Depaho Ltd

DISCLOSURES IN ACCORDANCE WITH THE EUROPEAN REGULATION No. 575/2013 ON PRUDENTIAL REQUIREMENTS OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS FOR THE YEAR ENDED 31 DECEMBER 2018

May 2019

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1. GENERAL INFORMATION AND SCOPE OF DISCLOSURES

1.1 Regulatory Requirements

The information below is disclosed in accordance with Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the “Regulation” or the “CRR”) 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 Depaho Ltd (“the Company”) discloses herein relates to the year ended 31st December 2018.

1.2 Company Incorporation and Principal Activities

Depaho Ltd was incorporated in Cyprus on 11 August 2011 as a limited liability company under the Companies Law, Cap. 113. It is authorized and regulated as a Cyprus Investment Firm (“CIF”) by the CySEC under License Number 161/11, in accordance with Law 87(I)/2017 for the provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters, since 27 December 2011.

As at 31 December 2018 the Company was authorized to provide the following investment and ancillary services, in the financial instruments specified below:

Investment Services	Ancillary Services	Financial Instruments
1. Reception and transmission of orders in relation to one or more financial instruments	1. Safekeeping and administration of financial instruments, including custodianship and related services	1. Transferable securities 2. Money-market instruments 3. Units in Collective Investment Undertakings (CIUs) 4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash 5. Options, futures, swaps, forward rate agreements 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 (otherwise than by reason of a default or other termination event)

Investment Services	Ancillary Services	Financial Instruments
2. Execution of orders on behalf of clients	2. Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	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 or/and an MTF 7. Options, futures, swaps and any other derivative contracts relating to commodities that can be physically settled not otherwise mentioned in paragraph 6 of Part III and not being for commercial purposes which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls 8. Derivative instruments for the transfer of credit risk 9. Financial contracts for differences (“CFDs”) in currencies, commodities, equities, indices, exchange traded funds and, although immaterial, cryptocurrencies 10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures, not otherwise mentioned in this Part, which have the characteristics of other financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognized clearing houses are subject to regular margin calls

In addition to the above, the Company offers the following ancillary service:

- Foreign exchange services where these are connected to the provision of investment services;

1.3 Approval by the Board

The Company discloses information in relation to its risk management structure, policies and procedures and minimum capital requirements on an annual basis. The current Disclosures are based on the position of the Company as at 31st December 2018, they are reviewed and approved by the Board of Directors and are uploaded on the Company's website.

1.4 Scope of Disclosures

The current disclosures relate solely to information of the Company (solo basis).

2. RISK MANAGEMENT FRAMEWORK AND GOVERNANCE

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's Risk Management Framework. The Risk Management Framework includes the risk identification, the consideration and imposition of initial controls to handle the identified risks and the subsequent quantification of those, and the assessment of the need for additional capital and/or controls, in order to remain in line with the Company's risk appetite.

The Company decides on a Risk Scoring Methodology for the assessment of the various risks that it faces. The various risks are internally evaluated, by the Risk Management Function, in terms of their probability of occurrence and their financial and non-financial impact (yearly) on the Company (both estimated based on expert judgment, as well as previous experience). The Company accepts to undertake risks rated as low level, while risks rated as medium or high level are interpreted as 'material'. Taking into account the total score of the risk, the Risk Manager, places each risk into a sub-category. The Company, following a prudent approach, decides on the allocation of additional capital for covering material risks other than Pillar 1 risks.

All risks that the Company faces are inserted into a Risk Register. The Risk Register is discussed and finalized during a Risk Management Committee meeting whereby the Senior Management has the opportunity to elaborate on the identified risks and comment on their materiality. The Risk Register is reviewed at least annually by the Risk Manager, the Risk Management Committee and the Senior Management.

The Risk Register considers inter alia:

- The operations of the Company.
- They risk type per operation.
- The procedures established by the Company for each risk identified.
- The residual risks that remain after the application of the controls and which the Company monitors.
- A description of each risk, its impact on the Company and its likelihood of occurrence.

The Company also undertakes Scenario/Sensitivity Analyses and performs Stress Tests on the most significant (material) risks identified; thus, the Company obtains a forward looking view of the potential adverse results the risks may have on the Company's Balance Sheet and Profit & Loss Statements.

The Company runs Stress tests on a frequent basis (at least yearly) and as deemed necessary by the Risk Manager and the Risk Management Committee, or if the Board of the Company suggests so.

