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# EDR Financial LTD

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## Pillar III Disclosures 2016



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TrioMarkets is a trading name owned and operated by EDR Financial Ltd, registered as a Cyprus Investment Firm (CIF) with the registration number HE336081. Licensed by the Cyprus Securities and Exchange Commission (CySEC) under license number 268/15 in accordance with Markets in Financial Instruments Directive II («MiFID II»). TRIOmarkets Head Office: Centro Office 301, Grigori Afxentiou 11. 4003 Limassol, Cyprus - Tel: +357-25030056 Fax: +357-25590955 - Email: [info@triomarkets.eu](mailto:info@triomarkets.eu) - [www.triomarkets.eu](http://www.triomarkets.eu)

# **EDR FINANCIAL LIMITED**

## **DISCLOSURES IN ACCORDANCE WITH THE DIRECTIVE FOR THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS FOR THE YEAR ENDED 31 DECEMBER 2016**

**May 2017**

## CONTENTS

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1	General Information and Scope of Application.....	3
2	Risk Management Framework and Governance of the Company .....	4
2.1	Risk Management.....	4
2.2	Board of Directors.....	6
2.3	Information flow on risk to the Board of Directors .....	6
2.4	Board – Recruitment Policy .....	6
2.5	Board – Diversity Policy.....	7
2.6	Directorships held by members of Board.....	7
2.7	Risk Manager .....	7
2.8	Compliance Officer .....	8
2.9	Money Laundering Compliance Officer.....	8
2.10	Internal Audit.....	9
2.11	Risk Management Committee.....	9
2.12	Board Declaration – Adequacy of the Risk Management arrangements .....	9
2.13	Risk Statement .....	10
3	Capital Management .....	10
4	Own Funds.....	11
5	Capital Requirements.....	12
6	Remuneration .....	17
7	ANNEX I – Balance Sheet Reconciliation .....	18

## **1 General Information and Scope of Application**

### **Company Incorporation and Principal Activities**

EDR Financial Ltd was incorporated in Cyprus on 23<sup>rd</sup> September 2014 as a limited liability company under the Companies Law, Cap. 113. It is a Cyprus Investment Firm ("CIF") authorized and regulated by CySEC, under the Investment Services and Activities and Regulated Markets Law of 2007 (Law 144(I)/2007), and subject to CySEC Rules since 11 February 2015, with Licence Number 268/15 and Registration Number 336081.

The Company is authorized to provide the following investment and ancillary services:

<b>Investment Services</b>
<ol style="list-style-type: none"> <li>1) Reception and transmission of orders in relation to one or more financial instruments</li> <li>2) Execution of orders on behalf of clients</li> <li>3) Portfolio Management</li> <li>4) Investment Advice</li> </ol>
<b>Ancillary Services</b>
<ol style="list-style-type: none"> <li>1) Safekeeping and administration of financial instruments, including custodianship and related services</li> <li>2) Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction</li> <li>3) Foreign exchange services where these are connected to the provision of investment services</li> </ol>

### **Regulatory framework overview**

The purpose of the disclosure policy is for EDR Financial Ltd to comply with the disclosure requirements as laid down in the relevant EU Capital Requirements Regulation (EU) No 575/2013 as amended and the relevant requirements of Directive 2013/36/EU, as amended ("the legislation").

The Pillar III Disclosures report of the Company sets out both quantitative and qualitative information required in accordance with Part Eight of Regulation (EU) No 575/2013 of the European Parliament (Articles 431 to 455 of the Capital Requirements Regulation, CRR) and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the "Regulation") and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (the 'CySEC') for the Prudential Supervision of Investment Firms.

The information that EDR Financial Ltd ('the Company') discloses herein relates to the year ended 31st December 2016.



## **Frequency of Disclosure**

The report will be published on the Company's website [www.triomarkets.eu](http://www.triomarkets.eu) on an annual basis and as soon as reasonably practicable after the completion of the annual financial statements. The provisions of the Directive follow the fundamental steps of the Basel II Accord which has been implemented in the EU through the Capital Requirements Directive ("CRD").

