

GRANDIS SECURITIES LTD

Pillar III – Disclosures 2018

in accordance with Capital Requirements Regulation (EU) No.
575/2013

April 2019

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1. Introduction

1.1. Scope & purpose of this document

Following the implementation of the Part Eight of the Regulation (EU) No 575/2013 known as the Capital Requirements Regulation (“CRR” or “Regulation”), the Regulations (EU) 2015/1555 in relation to the compliance of institutions with the requirement for a countercyclical capital buffer and the Regulation 1423/2013 with regard to disclosure of own funds requirements and the European Banking Authority’s (“EBA”) final standards on revised Pillar III disclosures, EBA/GL/2016/11, - “Final Report on the Guidelines on Disclosure Requirements under Part Eight of Regulation (EU) No. 575/2013” (hereafter the “EBA Guidelines”) **Grandis Securities Ltd** ((hereafter referred to as “GSL” or “the Company”) has prepared the Pillar III disclosures report (the “Report”).

The information contained within these disclosures is presented for the purpose of explaining how risks are managed by the Company and to disclose the own funds requirements corresponding to these risks, in line with “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 disclosures have been reviewed by Senior Management. The disclosures have been verified by the Company’s external auditor.

Where the Disclosures do not convey the risk profile of the Company, the Company shall publicly disclose the information necessary in addition to that required in accordance with Article 431(1) of the Regulation. However, it shall only be required to disclose information which is material and not proprietary or confidential in accordance with Article 432 of the Regulation and the Pillar III Disclosures Policy.

These disclosures include, to a large extent, tables and disclosures required in line with the EBA/GL/2016/11, - which are now in force.

1.2. Principal Activities

Grandis Securities Ltd, is an Investment Firm, regulated by Cyprus Securities and Exchange Commission (“CySEC”) under license number 343/17 dated 13/11/2017, registered in Cyprus under registration number HE360960, and having its postal address at: 18 Kyriakou Matsi, Victory Tower, Office 301, Ayioi Omologites, CY-1082, Nicosia, Cyprus.

The principal activities of the Company are the provision of investment and ancillary services with regards to specific financial instruments as these are defined in the Company's operating license (<https://www.cysec.gov.cy/en-GB/entities/investment-firms/cypriot/46694/>).

As at 31 December 2018, the Company did not own any subsidiaries. These disclosures have therefore been prepared on a solo basis.

The Company does not foresee any material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities to its parent.

1.3. Frequency of Disclosures, requirements to publish

The Company is controlled by Grandis Holdings (Cayman) Ltd, incorporated in Cayman Islands, which owns 100% of the Company's shares.

These Pillar III disclosures are made on a solo basis and are published annually. This Report should be read in conjunction with the financial statements of the Company for the year ended 31 December 2018 which contain supplementary information relating to the requirements of the Directives.

The disclosure will be published on the Company's website: <http://grandissecurities.com.cy/pillar-iii-disclosures/>

All figures are stated in US Dollars. Figures are rounded to the nearest thousand except where otherwise stated. Figures in parenthesis, represent negative numbers.

The Company does not undertake any securitisation activity nor does it have any asset encumbrances.

1.4. Regulatory Framework

The information disclosed below is in accordance with the Regulation focusing on Part Eight "Disclosures by Institutions" and Part Ten, Title I "Transitional Provisions", as well as with the EBA Guidelines.

The Regulation describes the Basel II framework which is based on three pillars:

- Pillar I covers the standards that set out the minimum regulatory capital requirements that are required for credit, market and operational risk;
- Pillar II covers the Supervisory Review Process which assesses the internal capital adequacy processes. Investment firms and Supervisors have to evaluate and assess whether an Investment Firm should hold additional capital against risks not covered in Pillar I;
- Pillar III (Market discipline) covers transparency and the obligation of Investment Firms to disclose meaningful information to the market related to their risks, capital, and generally risk management.

1.5. Verification of Pillar III Disclosures

The Report is approved by the Board of Directors ("BoD") and also verified by the external Auditors of the Company.

2. Corporate Governance

2.1. The Board of Directors

The Board of Directors of the Company consists of five (5) members: Two (2) Executive Directors, One (1) Non-Executive Director and two (2) Non-Executive and Independent Directors, headed by the Chairman. The Board is the management body of the Company and it essentially exercises substantial control over the Company's activities and affairs.