The Company's Risk Management mechanism is overseen by the following bodies, departments and persons:

- Board of Directors
- Risk Management Committee
- Nomination Committee
- Senior Management
- Risk Manager
- Compliance Officer
- Anti-Money Laundering (“AML”) Compliance Officer
- Internal Auditor

2.1 Board of Directors

The Board of Directors is responsible for overlooking the operations of the Company and consists of 2 (two) executive directors and 3 (three) non-executive directors, of which the (2) two are also independent.

The main responsibilities of the Board of Directors are:
- Formulating the Company’s future strategy in terms of the development of existing and new services and the Company’s presence in the local and international financial markets.
- Governing the Company by broad policies and objectives, formulated and agreed upon by the directors and employees.
- Ensuring that sufficient resources are available to the Company to carry out its operations.
- Reviewing and discussing the written reports prepared by the Risk Manager, the Compliance Officer, the Anti-Money Laundering Compliance Officer and the Internal Auditor and proposing measures in the event of any deficiencies.
- Approving, implementing and periodically reviewing the general principles of the remuneration policy.

Furthermore, the Board is responsible for overseeing the proper implementation of the internal control procedures, where necessary. It also ensures that the Company has sufficient human and technical resources required for the performance of its duties.

In addition to the Board, the CEO and COO play an active role in monitoring the Company’s overall compliance with Capital Adequacy regulations and approving the Pillar 1 calculations and other risk management disclosures.

2.2 Risk Management Committee

The Board of Directors has established a Risk Management Committee made up of 2 (two) Non-Executive Directors, the Compliance & Legal Assistant and the Risk Manager (ex officio and without any voting rights).

The Risk Management Committee is responsible for:
- Scrutinizing and deciding on various risks inherent in the operation of the Company.
- Formulating internal policies and measuring the performance of the said policies in dealing with the risks associated with the operations of the Company.
- Reviewing the risk management procedures in place.

- Monitoring the Risk Management Function, as well as its independence and objectivity.
- Monitoring the adequacy and effectiveness of the risk management policies and procedures in place.
- Identifying the risks relating to the Company's operations and activities.
- Setting the risk tolerance levels of the Company.
- Monitoring the risks inherent in the provision of the investment and ancillary services to clients.
- Monitoring the risks underlying the operations of the Company.
- Monitoring the internal control process.
- Overseeing the appointment, dismissal and remuneration of the Company's Risk Manager.

The Risk Management Committee is also responsible for proposing to the Board of Directors the Risk Management Report and policy, the approval of which lies with the Board under its powers of administration and supervision. It further ensures that the Company's activities are consistent with its risk tolerance level and establishes the global limits for the main risk exposures, reviewing them systematically and resolving those operations that exceed the powers delegated in bodies lower down the hierarchy.

During 2018 the Risk Committee held four meetings.

2.3 Nomination Committee

The Company's Nomination Committee is comprised of two Independent Non-Executive Directors.

The Nomination Committee is responsible for:

- Identifying and recommending, for the approval of the Board, candidates to fill Board vacancies.
- Assessing at least annually the structure, size, composition and performance of the Board and making recommendations with regards to any changes.
- Assessing and reporting to the Board at least annually the knowledge, skills and experience of individual members of the Board.
- Reviewing the recruitment process of senior management selection and appointment and making recommendations to the Board.

2.4 Risk Manager

The Risk Manager 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 operations of the Company in general. Furthermore, the Risk Manager bears the responsibility for monitoring:

- The adequacy and effectiveness of the risk management policies and procedures that are in place.
- The level of compliance by the Company, its management and its personnel with the adopted policies and procedures, in addition to the Company's obligations stemming from the relevant legislation.
- The adequacy and effectiveness of the measures taken to address any deficiencies with respect to those policies and procedures, including failures by the Company's relevant persons to comply with them, and making recommendations where necessary.
- Counterparty limits.
- Limits as regards the funds kept in each bank account.

- Limits on outwards payments (operational risk), including withdrawal requests by Clients, etc.

In addition, the Risk Manager:
- Ensures performance of stress testing as needed and identifies any new possible risks, and
- Updates and creates new policies and procedures according to any newly identified risks.

Overall, the Risk Manager's work is focused on the following areas:
- Reporting risk management issues to the Company's Senior Management and the Board.
- Monitoring the risks faced by the Company.
- Ensuring compliance with any new legislation from a risk management point of view.
- Examining the capital adequacy and the financial results of the Company.
- Providing appropriate advice, training and support to Company personnel.
- Identifying any problematic areas.