The new regulatory framework consists of three Pillars:

Pillar I sets out the minimum capital requirements firms are required to meet;

Pillar II requires firms to assess their capital requirements in light of any specific risks not captured or not adequately captured in the Pillar I calculations; and

Pillar III seeks to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management practices.

## **Scope of Disclosures**

The Company is making the disclosures on an individual (solo) basis.

## **2 Risk Management Framework and Governance of the Company**

### **2.1 Risk Management**

EDR Financial Ltd implements and maintains adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems, and set the level of risk tolerated by the Company. The Company aims to adopt effective arrangements, processes and mechanisms to manage these risks.

The Risk Management function operates independently and monitors the following:

- the adequacy and effectiveness of the Company's risk management policies and procedures
- the level of compliance by the Company and its relevant persons with the arrangements, processes and mechanisms adopted
- the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons of the Company to comply with such arrangements, processes and mechanisms or follow such policies and procedures.

EDR Financial Ltd appointed a Risk Manager who is an Executive Director who heads the Risk Management function of the Company. The Risk Manager's general duties are the following:

- complying and implementing the relevant provisions of the Law (relating to Risk Management issues)
- analysing the market trends
- examining the financial results of the company
- managing the overall risks of the company related to the client side risks (ex. Fraud, dispute, client identification, due diligence, funding/deposit risks) in coordination with MLCO and the Administration/Back Office Department
- maintaining a record of all the Clients and counterparties risk and limits involved
- educating and training the personnel of the company on risk-related issues

As an additional control, the Risk Management Committee is responsible for monitoring and controlling the Risk Manager in the performance of his duties. The Committee ensures the efficient management of the risks inherent in the provision of the investment services to Clients as well as the risks underlying the operation of the Company.

### **Risk Management Framework**

The Company is dedicated and committed on taking all the required actions so as to establish adequate and effective risk management policies and procedures that facilitate the monitoring and mitigation of the risks to which it is exposed. In addition, the risk management function of the Company, has aimed in operating with due care for the identification of any weaknesses and to take the necessary measures to remedy any issues identified.

The Company will continue its extensive efforts to enhance the risk management framework and to prepare for the regulatory changes in the financial services industry in the years ahead.

For the company, quality management of risk is one of its hallmarks and thus a priority in its activity. Throughout its operations, the Company combines prudence in risk management with use of well-established risk management techniques, which have proven to be decisive in generating recurrent and balanced earning and creating shareholder value.

The risk model is based on the following principles:

Independent working from the business areas. The establishment of separate functions between the business areas (risk takers) and the risk areas responsible for measurement, analysis, control and information provides sufficient independence and autonomy to control risks appropriately.

Involvement of senior management in all decisions taken.

Collegiate decision-making, which ensures a variety of opinions and does not make results dependent on decisions solely taken by individuals.

Defining functions. Each risk taker unit needs to clearly define the types of activities, segments, risks in which they could incur and decisions they might make in the sphere of risks, in accordance with delegated powers.

Centralized control. Risk control and management is conducted on an integrated basis through the organizational structure.

Management and control of risk is developed in the following way:

Formulate the risk appetite. The purpose is to delimit, synthetically and explicitly, the levels and types of risk that the Company is ready to assume in the development of its business.

Establish risk policies and procedures. They constitute the basic framework for regulating risk activities and processes.

Execute a system to monitor and control risks, which verifies every day and with the corresponding reports the extent to which the Company's risks profile is in line with the risk policies approved and the limits established.

## **2.2 Board of Directors**

The Board of Directors is currently comprised of 2 (two) executive and 2 (two) independent non-executive directors. The Board sets the strategic aims for the Company.

The Board is responsible for ensuring that the Company complies with its obligations under the Law. To this effect the Board shall assess and periodically review the effectiveness of the policies, arrangements and procedures in place, and take appropriate measures to address any deficiencies.