The non-executive directors are persons of reputation, experienced and well known in the business community for their skills and abilities, who can assist the company to achieve its goals.

The Chairman of the Board is primarily responsible for leading the Board and ensuring its effectiveness. He is responsible for setting the BOD's agenda and ensuring the Directors receive information in an accurate, clear and timely manner. He will be responsible for promoting effective decision-making, ensuring the performance of the BOD.

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

- ✓ Formulate the Company's strategy in terms of the development of existing and new services and the Company's presence in the local and international financial markets. Such changes in the strategy are ratified only by a Board Resolution.
- ✓ Govern the Company by broad policies and objectives, formulated and agreed upon by the General Manager, the employees and several committees that report to the Board.
- ✓ Ensure that sufficient resources are available to the Company to carry out its operations.
- ✓ Supervise and control of the Internal Audit Function, appointment, dismissal and remuneration of the Company's Internal Auditors, continual review of the extent and cost-effectiveness of the audit work performed, as well as the independence and objectivity of the Auditors.
- ✓ Supervise the outsourced and administration services provided to the Company.

- ✓ The BOD is responsible to ensure that the GSL complies with its obligations under the Law, all other applicable legislation, directives and regulations.

2.2. Number of Directorships held by members of the Board

The table below discloses the number of directorships held by members of the management body. Directorships in organisations which do not pursue predominantly commercial objectives, such as non-profit or charitable organisations, are not taken into account. Furthermore, executive and non-executive directorships held within the same group are considered as a single directorship.

Directorships within the same group are treated as single directorship, as specified in the CySEC Circular CI144-2014-23 and in the Investment Services and Activities and Regulated Markets Law of 2007 (Law 144(I)/2007) (“the Law”), as amended from time to time.

Table 1: Number of Directorships in Investment Companies held by members of the Board

Director	Capacity		Number of Executive Directorships	Number of Non-Executive Directorships
	Executive	Non-Executive		
Maria Petridou	v		-	-
Olga Nikolau	v		-	1
Maksim Volkov		v		1
Themis James Michael		v	-	-
Christos Patsalides		v	-	-

2.3. Recruitment Policy

Recruitment of the Board combines an assessment of both technical capability and competency skills.

Members of the Board possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board reflects an adequately broad range of experiences to be able to understand the Cyprus investment firm’s activities, including the main risks to ensure the sound and prudent management of the Company as well as sufficient knowledge, of the legal framework governing the operations a Cyprus investment firm.

2.4. Policy on Diversity regarding the selection of the Members of the Management Body

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense. It can include gender, age, ethnicity, religious or cultural background, disability, marital or family status, sexual orientation, gender identity and other areas of potential difference. GSL believes that our human capital is the most valuable asset we have.

2.5. Internal Audit

The Internal Audit function is currently outsourced to PricewaterhouseCoopers Limited ("PWC") under the terms of a relevant agreement.

The Internal Audit Function is independent and separate from other functions and activities of the Company, since it is outsourced to a third party. The internal audit function has the following responsibilities:

- To establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements.
- To issue recommendations based on the result of work carried out in accordance with the point above.
- To verify compliance with the recommendations provided.
- To report in relation to internal audit matters at least annually to the Company's BOD and Senior Management.

Then internal audit performed by PWC included testing, on a sample basis, of the procedures followed by the Company as well as of the compliance of the Company with the Cyprus Securities and Exchange Commission ("CySEC") Law 87(I)/2017 and regulations during the period under review.

2.6. Compliance Officer/ Anti-Money Laundering Compliance Officer

The Compliance and Anti-Money Laundering function is performed by the company's Compliance officer. Compliance function is responsible to ascertain compliance with the regulatory regime and to design and implement effective procedures for the prevention of the legalisation of illegal funds (Anti Money

Laundering – AML). Client adoption / Customer due diligence is the responsibility of Head of Compliance. The Head of Compliance is considered to be one of 4-eyes.

2.7. Reporting and control

The Board is regularly updated regarding the Company's business activities and operations. In addition, it receives reports on internal audit and annual compliance report on the prevention of money-laundering issues at least annually. On a quarterly basis it receives the Compliance and Risk management reports.

The following table represents the type and frequency of the reporting to the Board.