2.5 Compliance Officer & AML Compliance Officer

The Company intends to uphold the strictest rules in order to ensure high ethical and professional standards, both in terms of managers and staff. To this effect, the Compliance Officer monitors the day-to-day operations of the Company and the actions of staff, making sure that they conform to the internal control procedures and the laws governing the financial services industry, as well as any other applicable laws and regulations.

The duties of the Compliance Officer and the AML Compliance Officer include the following:
- Adhering to the new legislation, as applicable.
- Implementing the Company's procedures and processes for the prevention of Money Laundering and Terrorist financing.
- Adhering to the Client Acceptance Policy and Due Diligence procedures when assessing prospective client applications to open a trading account with the Company.
- Identifying potential areas of compliance vulnerability and risk, developing and implementing corrective action plans for the resolution of problematic issues, and providing general guidance on how to avoid or deal with similar situations in the future.
- Reviewing internal suspicion reports.
- Continuously monitoring clients' accounts and ensuring the Company maintains appropriate client records.
- Ensuring that the Company's personnel receive the appropriate training and assistance.
- Submitting the monthly statement to CySEC.

Furthermore, the Compliance Officer and the AML Compliance Officer control procedures relating to acceptance of clientele, monitoring of deposits, monitoring of withdrawals and ongoing procedures so as to ensure compliance with regulations.

2.6 Internal Audit

The Internal Audit function is outsourced to an external firm. The internal auditor is independent from the other functions and activities of the Company and reports directly to the Board of Directors through a written report prepared at least annually, setting out the findings and recommendations arising from the review of the adequacy and effectiveness of the Company's internal control system.

The duties of the Internal Auditor include:

- Providing an independent assurance to the Board of Directors and Senior Management on the quality and effectiveness of the Company's internal control, risk management and governance systems and processes/procedures in place.
- Assessing and evaluating the presence and adequacy of a continuous audit trail in the Company.
- Reviewing and assessing the general compliance of the Company with the relevant requirements on CIF Organizational Structure and Operating Conditions.
- Inspecting and examining the adequacy of the Client Account Opening Procedures.
- Ensuring compliance of the Company with its obligations for the conduct of its business obligations when providing services to clients.
- Inspecting and examining the adequacy of the Company's basic accounting practices and financial information.
- Ensuring compliance of the Company's departments with the regulatory framework.
- Reviewing other matters that come to the Internal Auditor's attention during the on-site inspection, for which the Company's Board of Directors and Senior Management need to be aware of.
- Assessing and reporting to the Board of Directors and Senior Management the major findings and recommendations resulting from the work described above.

2.7 Information flow on risk to the management body

The Board is updated regarding any risk issues by the Risk Manager and is informed of the Risk Management Committee resolutions. In addition, it receives reports on risk management, compliance, money-laundering and internal audit issues at least annually. The following table presents the main pieces of information provided to the Board on risk-related issues:

Information	Report prepared by:	Report received by:	Frequency
Risk Management Report	Risk Manager	Board, CySEC	Annually
Compliance Report	Compliance Officer	Board, CySEC	Annually
AML Compliance Report	AML Compliance Officer	Board, CySEC	Annually
Internal Audit Report	Internal Auditor	Board, CySEC	Annually
Suitability Report	External Auditor	Board, CySEC	Annually
Audited Financial Statements	External Auditor	Board, CySEC	Annually
ICAAP	Risk Manager	Board, CySEC (upon request)	Annually

2.8 Board Recruitment Policy

When in need of adding a new member to the Board of Directors, every effort is made to attract applicants from all sections of society and to ensure fair treatment during the recruitment process.

The below list of requirements must be fulfilled:

- Each Board member must commit sufficient time to perform his/her functions within the Company.
- All Board members should act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the Senior Management where necessary.
- The Board members should have the necessary skills, experience and expertise in order to be able to effectively oversee and monitor management decision making.

2.9 Board Diversity Policy

The purpose of the Board's diversity policy is to promote an environment within which the Company will achieve a wide range of knowledge, qualities, skills and experience, as well as ensure compliance with the relevant legislation and internal policies and procedures, while recruiting new members to the Board of Directors. Through this policy, the Company aims to ensure that the overall composition of the Board of Directors reflects an adequately broad range of experiences so as to be able to understand the Company's activities and operations, as well as the main risks.

2.10 Number of directorships held by Board members

The table below provides the number of directorships that each member of the Company's Board of Directors holds at the same time in other entities (including the directorship held in the Company). It shall be noted that, directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below. Furthermore, executive or non-executive directorships held within the same group, are considered as a single directorship.