The Board receive at least annually, written reports regarding Compliance, Internal Audit, Money Laundering & Terrorist Financing and Risk Management issues, indicating, in particular, whether the appropriate remedial measures have been taken in the event of any deficiencies. The Board shall be responsible for the monitoring of the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and the prevention of any unlawful transactions, the identification of risks, and the timely and adequate flow of information.

The Board is responsible for establishing the risk appetite, monitoring the risk profile and ensuring the consistency between both of them. Senior management is responsible for achieving the desired risk profile as well managing risks on a daily basis. The establishment of the risk appetite covers both the risks whose assumption constitutes the strategic objective and for which maximum exposure criteria are set - minimum objectives of return/risk - as well as those whose assumption is not desired but which cannot be avoided in an integral way. The board will ensure that the amount and type of risks relevant for the firm have been taken into account. It also ensures that sufficient resources have been assigned to manage and control these risks, at both the global and local levels.

The board will periodically revise (at least once a year) the Company's risk appetite and its management framework, analyzing the impact of unlikely but plausible tension scenarios and adopting the pertinent measures to ensure the policies set are met.

## **2.3 Information flow on risk to the Board of Directors**

All risks related to the company are communicated to the management body through the following reports which are prepared annually, reviewed and approved by the Board.

- Risk management report
- Internal Audit report
- AML Compliance Officer report
- Compliance Officer report
- Suitability report

## **2.4 Board – Recruitment Policy**

Along the lines of the changes in the regulatory reporting framework, the Company plans to establish and implement a Board Recruitment Policy within 2017 with the aim to identify, evaluate and select candidates as well as ensure appropriate succession. The purpose is when recruiting new members to ensure compliance with the relevant legislation and Company's policies and procedures. Potential member candidates must be qualified with specialized skills, available to commit adequate time and have a sound understanding the company's activities and the main risks.

## 2.5 **Board – Diversity Policy**

Along the lines of the changes in the regulatory reporting framework, the Company plans to establish and implement a Board Diversity Policy within 2017 with the aim to attract applicants with a wide range of knowledge, skills and backgrounds. The objective will be to have diversity into the business strategy by ensuring that the overall composition of the Board reflects an adequately balanced range of experiences to enhance the collective knowledge of the Board.

## 2.6 **Directorships held by members of Board**

The table below provides the number of directorships the members of the Board of the Company hold at the same time in entities other than EDR Financial Ltd. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below.

Name of Director	Position within EDR Financial Ltd	Directorships – Executive in other companies	Directorships – Non Executive in other companies
Theodoros Louka	Independent Non-Executive Director	1	3
Andreas Georgakis	Independent Non-Executive Director	0	0
Raphael Benjamin Ghrenassia	Executive Director	1	0
Andrey Kalashnikov	Executive Director	0	0

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

## 2.7 **Risk Manager**

The Board appoints the Risk Manager who heads the Risk Management function of the Company. The Risk Manager is to ensure that all the different types of risks taken by the Company are in compliance with the Law and the obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place. The Risk Manager reports to the Senior Management of the Company.

As per the operations manual of the company, the Risk Manager is responsible for:

- (a) complying and implementing the relevant provisions of the Law, relating to risk management issues
- (b) requiring sufficient information from all the relevant departments of the Company, as applicable
- (c) educating and training the personnel of the Company on risk-related issues
- (d) examining the financial results of the Company
- (e) analysing the market and its trends (from a risk management perspective), as applicable
- (f) evaluating how the introduction of any potential new services or activities by the Company could affect the risk management of the Company, and provide such requests to the Senior Management or the Board, as requested
- (g) examining the capital adequacy and the exposures of the Company
- (h) drafting written reports to the Senior Management making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies, at least annually. These reports shall be presented to the Board and discussed during its meetings, at least annually
- (i) calculating, setting, reviewing, updating and monitoring Client and counterparty limits, as applicable
- (j) maintaining a record of all the Clients and counterparties risk and limits involved
- (k) recommending, providing and supervising policy description concerning information systems (including backup systems that can restore smooth operation in case of failure)
- (l) with respect to liquidity risk and market risk:
  - defining acceptable maximum risk assumption limits per class of risk
  - breaking down the above risk limits further where necessary, for example, per class of investment service or financial instrument, or Client or market, as applicable
  - implementing stop loss-control limits, where applicable
  - following up open positions within the approved limits
- (m) monitoring the amount and type of information provided to Clients regarding the nature and risks of financial instruments according to the Client classification
- (n) preparing the ICAAP Manual and reviewing it on an annual basis
- (o) performing all the assigned duties are these are listed in the ICAAP Manual of the Company.