Table 2: Frequency of the Reporting to the Board of Directors

Subject	Responsibility	Place of Reporting	Frequency
Risk Management Report	Risk Manager	Board, CySEC	quarterly
Internal Audit Report	Internal Auditor	Board, CySEC	annually
Compliance Report	Compliance officer	Board, CySEC	quarterly
AML Compliance Report	Compliance officer	Board, CySEC	annually
Suitability Report	External Auditor	Board, CySEC	annually
Audited Financial Statements	External Auditor	Board, CySEC	annually
Pillar III Disclosures	Risk Manager	Board, CySEC	annually

3. Risk Management Framework

3.1. The Risk Management Function

The Risk Management department is an independent unit that reports directly to the board of directors. The Risk Manager ranks high in the hierarchy of the Company, reporting only to the general manager and the Board of Directors. Due to the size of the Company, it was deemed that no Risk Committee is required yet. The Board of Directors assumes the overall responsibilities for the risks of the Company. The board needs at all times to ensure that the structure of the Risk Management function is appropriate given the profile and size of the company.

1 member staffed the Risk Management department. There have been no changes during the period under review.

The roles and responsibilities of the Risk Management Function are described below:

- a) To establish, implement and maintain adequate risk management policies and procedures, which identify the risks relating to the firm's activities, processes and systems, and where appropriate, set the level of risk tolerated by the firm;
- b) To adopt effective arrangements, processes and mechanisms to manage the risks relating to the firm's activities, processes and systems, in light of that level of risk tolerance;
- c) To monitor the following:
 - The adequacy and effectiveness of the Investment Firm risk management policies and procedures;
 - The level of compliance by the Investment Firm and its relevant persons with the firm arrangements, processes and mechanisms adopted in accordance with the Firm's arrangements, processes and mechanisms as described in point b above;
 - The adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons to comply with such arrangements, processes and mechanisms, or follow such policies and procedures.

3.2. Risk Strategy

The Department is entrusted with the task of the determination, evaluation and efficient management of the risks inherent in the provision of the Services of the Company. The Risk Management Department will assess potential risks and evaluate their significance, the likelihood of their occurrence, and how these should be managed.

The Company's activities expose it to risks, which may adversely affect its profitability and strategic goals. The Company continuously manages its expectations towards risk and to achieve its business objectives without jeopardising its reputation.

The Company has established proper organisational measures by setting a risk management function and internal controls and systems.

The risk strategy of the Company is the responsibility of the Board of Directors and aims to provide to senior management and employees a general risk framework for managing the various risks that the Company might face.

3.3. Risk Appetite

The Risk Appetite reflects the maximum level of risk that the Company is prepared to accept in order to meet its business objectives. The Company defines its risk appetite as the amount and type of risks that are considered being acceptable for implementing its business strategy.

The Board of Directors is responsible for setting and updating the risk appetite and monitoring the Company's risk profile in order to ensure that it is aligned to its business strategy.

Risk Appetite is the aggregate level and types of risk the Company is willing to take to achieve its strategic objectives. It is the amount of risk that the Company is prepared to accept, tolerate, or be exposed to at any point in time. Organizations will have different risk appetites depending on their sector, culture and objectives. A range of appetites exists for different risks and these may change over time.

The Risk Appetite Statement includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity, reputational risks and regulatory compliance. It is set on an annual basis.

3.4. Risk Management Process

The Risk Management process is further explained in the steps shown below. The steps include:

1. Identify the risks – The Risk Management department is responsible for the identification of risks that might arise from the provision of the services of the Company. The identified risks will be documented within the risk registers the Company operates. The main procedures used to identify risks include questionnaires, stress tests, scenario analysis, and interviews with each department.
2. Risk Analysis – Risk analysis, includes further defining each risk identified in step 1, in order to understand it and control it better. It also includes, determining the cause of creation of each risk, the likelihood of occurrence and the impact it might have on the Company.
3. Action – Action includes, the risk treatment that the company will decide to follow for each type of risk occurred within. It includes measures followed by the company in order to mitigate and face the risks according to the risk appetite of the Company.
4. Monitoring and Reporting – Upon identification and treatment of the risks, the Company will continuously monitor and report the abovementioned risks to the Board of Directors. Creating a monitoring and reporting program of the identified risks will assist the company in performing this task.

4. Own Funds

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

The Company's regulatory capital base consists of Common Equity Tier 1 ("CET1"), which includes share capital, share premium, retained earnings, other reserves, and other comprehensive income ("OCI"). From CET1, the Company deducts its intangible assets and the Investors Compensation Fund contribution.

