities of management at all levels. Qualitative and quantitative procedures are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

The Company addresses important operational risks as described in the Sections 6.3.1 to 6.3.3 below:

#### **6.3.1. Compliance/AML Risk**

##### **1. Compliance Risk**

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, bylaws, regulations, prescribed practices, internal policies, and procedures, or ethical standards. This risk exposes the Company to financial loss, fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced Company value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as the monitoring controls applied by the Company.

During 2019, the Internal Auditor undertook an on-site internal audit inspection in order to assess the Company's compliance with the regulatory framework. Following the internal inspection, the Internal Auditor provided the Company with a list of recommendations for improvement in different compliance related areas.

The Company's aim is for the materialization of the Compliance risk to be minimized to the lowest possible level and, as such, the Company has reviewed and examined in detail the Internal Auditor's recommendations and shall take all necessary remedy measures/actions in order to fully comply with the regulatory framework. Furthermore, the Company's Compliance Officer examined the level of compliance in certain areas of the Company with the relevant legislation in light of any deficiencies identified during the year under review and proposed appropriate remedy measures/actions to be taken (when and where applicable) within specific timeframes.

##### **2. Money Laundering and Terrorist Financing Risk**

Money laundering and terrorist financing risk mainly refers to the risk that the Company may be used as a vehicle to launder money and/or finance terrorism. The Company has established policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks. Among others, these policies, procedures and controls include the following:

- the adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing risks faced by the Company;
- the adoption of adequate Client Due Diligence and Identification Procedures in line with the Clients' assessed Money Laundering and Terrorist Financing risk;

## Pillar III Disclosures 2019

- setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents from independent and reliable sources, third party information, documentary evidence);
- obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction;
- ensuring that the Company's personnel receive the appropriate training and assistance; and
- on-going monitoring of high-risk Clients' transactions and activities, as and if applicable.

The AMLCO's work during the year under review was concentrated on ensuring that the Company's policies and procedures in place, relating to the prevention and suppression of money laundering activities, were followed, communicated to the relevant personnel of the Company, as well as assessing the said policies and procedures in order to ensure compliance with the Law and the Directive, accordingly.

In this respect, the AMLCO's work has been mainly focused on the following areas:

- Compliance with new legislation, as applicable;
- Reviewing the performance of the Client due diligence procedures and obtaining appropriate identification documents and information from the potential Clients of the Company before the establishment of the business relationship with the Company;
- Reviewing the performance of due diligence procedures and documentation of existing Clients by obtaining necessary required documentation for the appropriate identification regarding the maintenance of their existing business relationship with the Company;
- Ensuring that the Company maintains the appropriate Client records;
- Monitoring and assessing the correct and effective implementation of the practices, measures, procedures and controls of the AML/CTF Manual;
- Monitoring Clients accounts and ensuring submission of the monthly statement regarding the prevention of money laundering and terrorist financing to CySEC;
- Monitoring of Client accounts for suspicious transactions;
- Ensuring that the Company's personnel receive the appropriate training and assistance accordingly; and
- Performing scheduled and non-scheduled inspections and reviews in order to determine the degree of compliance of the Company and the Company's personnel in relation to the implemented policies, practices, measures, procedures and controls applied for the prevention of money laundering and terrorist financing.

### **3. Outsourcing Risk Assessment (for third party services providers)**

The Company has set in place an outsourcing policy, which provides that it remains fully responsible for discharging its obligations under the Law, while the appropriate due skill, care and diligence is exercised when entering into, managing or terminating any arrangement for the outsourcing of critical or important operational functions or of any investment services or activities. Note that the Company currently outsources the Internal Audit function.

The current arrangements in place ensure that:

- Outsourcing does not result in the delegation by Senior Management of its responsibility;

- The relationship and obligation of the Company towards its clients is not altered;
- The conditions with which the Company must comply in order to be authorized are in accordance with the Law and are not undermined; and
- None of the other conditions subject to which the Company's authorization was granted is being removed or modified.

The Company monitors and assesses on a regular basis the level of standard of performance of the service provider. In addition, the Company identifies and manages the risks associated with the delegation/outsourcing. In addition, the Company establishes benchmarks against which the outsourcing firm will be measured. In case the Company becomes aware of the fact that the service provider is not carrying out the outsourced functions in accordance with the applicable regulatory requirements, then the agreement between the two parties is terminated. The Company has the right to terminate the outsourcing arrangement without affecting the continuity and quality of its provision of services.