## **2.8 Compliance Officer**

The Compliance Function is outsourced. The Board appoints the Compliance Officer in order to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, and put in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively. The Compliance Officer is independent, has the necessary authority, resources, expertise and access to all relevant information and reports to the Senior Management of the Company.

## **2.9 Money Laundering Compliance Officer**

The Board retain a person to the position of the Company's Money Laundering Compliance Officer, MLCO, to whom the Company's employees reports their knowledge or suspicion of transactions involving money laundering and terrorist financing. To command the necessary authority, the MLCO belongs to the management of the Company. The MLCO shall lead the Company's Money



Laundering Compliance procedures and processes and report to the Senior Management of the Company. Also, the MLCO shall also approve the Client File before accepting a Client.

During the execution of his duties and the control of the Company's compliance, the MLCO shall obtain and utilize data, information and reports issued by international organizations, as these are stated in the Company's AML Manual.

The company's personnel should attend internal seminars provided by the company's Compliance Manager and will try to increase in volume so that to be kept informed regarding all amendments of the laws, new circulars issued by CySEC, announcements etc. As a rule, newcomers to the company will attend Anti Money Laundering seminars rules and regulations within the first month of their employment. During 2016, the AMLCO ensured training for the Directors and employees of the company about the general AML principles as well as for the company's specific policies and procedures. The Executive Director and CEO of the company, Mr. Andrey Kalashnikov ensured to attend relevant seminars and courses as prescribed by the law for his CPD hours. The other support staff who did not attend any external seminars, were provided in house training by the company's MLCO.

There were no reports of suspicious possible Money Laundering activities or transactions submitted by the employees to the company AMLCO neither to MOKAS during the year 2016.

## **2.10 Internal Audit**

The Internal Audit Function is outsourced. The Internal Auditor is independent and reports directly to the Board of Directors on an annual basis.

The Internal Auditor bears the responsibility to:

- (a) 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
- (b) issue recommendations based on the result carried out in accordance with point (a)
- (c) verify compliance with the recommendations of point (b)
- (d) provide timely, accurate and relevant reporting in relation to internal audit matters to the Board of Directors and the Senior Management of the Company, at least annually

## **2.11 Risk Management Committee**

During 2016 the Risk Management Committee was made up of two independent non-executive directors and the risk manager of the Company (ex officio without any voting rights).

The Committee is formed in order to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general.

Due to operational changes, the Committee has not met during the year 2016 and important risk issues were discussed during the Company's Board meetings.

## **2.12 Board Declaration – Adequacy of the Risk Management arrangements**

The Company has set up risk management systems with regards to the Company's profile and strategy and plans to establish a Board Declaration on the Adequacy of the Risk Management Arrangements within 2016.



### **2.13 Risk Statement**

The Company plans to document in 2016, the risk statement describing the Company's overall risk profile associated with the business strategy.

## **3 Capital Management**

The Company manages its capital to ensure that it will be able to continue as a going concern while increasing the return to shareholders by aiming to improve the debt to equity ratio.

The adequacy of the Company's capital is monitored by reference to the provisions of the Capital Requirements Regulation and the CySEC Capital Requirements Directives 144-2014-14 and 144-2014-15 bringing into force the regulatory provisions of Basel III.