During the year under review, the Company's own funds never dropped below the minimum initial capital requirement (i.e. €125,000) and the Company fulfilled its obligations by successfully submitting, on a quarterly basis, the CRD IV CoRep Forms.

In this respect, the minimum Total Capital Adequacy Ratio (i.e. 8%) was maintained by the Company during the year 2018. The Company's Capital Adequacy Ratio as at 31 December 2018 was 42,07%.

Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information on own funds. Furthermore, institutions shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution. In this respect, the Company's Tier 1 capital is wholly comprised of Core Tier 1 Own Funds.

This disclosure has been prepared using the format set out in Annex IV of the 'Commission Implementing Regulation (EU) No 1423/2013', which lays down implementing technical standards with regards to disclosure of own funds requirements for institutions according to the CRR.

The following table provides a reconciliation between the balance sheet presented in the audited Financial Statements and the balance sheet prepared for prudential purposes. The own funds of the Company as at 31 December 2018 were US\$ 304.000.

Table below shows a breakdown of the own funds as at 31/12/2018.

Capital Base	At 31/12/2018 (in thousands of USD)
Common Equity Tier 1 Capital	
Share Capital	136
Share Premium	-
Other Reserves	738
Retained earnings	(217)
Audited income / (loss) for the year	(291)
Intangibles	(14)
Additional deductions due to the CRR	(49)
Total Common Equity Tier 1 Capital (CET1)	304
Additional Tier 1 (AT1)	-
Total Tier 1 (T1 = CET1+AT1)	304
Tier 2	-
Total Eligible Capital (=T1+T2)	304

Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

In order to meet the requirements for disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, the company discloses the capital instruments' main features as outlined below:

The Company's capital resources consist of CET1 Capital. No additional Tier 1 or Tier 2 available.

The Firm follows the Standardized Approach for the measurement of its Pillar 1 capital requirements for Credit and Market Risk. and the Basic Indicator Approach for Operational Risk. Due to the limited authorization of the Company, the Company falls under Article 95(1) of CRR and therefore the calculation of the capital requirements for operational risk is based on the fixed overheads of the preceding financial year.

The capital requirement calculated for each category of risk as at 31 December 2018 is shown in the table below.

During the year 2018, the Market Risk was only comprised by FX Risk.

Table 4: Minimum Capital Requirements by Risk Category

Risk Category	Minimum regulatory capital requirement at 31/12/2018 (\$000)	RWA at 31/12/2018 (\$000)
Credit Risk	12	149
Credit Valuation Adjustment Risk	-	-
Market Risk	29	366
Additional risk exposure amount due to Fixed Overheads	17	207
Total	58	722

5. Credit Risk

Credit risk is the risk that arises when counterparty fails to meet its obligations. Specifically, counterparty credit risk is the risk that the counterparty in a transaction will fail to meet its obligations prior to the final settlement of the cash flows to a transaction. A failure to perform the obligation may be due to counterparty default, operational breakdown and other various reasons. The Company faces the following:

- Banking Counterparty Risk – The risk arises from deposit accounts from retail banks;
- Settlement risk – the risk of loss of funds/securities delivered to the client in case of client/counterparty default;
- Pre-settlement risk – the risk arising in case of a counterparty default and is the risk of losses due to substitution of contracts with the client at current market prices.

The Company manages credit risk in the following ways:

- Establishing relations with reputable counterparties;
- Maintaining and applying a Counterparty Evaluation Policy;
- Maintaining policies that limit large exposures to any particular counterparty including financial institutions.

The Company maintains regular oversight and monitoring of the counterparties by conducting reviews at the outset of establishing the relationship with them. This includes reviewing aspects such as quality of Balance Sheet (i.e. Net Position); jurisdiction of establishment of the counterparty; reviewing of Legal and Statutory Information (KYC); regulatory authority; Credit Rating; adequacy of Regulatory Capital (Pillar III); reputation and Years of Experience; company Status i.e. Public

Interest Entity (PIE) or not; assessment of AML measures (whether the counterparty adheres to AML measures at EU level or equivalent).

The Company maintains an excel spreadsheet on which it assess the exposure to counterparty risk.

The Company shall hold funds in accounts with large reputable Russian, Cyprus and other international banks and other financial institutions. Only banks and financial institutions of a high credit quality are qualified to hold the Company's funds. The quality rating is based on the Counterparty Evaluation Tool.