The Company retains the necessary expertise to supervise the outsourced functions, services or activities effectively and manage the risks associated with the outsourcing and supervises those functions and manages those risks. The CIF is able to terminate the arrangement for outsourcing where necessary without detriment to the continuity and quality of its provision of services to clients.

4. It is also should be noted that the Company has in place the following policies which are updated in accordance to the regulations:

- Privacy Policy;
- Complaints Policy;
- EMIR Policy;
- Conflicts of Interest Policy;
- List of Financial Instruments and Associated Risks;
- MIFID Client Categorisation Policy;
- Best Execution Policy and Policy to act on Best Interest of the Client.

#### **6.3.2. IT/Data Security Risk**

Information Technology (hereinafter, "IT") risk is in respect of incidents that could arise as a result of inadequate information technology and processing, or an inadequate IT strategy and policy or inadequate use of the Company's IT. We note that during 2019, no such IT/data related incidents occurred.

#### **1. Business Continuity Policy ("BCP")**

The Company has established and adopted a Business Continuity Policy ("BCP") in order to ensure that in the case of an interruption to the Company's systems and procedures, essential data and functions will be preserved, and the timely recovery of such data and functions and the timely resumption of its investment services and activities will occur. The Policy shall be reviewed, updated and approved on a regular/on-going basis by the Board of Directors.

The objective of the BCP include, among other, the following:

- To ensure the safety of all Company employees throughout the emergency condition, disaster declaration, and recovery process.
- To re-establish the essential organisation related services provided by the Company within a reasonable timeframe.
- To suspend all non-essential activities until normal and full organisation functions have been restored.



- To mitigate the impact to Company’s Clients through the rapid implementation of effective recovery strategies.
- To reduce confusion and misinformation by providing a clearly defined command and control structure.
- To consider relocation of personnel and facilities as a recovery strategy of last resort (disaster recovery site).

## 2. IT Systems Safeguarding

The Company has set an in-house IT Department for the better monitoring of its current systems in place. The main responsibilities of the IT Department include, inter alia:

- review and discuss the Information Technology Policy and procedures with the Officer and General Manager;
- evaluate the adequacy and effectiveness of the Company’s Information Technology (IT) Policy and Information Security (IS) Matters;
- bear the responsibility to monitor the adequacy and effectiveness of the Information Technology policy and procedures that are in place, the level of compliance of the Information Technology by the Company and its relevant persons with the adopted policies and procedures;
- make recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified, as aforementioned;
- being responsible for the overall security of the physical computing infrastructure, the security of the encryption algorithms and communication protocols that run on the networks, the security of the operating systems and applications that are hosted on the system hardware, the security related to user privileges, the security of the information stored or transmitted in the system, the training of employees where required and applicable to preserve employee knowledge for both IT and IS matters.

### 6.3.3. Other Matters

The Company invests adequate human and financial resources for the training of its personnel, including the induction and training of Board members, in line with the provisions of Circular CI144-2014-23. To this end, the Company maintains records of: (i) Seminar attendance registers for in-house training; and (ii) CPD seminar certificates of its employees.

### 6.3.4. Operational Risk Capital Adequacy

The Company follows a proactive approach to operational risk management as described in the ten sub-sections above. We note that Pillar I operational risk capital requirement is calculated based on the CRR Basic Indicator Approach. In particular, Pillar I capital requirements for operational risk are equal to 15% of the average Gross Income over the last 3 years; where Gross Income is defined as the sum of net interest income, net fee and commissions income, income from shares and other variable/fixed-yield securities within the trading book of the company, net profit/loss on financial operations and other operating income.

The table below presents the exposure to operational risk as of December, 31 2019 and the total operational capital requirement needed under Pillar I:

	31.12.2019
	EUR '000
Gross Income as specified in CRR:	4,710
Last 3 years average (based on working-assumptions)	5,487
<b>Total Pillar I Operational Risk Capital required (15% of 3-year average Gross Income)</b>	<b>823</b>

<b>Total Own Funds</b>	<b>17,292</b>
<b>Total RWAs</b>	<b>10,287</b>

#### 6.4. Reputational Risk

Reputational 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.

The Company has policies and procedures in place when dealing with possible Client complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with Client complaints is very low as the Company does its best to provide high quality services to its Clients. The Company has never received any Client complaints.

Furthermore, in 2015 the Company was rated with a B2 from Moody's – a quite high rating for a Cyprus Investment Firm – admittedly bringing its reputation to even higher levels.

In addition to the above, it should also be noted that the Company's Board members and Senior Management comprise experienced professionals who are recognised in the industry for their integrity and ethos, and, as such, add value to the Company.