Name of Director	Position within the Company	Directorships - Executive	Directorships - Non Executive
Mr. Gil Farhang	Executive Director	1	-
Mrs. Aida Rizk	Executive Director	1	-
Ms. Neda Irodotou	Non-Executive Director	-	2
Mr. Marios Economou	Non-Executive Director	1	2
Mr. Petros Nacouzi	Non-Executive Director	2	2

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

2.11 Board Declaration – Adequacy of the Risk Management arrangements

The Company's Board of Directors declares that, following a review on the effectiveness of the Company's risk management arrangements and systems on financial and internal control designed to mitigate the risks during the year 2018 until April 2019, the Company has in place adequate and appropriate systems and controls with regards to its profile and strategy.

2.12 Risk Statement

The Company's risk statement, which describes the Company's overall risk profile associated with the business strategy, is provided in Annex I.

3. CAPITAL MANAGEMENT

The Senior Management as well as the Risk Manager monitor financial and risk-related 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. During the period under review, the Capital Adequacy Ratio was maintained above 8%. 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 with the assistance of the Head of the Treasury & Accounting Department.

The adequacy of the Company's capital is monitored by reference to the provisions of the Regulation and the CySEC Directives 144-2014-14 and 144-2014-15 (Basel III).

Basel III consists of three pillars:
(I) Minimum capital requirements
(II) Supervisory review process
(III) Market discipline

Pillar I – Minimum Capital Requirements

The Company applies the Standardized approach for calculating its minimum capital requirements for Credit and Market risk and the Fixed Overheads approach for Operational risk.

Based on 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 approach for the capital requirement for Market risk considers both the long and short positions in each non-reporting currency to determine the capital requirement according to predefined models.

For Operational risk, the Company is required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year, based on the most recent annual audited financial statements.

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

The Supervisory Review Process 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 risks not fully addressed in Pillar I, such as Liquidity risk, Compliance risk, Reputational and Information Technology 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.

Furthermore, the implementation of the ICAAP has tested the soundness and effectiveness of the risk mitigation methods that are already in place within the Company. In the period under review, during the ICAAP preparation process the Company has identified important weaknesses that could potentially be hazardous to its operations, financial position and performance. For these areas, additional mitigating measures (additional capital buffer or controls) have been put in place in order to better manage the potential effects.

The ICAAP provided a clear vehicle of reporting between all the business lines of the Company, its Management and its Board of Directors, which helped to develop a risk awareness culture by making available the risk strategy, policies and procedures, as well as by promoting a sound risk monitoring and risk identification structure in all levels within the Company. In addition, these risks have become an input to the Company's business plans, while their impact will be monitored in a forward looking manner.

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.

According to the CySEC Directive DI144-2014-14, the risk management disclosures should be included in either the financial statements of the investment firms if these are published, or on their websites. In addition, these disclosures must be verified by the external auditor of the investment firm. The investment firm will be responsible to submit its external auditor's verification report to CySEC within the first five months of each financial year. The Company uploads its risk management disclosures on its website as it does not publish its financial statements. The disclosures are verified by external auditors and sent to CySEC.

4. OWN FUNDS

The primary objective of the Company's capital supervision is to ensure its compliance with the capital requirements imposed by CySEC and to maintain a healthy capital adequacy ratio in view of supporting its business and maximizing shareholders' value. Depaho Ltd manages its capital structure and makes the necessary adjustments in light of changes in economic conditions and in the risk characteristics of its activities. The monitoring of capital is performed on an ongoing basis.

The Own Funds of the Company as at 31st December 2018 consisted solely of Common Equity Tier 1 ("CET 1") Capital. An analysis of the Company's capital base is presented in Table 1 below:

Table 1: Composition of the capital base of Depaho Ltd

Composition of Own funds	31 December 2018
Description	**EUR '000**
CET1 Capital	
- Share capital	4
- Share premium	316
- Reserves	1.311
- Profit from current year (audited)	1.394
Total CET 1 capital before deductions	**3.025**
CET 1 capital deductions	
- Intangible assets and goodwill	(160)
- Contribution to the Investors Compensation Fund	(69)
- Deferred tax asset	-
Total deductions	**(229)**
Total CET 1 capital after deductions	**2.796**
Tier 1 capital	**-**
Tier 2 capital	**-**
Total Own Funds	**2.796**

Authorized Share Capital

The authorized share capital of Depaho Ltd amounts to €6.000 and consists of 6.000 ordinary shares of €1 each.