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

Table below represents the allocation of credit risk in accordance with the Standardized Approach exposure classes.

Table 5: Exposure Classes and Minimum Capital Requirements

Exposure class	Original Exposure as of 31/12/2018 (\$000)	Risk Weighted Assets (\$000)	Minimum Capital Requirements (\$000)
Institutions	251	54	4
Corporates	72	72	6
Retail	1	1	0.08
Other	22	22	2
Total	346	149	12

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

The Company uses credit rating of the following rating agencies, all of which are recognised as eligible ECAIs: Fitch Ratings, Standard & Poors Rating Services and Moody's Investors Service. It applies the following general requirements as laid down in the Article 138 CRR when uses ECAI for determining the risk weights:

- Where only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the risk weight for that item;
- Where two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned;
- Where more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the

higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.

In case a financial institution is not rated, management assesses the information available in relation to the creditworthiness and financial strength of the institution (based on the requested and publicly available information), as well as whether the institution is regulated in the country of incorporation.

Assignment of risk weights is based on the provisions of Chapter 2 Title II of CRR and in certain cases when credit ratings are not available for the particular expose, sovereign ratings or rating of central government of the relevant country to which the exposure relates to are used instead (based on the provisions of CRR).

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

Table 6: Credit Quality Steps Mapping Table

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

A breakdown of the Company's exposures by Credit Quality Step (CQS) is presented below:

Table 7: Breakdown by CQS by counterparty

Exposures at 31 December 2018	Exposure Value before Credit risk mitigation (\$000)	Exposure Value after Credit risk mitigation (\$000)
Credit Quality Step		
3	250	53
4	-	-
5	-	-
Unrated/Not applicable	96	96
Total	346	149

Average Exposure

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

Table 8: Average Exposure in 2018

Exposure Class	Original exposure amount, net of specific provisions (\$'000)	Average Exposure (\$'000)
Institutions	251	84
Corporates	72	72
Retail	1	1
Other Items	22	22
Total	346	179

Residual Maturity of Credit Risk Exposures

Table 9: Exposure Classes and Residual Maturity

Exposures at 31/12/ 2018	Maturity ≤ 3 months (\$'000)	Maturity > 3 months (\$'000)	Total (\$'000)
Exposure Class			
Institutions	-	251	251
Corporates	-	72	72
Retail	-	1	1
Other Items	-	22	22
Total	-	346	346

Geographic Distribution of Credit Risk Exposures

Table 10: Exposure Class by Country

Exposures at 31/12/2018	Cyprus (\$'000)	USA (\$'000)	Total (\$'000)
Exposure Class			
Institutions	241	10	251
Corporates	72	-	72
Retail	1	-	1
Other Items	22	-	22
Total	336	10	346

Industry of Credit Risk Exposures

Table 11: Exposure Classes by Industry

Exposures at 31/12/2018	Financial (\$'000)	NON-Financial (\$'000)	Total (\$'000)
Exposure Class			
Institutions	251		251
Corporates	72		72
Retail		1	1
Other Items		22	22
Total	323	23	346

Impairment of assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

As at the end of December 2018, the Company didn't have any past due exposures.

6. Market Risk

Market risk is the risk that the value of an investment or a transaction will decrease due to changes in market factors. Changes in market factors include: changes in currency exchange rates, interest rates etc.

Specifically, Foreign Exchange Risk includes the financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the Company. Such exposures include, deposits with banks, with payment institutions etc. this affects the value of the Company's balance sheet.

The Company's main source of market risk came from the abovementioned currency risk.

The Company uses the Standardized Method to measure capital requirements for market risk.

Management continuously monitors and acts accordingly to foreign exchange rate fluctuations.

7. Operational Risk

Involves the risk that might lead to a disruption in the operation or failed processes within the Company. The main operational risks that the company suffers from are further explained below.

- Information Systems Risk

It includes the risk that might cause the company's systems i.e. servers and platforms to malfunction. No risks identified.

- Accounting and Data Processing Risk

Involves the risk that might be arisen from failed process in the Accounting department of the company.

- Fraud Risk

It includes fraudulent activities from clients and other counterparties against the Company in order to gain unlawfully profits. It can be of two types i.e. Internal Fraud and External Fraud. Internal fraud includes cases that their source is within the Company i.e. misuse of assets, tax frauds and many more. External fraud includes fraud that its source is external of the company i.e. external theft of information.