The Basel III consists of three pillars:

- (I) **Pillar I** - Minimum capital requirements
- (II) **Pillar II** - Supervisory review process
- (III) **Pillar III** - Market discipline

### **Pillar I – Minimum Capital Requirements**

The Company adopted the Standardized approach for Credit and Market risk and the Fixed Overhead approach for Operational risk.

According to the Standardized approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, according to their characteristics and exposure class to which they belong.

The Standardized measurement method for the capital requirement for market risk adds together the long and short market risk positions according to predefined models to determine the capital requirement.

For operational risk, the Company is required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year.

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

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 Company didn't finalize its internal capital adequacy assessment process (ICAAP) for the financial year 2016.

### **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 minimum capital requirements, together with concise information as to the composition of own funds.

The Company has included its risk management disclosures on its website as it does not publish its financial statements. Verification of these disclosures has been made by the external auditors and sent to CySEC.

#### **4 Own Funds**

The Own Funds of the Company as at 31<sup>st</sup> December 2016 consisted solely of Tier 1 Capital and amounted to USD 410 thousand. An analysis of the Company's capital base is presented in Table 1 below:

**Table 1:** Composition of the capital base of EDR Financial Ltd

<b>Capital Base/Own Funds</b>	<b>31 December 2016 USD 000</b>
<b>Common Equity Tier 1 Capital (CET1)</b>	
Share Capital	4
Share Premium	1.399
Retained Earnings	(396)
Audited Income / (Loss) for the year	(496)
Intangible Assets	(53)
ICF	(48)
<b>Total Common Equity Tier 1 Capital</b>	<b>410</b>
Tier 2 Capital	-
<b>Total Capital (Tier 1 and Tier 2)</b>	<b>410</b>

Further breakdown of own funds is provided in ANNEX I & ANNEX II.

#### **Authorized Share Capital**

Under its Memorandum the Company fixed its share capital at 5.000 ordinary shares of nominal value of €1 each.

#### **Issued Share Capital**

Upon incorporation on 23rd September 2014 the Company issued to the subscribers of its Memorandum of Association 1.000 ordinary shares of €1 each at par.

During the year 2015 the Company issued to the subscribers of its Memorandum of Association 2.002 ordinary shares of €1 each at par and at a total share premium of USD 483.736.

During the year 2016 Company issued to the subscribers of its Memorandum of Association 16 ordinary shares of €1 each at par and at a total share premium of USD 914.951.

#### **Own Funds**

As at 31<sup>st</sup> December 2016, the Company's own funds amounted to **USD 410 thousand**, which is above the minimum initial capital of Euro 125 thousand (USD 136 thousand).

### Capital Adequacy Ratio

The capital adequacy ratio as reported to CySEC for the year ended 31 December 2016 was **38,64%**, which is above the minimum capital adequacy ratio of 8% required.

## 5 Capital Requirements

The total capital requirements of the Company as at 31<sup>st</sup> December 2016 amounted to **USD 85 thousand** and are calculated for each category of risk in table 2.

**Table 2:** Minimum Capital Requirements

<b>31 December 2016</b>	<b>Minimum Capital Requirements USD 000</b>	<b>Risk Weighted Assets USD 000</b>
<b>Risk Category</b>		
Credit Risk	13	164
Market FX Risk	28	344
Operational Risk (12,5 multiplied by the one quarter of the fixed overheads of the preceding year)	85	1.060
<b>Total Risk Weighted Assets as per Article 95(2) of the Regulation (i.e. for the reference date, this will be equal to the sum of risk weighted assets for credit and market risk)</b>	<b>85</b>	<b>1.060</b>
<b>Additional due to Fixed Overhead</b>	<b>44</b>	<b>552</b>

The Company follows the Standardized Approach for the Pillar 1 capital requirements calculations for Credit and Market Risk and the Fixed Overheads Approach for Operational Risk.

### Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

Credit Risks that should be assessed are the following:

- Granting credit limits to clients for trading purposes
- Investments in bonds and other instruments (when there is counterparty credit risk)
- Provisions of loans to other entities

### Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate.

The company applies the Standardized Approach for the calculation of its minimum capital requirements for credit risk. As at 31<sup>st</sup> December, the Company did not have any collaterals or guarantees and therefore did not make use of Credit Risk Mitigation techniques.

Table 3 below depicts the credit risk exposure, risk weighted assets and capital requirement broken down by exposure class:

**Table 3:** Exposure Amount, Risk Weighted Assets (RWA) and Minimum Capital Requirement per Exposure Class

Exposure Classes and Minimum Capital Requirements			31 December 2016
			USD 000
Exposure Class	Total Exposure Value	RWA	Minimum Capital Requirements
Corporates	79	79	6
Institutions	355	71	6
Other Items	14	14	1
<b>Total</b>	<b>448</b>	<b>164</b>	<b>13</b>

#### **Risk Weighted Assets and Credit Quality Steps**

For the credit ratings of institutions the Company made use of the ratings of Standard & Poor's, Moody's and Fitch and mapped them to the corresponding Credit Quality Step ("CQS").

An analysis of the exposure by counterparty CQS is provided in the table below:

**Table 4:** Exposure to Institutions by CQS

Breakdown of Exposures by counterparty Credit Quality Step				31 December 2016
				USD 000
Exposure Class	CQS 3	CQS 6	NA	Total
Corporates	-	-	79	79
Institutions	336	19	-	355
Other Items	-	-	14	14
<b>Total</b>	<b>336</b>	<b>19</b>	<b>93</b>	<b>448</b>

### Residual Maturity of exposures

Table 5 below displays the residual maturity of the Company's exposures, broken down by exposure class, as at 31 December 2016.

**Table 5:** Residual Maturity per Exposure Class

Exposure Classes and Residual Maturity			31 December 2016
			USD 000
Exposure Class	< 3 months	> 3 months or N/A	Total
Corporates	78	1	79
Institutions	355	-	355
Other Items	0	14	14
<b>Total</b>	<b>433</b>	<b>15</b>	<b>448</b>

The following table presents the countries to which each exposure class is concentrated:

**Table 6:** Geographic distribution of exposures

Exposure Classes by Country			31 December 2016
			USD 000
Exposure Class	Cyprus	UK	Total
Corporates	79	-	79
Institutions	19	336	355
Other Items	14	-	14
<b>Total</b>	<b>112</b>	<b>336</b>	<b>448</b>

Table 7 below analyses the distribution of the Company's counterparties by industry:

**Table 7:** Distribution of exposures by industry sector

Breakdown of Exposures by Industry Sectors			31 December 2016
			USD 000
Exposure Class	Financial	Other	Total
Corporates	-	79	79
Institutions	355	-	355
Other Items	-	14	14
<b>Total</b>	<b>355</b>	<b>93</b>	<b>448</b>

Table 8 shows the Company's average credit risk exposure during 2016, analyzed by exposure class:

**Table 8:** Average Exposure Amount per Exposure Class

<b>Average Exposure for 2016</b>		<b>31 December 2016</b>
		<b>USD 000</b>
<b>Exposure Class</b>		<b>Average Exposure Value</b>
Corporates		40
Institutions		284
Other Items		18
PSE		24
<b>Total</b>		<b>366</b>

### **Operational Risk**

Operational risk is the risk that derives from the deficiencies relating to the Company's information technology and control systems as well as the risk of human error and natural disasters. The Company's systems are evaluated, maintained and upgraded continuously.

### **Capital Requirements**

Due to the limited authorisation 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:

- (a) Sum of risk weighted assets for credit and market risk
- (b) Operational Risk Weighted Assets based on preceding year fixed overheads

The following table shows the calculation of the capital requirements for Operational Risk.