Issued Share Capital

The Company issued share capital as at 31st December 2018 amounted to 4.400 shares at a face value of €1 each.

Deductions from Own Funds

As at 31st December 2018 the Company deducted from its CET 1 capital its intangible assets and goodwill, as well as its contribution to the Investors Compensation Fund as required by CySEC in Circular C162, in accordance with Part Two of the Regulation.

Capital Adequacy Ratio

The Company's Capital Adequacy Ratio for the year ended 31 December 2018 stood at 15,68%.

Large Exposures

As at 31st December 2018, the Company's exposure to its fully-owned subsidiary Tiebreak Holdings Limited was 7,19% of the Company's Own Funds, which exceeded the 2% large exposure limit set by paragraph 61 of CySEC Directive 144-2014-14 with regards to a CIF's exposures to its shareholders with more than 10% holding of its share capital, and their connected persons. This exposure related mainly to a prepayment made by the Company in December with respect to services provided by Tiebreak Holdings Limited for January 2019. The Company took immediate actions and rectified the situation in early January 2019.

Further information in relation to the Company's Own Funds at year end is provided in the tables below:

Table 2: Reconciliation of equity as per Balance Sheet with regulatory Own Funds

Balance Sheet Description as per audited Financial Statements	31 December 2018 (EUR '000)
Share Capital	4
Share Premium	316
Retained earnings	1.311
Profit for the audited period	1.394
Total Equity as per audited Financial Statements	**3.025**
Deductions	
(Less: Intangible assets & Goodwill)	(160)
(Less: Contribution to the Investors Compensation Fund)	(69)
Total deductions	**(229)**
Total Own Funds	**2.796**

Table 3: Transitional and Fully-Phrased in definition of Own Funds

31 December 2018	Transitional Definition (EUR '000)	Full-Phased in Definition (EUR '000)
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	320	320
Retained earnings	2.705	2.705
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-	-
Funds for general banking risk	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**3.025**	**3.025**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
(-) Intangible assets (net of related tax liability) & goodwill	(160)	(160)
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(69)	(69)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(229)**	**(229)**
Common Equity Tier 1 (CET1) capital	**2.796**	**2.796**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**2.796**	**2.796**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**2.796**	**2.796**
Total Risk Weighted Assets	**17.838**	**17.838**
Capital ratios and buffers		
Common Equity Tier 1 ratio	15,68%	15,68%
Tier 1 ratio	15,68%	15,68%
Total capital ratio	**15,68%**	**15,68%**

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 ("RWAs") for covering Pillar 1 risks.

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total RWAs for covering Pillar 1 risks.

The Total Capital ratio is the Own Funds of the Company expressed as a percentage of the total RWAs for covering Pillar 1 risks.

5. MINIMUM CAPITAL REQUIREMENTS

The total capital requirements of the Company as at 31st December 2018 were €1.427 thousand and are analyzed in the following table:

Table 4: Minimum Capital Requirements

Type of Risk	31 December 2018 (EUR '000) Minimum Capital Requirements
Credit Risk	96
Foreign Exchange Risk	7
Operational Risk (Based on Fixed Overheads)	1.427
***Total Capital Requirements* ((MAX((CR + MKR) ; OPR))**	**1.427**

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

5.1 Credit Risk

General

Credit risk arises when a failure by counterparties 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 while it uses the Standardized Approach for the calculation of its minimum capital requirements against this risk.

Cash balances are held with reputable financial institutions and/or electronic payment providers or payment service institutions, while the Company has policies to limit the amount of credit exposure at any financial institution. The risk of default of these institutions is quite low, based on the relevant calculations of the Company's capital requirements. Further to the above, the Company has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty. The Company also works with Alternative Payment Methods (APM), which carries credit risk. However, this risk is mitigated due to the fact that the amount of assets held with the APM is kept at a reasonable minimum level. Moreover, the Risk Manager with the assistance of the Accounting Function, monitor the levels of assets held with the APM, keeping them at a minimum.

Moreover, the Company faces credit risk due to its liquidity provider Forex Capital Trading Pty Ltd ("FXCT"). FXCT should be able to pay clients their profits at any point in time. In order to mitigate this risk, the Company performs daily reconciliations with respect to clients' assets that are held by FXCT in order to keep them at a minimum.

Capital Requirements

The table below presents the Company's original exposure to Credit risk and the associated RWAs and minimum capital requirement, broken down by exposure class. As at 31st December 2018, the Company did not have any collaterals or guarantees, and therefore did not make use of Credit Risk Mitigation techniques.