- Outsourcing risk

The risk of inappropriate third party selection and management, and failure to adequately monitor third parties' performance and financial viability, leading to the deterioration of product or service quality and additional charges.

- Reputational Risk

It is the risk that might cause a reputational impact on the name of the Company. Such cases involves fines, bad company reputation etc.

- Compliance Risk

It includes the risk that might cause a Company to receive a fine or even a lapse in its operational activities due to not effectively following the legislative framework.

- Management and further suggestions

The Company manages operational risk in the following ways:

- ✓ Applies the “four-eyes” principle within the Company.
- ✓ Established an Internal Audit Function.
- ✓ Operates an IT infrastructure policy and Business Continuity Plan.
- ✓ The Company has in-house compliance department that is responsible for the Company’s compliance with the applicable regulations.
- ✓ The Compliance department maintains policies and procedures that assist the Company to be compliant. The Internal Audit department of the Company also assesses these policies.
- ✓ Regular internal audits are performed.

Due to the limited authorization of the Company, the Company falls under Article 95(1) of CRR and therefore the calculation of the capital requirements for operational risk is based on the fixed overheads of the preceding financial year. Under this method, the Company calculates its total Risk Weighted Assets as the higher of the following:

- The sum of Risk Weighted Assets for Credit and Market risk
- Operational Risk Weighted Assets based on the preceding year’s fixed overheads.

8. Liquidity Risk

Liquidity risk is the risk that the Company faces when, either it does not maintain sufficient financial resources to be able to meet its current and prospective liabilities as they fall due or will only be able to secure such resources while incurring excessive cost. There are two types of Liquidity risks that the company faces, these are:

Funding liquidity risk: the risk that the Company will not be able to meet its obligations associated with financial liabilities;

Market liquidity risk: the liquidity risk in trade operations that can emerge through lack of opportunities to liquidate positions on a market.

The risk management techniques used for liquidity and funding risk include:

- The Company keeps a cash amount as buffer in its account;
- The Company monitors continuously its liquidity through the current ratio.

9. Internal Capital Adequacy Assessment Process

Cypriot Investment Firms shall have in place sound, effective and complete strategies and processes to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed.

In this respect, GSL has adopted the relevant guidelines issued by CySEC. These strategies and processes shall be subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the Company.

As a result of the above mentioned requirements, GSL has in place an Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP is an internal tool which allows GSL to assess its position and determine the amount of internal capital it needs to hold in order to be covered against all the risks it is facing, as well as those to which it may be exposed in the future.

The ICAAP falls under the scope of Pillar 2, which can be described as a set of relationships between the CySEC and the investment firm, with the objective to enhance the link between the investment firm's risk profile, its risk management and risk mitigation systems, and its capital. Pillar 2 establishes a process of prudential interaction that complements and strengthens Pillar 1 by promoting an active dialogue between the regulator and the investment firm such that, any inadequacies or weaknesses of the internal control framework and also other important risks, the fulfillment of which may entail threats for the investment firm, are identified and managed effectively with the enforcement of additional controls and mitigating measures.

The ICAAP comprises of all the measures and procedures adopted by GSL, with the purpose of ensuring:

- The appropriate identification and measurement of risks.
- An appropriate level of internal capital in relation to the Company's risk profile, and
- The application and further development of suitable risk management and internal control systems and tools. The ICAAP is clearly owned and approved by GSL BoD.

The ICAAP promotes a comprehensive risk management framework for the Company.

- ✓ Aligns capital with risk management and strategy, and
- ✓ Provides a tool for communicating to the Board and the regulator the key aspects of its risk management and governance structure.

Due to the size and the complexity of its operations, the Company utilizes the minimum capital requirements approach for the calculation of the additional capital for Pillar 2.

The Company has implemented the minimum capital requirements approach in two stages:

- The Pillar 1 minimum capital requirement was used as the foundation, since it reflects the Company's exposure to Pillar 1 risks (i.e. Credit Risk, Operational Risk and Market Risk).
- The adequacy of the minimum capital required under Pillar 1 was then assessed, in relation to risks arising from the following three categories:
 - i. Risks covered in Pillar 1.
 - ii. Risk not fully covered in Pillar 1 (e.g. Concentration Risk which is part of Credit Risk), and
 - iii. Risks not covered in Pillar 1 (e.g. Liquidity Risk, Strategic Risk and Reputation Risk).