#### 7. LEVERAGE

The leverage ratio forms an important metric for companies to evaluate whether they can pay their debts off as they come due. In the CRR, leverage is defined as the relative size of an institution's assets, off-balance sheet obligations and contingent obligations to pay or to deliver or to provide collateral, including obligations from received funding, made commitments, derivatives or repurchase agreements, but excluding obligations which can only be enforced during the liquidation of an institution, compared to that institution's own funds.

For this purpose, CySEC requires CIFs to submit the COREP leverage ratio form (Form 144-14-07) in order to address the abovementioned issue, which must at all times exceed the 3% of a CIF's eligible capital. Omega Funds Investment Ltd's actual leverage position exceeded the 3% threshold at all times during 2019.

<b>Reference date</b>	December 31, 2019
<b>Entity name</b>	Omega Funds Investment Limited
<b>Level of application</b>	Individual

**Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures**

		EUR '000
1	Total assets as per published financial statements	4,965
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(11) of Regulation (EU) No 575/2013)	-
4	Adjustments for derivative financial instruments	123
5	Adjustment for securities financing transactions (SFTs)	5

6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	-
7	Other adjustments	-
8	<b>Leverage ratio total exposure measure</b>	<b>5,093</b>

**Table LRCom: Leverage ratio common disclosure**

		CRR leverage ratio exposure EUR '000
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	4,965
2	(Asset amounts deducted in determining Tier 1 capital)	0
3	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>4,965</b>
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	<b>60</b>
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	63
EU-5A	Exposure determined under Original Exposure Method	-
11	<b>Total derivatives exposures (sum of lines 4 to 5a)</b>	<b>123</b>
<b>SFT exposure</b>		
EU-12a	SFT exposure according to Article 220 of Regulation (EU) NO. 575/2013	<b>5</b>
EU-12b	SFT exposure according to Article 222 of Regulation (EU) NO. 575/2013	-
16	<b>Total securities financing transaction exposures</b>	<b>5</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	-
18	(Adjustments for conversion to credit equivalent amounts)	-
19	<b>Total off-balance sheet exposures (sum of lines 17 to 18)</b>	-
<b>Capital and total exposures</b>		
20	<b>Tier 1 capital</b>	<b>17,292</b>
EU-21a	Exposures of financial sector entities according to Article 429(4) 2nd subparagraph of Regulation (EU) NO. 575/2013	17,792
21	<b>Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-29a)</b>	<b>5,093</b>
<b>Leverage ratio</b>		
22	<b>Leverage ratio</b>	<b>339.59%</b>
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>		
EU-23	Choice on transitional arrangements for the definition of the capital measure	-
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

**Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

		CRR leverage ratio exposure EUR '000
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	4,965
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	

EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	-
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
EU-7	Institutions	2,882
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	235
EU-10	Corporate	1,490
EU-11	Exposures in default	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	358

## 8. REMUNERATION POLICY AND PRACTICES

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management and members of the Board of Directors; the said practices are established to ensure that the rewards for the 'executive management' are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels.

The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long term success.

The remuneration mechanisms employed are well known management and human resources tools that take into account the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives.

The Company's remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

It is noted that the Company has taken into account its size, internal organization and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee. Decisions on these matters are taken on a Board of Directors level while the remuneration policy is periodically reviewed.

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's rank in the Company and professional activity as well as market practice.

The two remuneration components are:

- fixed remuneration (including fixed supplements)
- other benefits

The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

With respect to the link between pay and performance, it goes without saying that the two variables are

## Pillar III Disclosures 2019

positively correlated. Depending on the nature of the work of each department and each employee, departmental and individual qualitative and/or quantitative performance measures and targets (relevant to the nature of the work) are pre-agreed and set at the beginning of each year. The basis for such pre-agreement is a feedback loop between officers (i.e. individual employees) and relevant heads/managers. Performance appraisal and evaluation takes place at the end of each year based on aforementioned qualitative and/or quantitative benchmarks. Such appraisal and performance evaluation guides future salary adjustments decided by the - senior management.

The Company decided not to provide any amounts breakdown by business area as it considers such kind of information proprietary and confidential.

The table below shows aggregate quantitative gross figures (for 2019) related to the remuneration of independent members of the Board and Senior Management (for the purpose of the Disclosures senior management is defined as key management personnel which includes all employees and executive directors of the Company).

Type	Number of Beneficiaries	Fixed Remuneration (Euro)	Variable Remuneration (Euro)	Total (Euro)
Key Management Personnel	16	1,031,787	Zero	1,031,787
Independent Directors	2	16,800	Zero	16,800