Table 5: Original Exposure Amount, RWAs and Minimum Capital Requirement per Exposure Class

Exposure Class	31 December 2018 (EUR '000)		
	Original Exposure Amount	RWAs	Minimum Capital Requirement
Corporates	362	362	29
High Risk Items	1	2	0
Institutions	2.329	506	41
Other Items	328	327	26
Total	**3.020**	**1.197**	**96**

The following table presents the Company's original exposure to Credit risk, broken down by exposure class and by risk weight:

Table 6: Original Exposure Amount per Exposure Class and Risk Weight

Exposure Class	31 December 2018 (EUR '000)				
	Original Exposure Amount per Risk Weight				
	0%	20%	100%	150%	Total
Corporates	-	-	362	-	**362**
High Risk Items	-	-	-	1	**1**
Institutions	-	2.297	-	32	**2.329**
Other Items	1	-	327	-	**328**
Total	**1**	**2.297**	**689**	**33**	**3.020**

Risk Weighted Assets and Credit Quality Steps

For the credit ratings of institutions the Company made use of the ratings of Standard & Poor's and Moody's and mapped them to the corresponding Credit Quality Step ("CQS") in accordance with the mapping below:

Table 7: Mapping credit ratings to Credit Quality Steps

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

An analysis of the Company's original exposure to Credit risk by exposure class and by CQS is provided in the table below:

Table 8: Original Exposure Amount per Exposure Class and CQS

Original Exposure Amount per Exposure Class	CQS as at 31 December 2018 (EUR '000)			
	6	Unrated	N/A	Total
Corporates	-	362	**-**	**362**
High Risk Items	-	1	**-**	**1**
Institutions	561	1.768	**-**	**2.329**
Other Items	-	-	328	**328**
Total	**561**	**2.131**	**328**	**3.020**

Residual Maturity of exposures

The table below displays the residual maturity of the Company's original exposure to Credit risk, broken down by exposure class, as at 31 December 2018:

Table 9: Original Exposure Amount per Exposure Class and Residual Maturity

Exposure Class	31 December 2018 (EUR '000)			
	Original Exposure by Residual Maturity			Total
	≤ 3 months	> 3 months	No maturity	
Corporates	353	9	-	**362**
High Risk Items	-	-	1	**1**
Institutions	2.325	4	-	**2.329**
Other Items	1	327	-	**328**
Total	**2.679**	**340**	**1**	**3.020**

The following table presents the geographical breakdown of the original Credit risk exposures of the Company by exposure class, based on the location of the counterparty (i.e. country of incorporation for legal persons / country of residence for natural persons):

Table 10: Original Exposure Amount per Exposure Class and Country

Exposure Class	**31 December 2018 (EUR '000)**			**Total**
	Cyprus	**Germany**	**Other**	
Corporates	214	-	148	**362**
High Risk Items	1	-	-	**1**
Institutions	1.804	525	-	**2.329**
Other Items	328	-	-	**328**
Total	**2.347**	**525**	**148**	**3.020**

The following table analyses the distribution of the Company's original Credit risk exposures by exposure class and by industry of the counterparty:

Table 11: Original Exposure Amount per Exposure Class and Industry

Exposure Class	**31 December 2018 (EUR '000)**		
	Financial / Banking Services	**Other**	**Total**
Corporates	57	305	**362**
High Risk Items	-	1	**1**
Institutions	2.329	-	**2.329**
Other Items	-	328	**328**
Total	**2.386**	**634**	**3.020**

The following table shows the Company's average Credit risk exposure during 2018, analyzed by exposure class:

Table 12: Average Exposure Amount per Exposure Class

Exposure Class	**Average Exposure Amount (EUR '000)**
Corporates	249
High Risk Items	1
Institutions	1.232
Other Items	424
Total	**1.906**

Impaired and Past Due exposures

The Company's past due and impaired methodology, is provided in Annex II. The Company did not have any impaired assets as at the 31st of December 2018.

5.2 Operational Risk

General

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. The Directors are responsible for managing operational risk and have identified the following risks which are significant for the Company.

Technology

The Company's operations are highly dependent on technology and advanced information systems. Its ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of the business. Such dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. The Company has business continuity procedures and policies in place which are designed to allow the Company to continue trading in its core markets and its systems are designed to mitigate the risk of failure of any component.

Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that, where possible, multiple providers and data routes are utilized. To remain competitive, the Company must continue to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

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

- Internal fraud - misappropriation of assets, tax evasion, intentional mismarking of positions, bribery.
- External fraud - theft of information, hacking damage, third-party theft and forgery.
- Employment practices and workplace safety - discrimination, workers' compensation, employee health and safety.
- Clients, products, & business practice - market manipulation, antitrust, improper trade, product defects, fiduciary breaches, account churning.
- Business disruption & systems failures - utility disruptions, software failures, hardware failures.
- Execution, delivery & process management - data entry errors, accounting errors, failed mandatory reporting and negligent loss of client assets.

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

For the calculation of operational risk in relation to the capital adequacy reports, the Company uses the Fixed Overheads approach.

Capital Requirements

Due to the limited authorization of the Company, the Company falls under Article 95(1) of the CRR and therefore the calculation of the capital requirements for Operational risk is based on the fixed overheads of the preceding financial year, based on the most recent annual audited financial statements. Under this method, the Company calculates its total RWAs as the higher of the following:

a. The sum of RWAs for Credit and Market risk.
b. Operational risk RWAs based on fixed overheads.

The following table shows the calculation of the capital requirements for operational risk based on the Fixed Overheads Approach:

Table 13: Capital Requirements for Operational Risk under the Fixed Overheads Approach

Operational Risk (Fixed Overheads Approach)	Capital Requirement 31 December 2018 (EUR '000)
25% of the fixed overheads based on the most recent annual audited financial statements	1.427
Additional capital requirement due to the Fixed Overheads Approach	1.324

5.3 Market Risk

General

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, 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 optimizing the return on risk. The Company applies the Standardized Approach for the calculation of its minimum capital requirement for Market risk.

Capital Requirements

Foreign Exchange risk

The Company's Market Risk arises primarily from Foreign Exchange Risk. Foreign Exchange Risk is the effect that unanticipated exchange rate changes may have on the Company. During the period under review the Company maintained its funds mainly in Euros. Only some insignificant exposures of the Company funds were denominated in United States Dollars and South African Rand. In the ordinary course of business, the Company could be exposed to Foreign Exchange risk. However, this risk is kept to a minimum and is monitored through various control mechanisms. The Foreign Exchange risk in the Company is effectively managed by setting and controlling Foreign Exchange risk limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

The following table analyses the Company's position in non-reporting currencies and the capital requirement at year end:

Table 14: Exposure to Market FX risk and capital requirement

Market FX risk	31 December 2018 (EUR '000)		
	Net Positions		Capital Requirement
	Long	Short	
Total positions in non-reporting currencies	86	-	7

Interest Rate risk

Interest Rate risk is the risk that the value of financial instruments (including currencies) will fluctuate due to changes in market interest rates. It arises as a result of timing differences on the reprising of assets and liabilities. The Company is exposed to Interest Rate risk in relation to its bank deposits.

During the period under review, the Company was substantially independent from changes in market interest rates due to the fact that, other than cash at bank, which attracts interest at normal commercial rates, the Company had no other significant interest-bearing financial assets or liabilities. In addition, the Company does not have a Trading Book.

Nonetheless, the Risk Manager monitors these risks with the assistance of the Treasury & Accounting Department and based on the fluctuations of the relevant rates, determines whether any measures need to be taken.

5.4 <u>Liquidity risk</u>

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 Financial Controller constantly monitors the Company's cash position to make sure that sufficient cash is available to meet urgent or imminent obligations, as these fall due.

5.5 <u>Regulatory risk</u>

Regulatory risk includes all risks that could lead to a withdrawal of the Company's license to operate or having any condition applied that would adversely impact the Company's activities as well as the risk of a change in laws and regulations that can materially impact the business. Regulatory risk faced by the Company includes, among other, the following:

- Compliance Risk

- Money Laundering Risk
- Corporate Governance Risk
- Tax Risk
- Customers Fair Treating Risk.

The Company manages regulatory risk through a control-based environment in which processes are documented and monitored. This is supported by continuous monitoring of regulatory risk incidents to ensure high levels of compliance.

5.6 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. Reputational risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of significant 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 and to ensure compliance. In addition, the Complaints Handling Team has reduced the time needed for dealing with complaints and increased its effectiveness. The Company has also established relationships with external legal consultants in order to assist with complicated cases.

The Company has also increased the number of employees in the Monitoring Unit, responsible to monitor the activities of the Customer Support staff. Although reputational risk is continuously assessed and monitored, the Company recognizes that the risk always exists due to the characteristics of the market in which it operates. For that reason, reputational risk is considered as a high risk for the Company.