Upon CySEC's request the ICAAP Report shall be submitted to CySEC.

The ICAAP report will describe how the Company implemented and embedded its ICAAP within its business. The ICAAP will also describe the Company's Risk Management framework e.g. the Company's risk profile and the extent of risk appetite, the risk management limits if any, as well as the adequate capital to be held against all the risks (including risks other than the Pillar 1 risks) faced by the Company.

10. Disclosures regarding the Remuneration Policy and practices of the Company

The Company Remuneration policies and practices are set by the Board of Directors. The level of remuneration offered by GSL to management and staff is established based on skills, knowledge, individual performance and the remuneration offered by other companies that are similar in size and range of activities.

The remuneration structure offered by GSL to management and staff comprises solely of a fixed salary cash component. GSL remuneration policy at the moment does not include any variable pay component (cash or non-cash).

Directors or employees of GSL do not receive performance-based remuneration. Bonuses and other remunerations are not based or linked to sales targets (sale of specific financial instruments or of a specific category of financial instrument), or the value of transactions, or the value of clients' deposits, or on retention of clients, or on the number of new clients attracted, or on any other clients' connected performance.

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. Staff engaged in control functions is independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

Salary levels are intended to be market competitive and ensure that an appropriate balance of fixed to variable compensation is maintained.

The remuneration of the Executive Directors ensures GSL continued ability to attract and retain the most qualified Executive Board members and a good basis for succession planning. The remuneration of the Executive Board is assessed annually and developments in market practice are assessed systematically.

Members of the Board of Directors receive a fixed fee. Board members do not receive performance-based remuneration. The basic fee of a Board member is set at a level that reflects the qualifications and contribution required in view of GSL complexity, the extent of the responsibilities and the number of board meetings. No pension contributions are payable on Board members' fees.

The Board of Directors may deviate from this policy in individual cases if justified by extraordinary circumstances.

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

Table 12: Exposure Classes by Industry

Business Area	Fixed Salary (\$'000)	Variable Salary (\$'000)	Aggregate Remuneration(\$'000)
Executive and Non-Executive Directors	185	-	185
Control Functions	-	-	-
Brokerage	58	-	58
Operations	33	-	33
Accounting	22	-	22
Total	298	0	298

Table 13: Aggregate Remuneration by Personnel

Personnel	Number of people	Fixed (Cash) (\$'000)	Variable (Cash) (\$'000)	Total (\$'000)
Senior Management (incl. Executive and Non Executive Directors)	5	185	-	185
Other Staff	3	91	-	91
Total	8	276	0	276

Appendix 1 Balance Sheet Reconciliation

Institutions shall disclose a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions and the balance sheet in the audited financial statements of the institution as follows:

Appendix 1 - BALANCE SHEET RECONCILIATION

Balance Sheet Description as per Audited Financial Statements	Year ended 31 December 2018 (\$000)
Share Capital	136
Share Premium	-
Reserves (Retained Earnings)	521
Profit & Loss	(291)
Total Equity as per Audited Financial Statements	366
Adjustments to CET1	
Intangible assets	(14)
Additional deductions due to the CRR (Investor Compensation Fund)	(49)
Total Common Equity Tier 1	304
Total regulatory Own Funds	304





Appendix 2 Own Funds Disclosure Template

Appendix 2 - OWN FUNDS DISCLOSURE TEMPLATE

At 31 December 2018	Traditional Definition (\$000)	Full-phased in Definition (\$000)
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	136	136
Retained earnings	521	521
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(291)	(291)
Funds for general banking risk	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	366	366
Common Equity Tier 1 (CET1) capital: regulatory adjustments	-	-
Intangible assets (net of related tax liability)	(14)	(14)
Additional deductions of CET1 Capital due to Article 3 CRR	(49)	(49)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(63)	(63)
Common Equity Tier 1 (CET1) capital	304	304
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	304	304
Total regulatory adjustments to Tier 2 (T2) capital	-	-
Tier 2 (T2) capital	-	-
Total capital (TC = T1 + T2)	304	304
Total risk weighted assets	722	722
Capital ratios and buffers		
Common Equity Tier 1	42,05%	42,05%
Tier 1	42,05%	42,05%
Total capital	42,05%	42,05%

Definitions:

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

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

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