**Table 10:** Capital Requirement for Operational Risk under Fixed Overhead Approach

<b>Operational Risk (Fixed Overheads Approach)</b>	<b>Minimum Capital Requirements</b>
	<b>USD 000</b>
25% of the fixed overheads of the preceding year*	85
Additional Capital Requirements due to the fixed overheads approach	44

*\*since first year of operations EDR has used 2015 figures*

Based on the above, there are **USD 44 thousand** additional capital requirements due to fixed overheads methodology.



### **Market risk**

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

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### **Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the EURO. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

**Table 11:** RWA and Capital Requirement for Foreign Exchange Risk

Market FX risk	31 December 2016 USD 000	
	RWA	Minimum Capital Requirements
All Assets & Liabilities	344	28

### **Liquidity risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

### **Compliance risk**

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

### **Litigation risk**

Litigation risk is the risk of financial loss, interruption of the Company's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Company to execute its operations.

### **Reputation risk**

The risk of loss of reputation arising from the negative publicity relating to the Company's operations (whether true or false) may result in a reduction of its clientele, reduction in revenue and legal cases against the Company. The Company applies procedures to minimize this risk.

## **6 Remuneration**

The Board shall ensure that a *Remuneration Policy* is maintained, which will be reviewed periodically in accordance with the provisions of the applicable legislation and guidelines.

Based on the company's size, internal organization, the nature, scope and complexity of its activities and according to the provisions of the Directive DI144-2014-14, the Remuneration policy of EDR Financial Ltd includes the base salary and any bonuses and other benefits that the employees or executives receive during employment. The remuneration policies are designed in such a way so as not to create incentives that may lead the employees to use unethical methods in order to attract clients. For this reason, the company focuses more on a higher fixed salary rather than on a remuneration based on bonuses.

Variable remuneration during 2016 was paid in the form of cash.

The remuneration of the Senior Management (including Non-Executive Directors) and other staff whose actions have a material impact on the risk profile of the Company, in 2016, was as shown in the following table:

**Table 11:** Aggregate Remuneration by Function

<b>Aggregate Remuneration by Function as at 31<sup>st</sup> December 2016 (USD 000)</b>				
	<b>No. of staff</b>	<b>Fixed</b>	<b>Variable</b>	<b>TOTAL</b>
Senior Management (Board of Directors incl. the General Manager)	5	82	3	85
Other staff whose actions have a material impact on the risk profile of the institution	-	0	-	-
<b>Total</b>	<b>5</b>	<b>82</b>	<b>3</b>	<b>85</b>

Three members of the Board are not remunerated by the Company. The fees of non-executive directors include the fees for the period that they serve as members of the Board.

## 7 ANNEX I – Balance Sheet Reconciliation

	31 December 2016
	USD 000
Share capital	4
Share premium	1.399
Reserves	(892)
Intangible assets	(53)
ICF	(48)
<b>Total Equity as per Balance Sheet</b>	<b>410</b>
<b>Total Own Funds as per CoRep</b>	<b>410</b>
<b>Difference</b>	<b>-</b>

## ANNEX II – Own Funds Disclosure Template

At 31 December 2016	Transitional Definition	Full - phased in Definition
	USD 000	USD 000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	1.403	1.403
Retained earnings	(892)	(892)
Funds for general banking risk	-	-
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>511</b>	<b>511</b>
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments	-	-
Intangible assets (net of related tax liability)	(53)	(53)
Investors Compensation Fund	(48)	(48)
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1) capital</b>	<b>(101)</b>	<b>(101)</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>410</b>	<b>410</b>
<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>410</b>	<b>410</b>
<b>Tier 2 (T2) capital</b>	<b>-</b>	<b>-</b>
<b>Total capital (TC = T1 + T2)</b>	<b>410</b>	<b>410</b>
<b>Total risk weighted assets</b>	<b>1.060</b>	<b>1.060</b>
Capital ratios		
Common Equity Tier 1	38,64%	38,64%
Tier 1	38,64%	38,64%
Total capital	38,64%	38,64%

**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.