5.7 Business risk

Business risk is the combination of several factors including the underperformance of economic results, drop of market share and high competitive treats resulting in loss of business. The Company is actively involved in the daily operations and stays up to date with the financial standing and its overall position with respect to the strategic goals set. In this way, the Company's strategic plans are efficiently executed. The Company performs quality checks and remains vigilant in order to take actions, if and where needed, in cases of risk of competition.

5.8 Political risk

Political risk could occur as a result of an unfavorable political condition, new legislation/taxation, etc. The Company is monitoring this risk and has procedures in place in order to remain vigilant. However, more research on a global level should be performed.

5.9 Country Concentration risk

Country concentration risk could occur as a result of deteriorating financial conditions in a specific country that the Company is highly connected to and from where it has an income. The Company's client base is highly connected to certain European countries, resulting to country concentration risk for the Company. In order to mitigate this risk, during the period under review the Company has enhanced its position in certain European markets, so as to ensure that it will not be highly connected to certain countries only, hence also diversifying the sources of its revenue Thus, the Company shall ensure that it will not be highly connected to certain countries only; hence, its revenue will also be generated (diversified) from other sources (countries) too.

6. REMUNERATION

Senior Management adopts and periodically reviews the general principles of the Remuneration Policy and is responsible for its implementation. Employees in control functions are 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 of the senior officers in the Risk Management, Compliance and AML Compliance functions is directly overseen by Senior Management in its supervisory function and reviewed by the Board. Remuneration of employees is reviewed annually by the Board and monitored on a monthly basis by the Compliance Officer, in order to identify the possibility of any risk of conflict of interest.

6.1 Fixed Remuneration

Fixed remuneration varies for different positions/roles depending on the position's requirements and the educational background, experience, accountability and responsibility needed for an employee to perform each position/role requirements. The minimum amount of remuneration defined by applicable employment law is taken under consideration in defining the remuneration of each employee and is at the Company's sole discretion to pay the employee salary above the minimum amount taking into consideration also standard market practices. The fixed remuneration represents a sufficiently high proportion of the total remuneration, in order to provide the possibility to pay no variable remuneration.

6.2 Variable Remuneration

Variable remuneration, when granted, always co-exists as an additional component on top of base salary. The Company does not provide 100% variable salary to any of its employees.

When remunerating on variable basis, the Company ensures that the composition of such remuneration arrangement focuses on encouraging the right culture and behavior of its employees, while actively discouraging poor practices. The Company works towards shifting the focus away from setting and driving incentives based on variable remuneration and tries to focus on quality of service, regulatory issues and development.

In determining variable remuneration, the Company ensures that:

- The ratio between fixed and variable components is appropriate, taking into account the best interests of clients.
- The total variable remuneration does not limit the ability of the Company to strengthen its capital base.
- The assessment of the performance is set in a multi-year framework.
- The variable remuneration does not exceed 100% of the fixed remuneration of the annual gross salary of each employee.

As a general rule the Company does not provide variable remuneration that exceeds 100% of the fixed remuneration of the annual gross salary provided to each employee. However, as an exception to the rule the shareholders of the Company have the authority to approve a higher variable remuneration provided that the overall level of the variable remuneration does not exceed 200% of the fixed remuneration of the annual gross salary of each employee, provided that a set of specified conditions hold and procedures are followed.

6.3 Payments Related to Early Termination

The Company must ensure that payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure or misconduct.

6.4 Payments Related to Compensation or Buy out from Contracts

Remuneration packages relating to compensation or buy out from contracts in previous employment must align with the long-term interests of the Company including retention, deferral, performance and claw back arrangements.

The aggregate remuneration of the Company's personnel for the year ended 31st December 2018, broken down by business area, is presented in the following table:

Table 15: Aggregate Remuneration by Business Area

31 December 2018 (EUR '000)			
Business Area	**Fixed (cash) Remuneration**	**Variable (cash) Remuneration**	**Aggregate Remuneration**
Executive & Non-Executive Directors	286	-	286
Control functions	894	-	894
Brokerage	101	-	101
Back Office & Legal	187	-	187
Total	**1.468**	**-**	**1.468**

Control functions include persons employed in the Risk, Compliance and Monitoring Departments.

The following table below provides information on the remuneration of Executive Directors, Non-Executive Directors, Senior Management and other staff whose activities have a material impact on the risk profile of the Company, broken down by fixed and variable cash remuneration.

Table 16: Aggregate Remuneration by Senior Management and Other Staff

31 December 2018 (EUR '000)				
Position / Role	**No. of Beneficiaries**	**Fixed (cash) Remuneration**	**Variable (cash) Remuneration**	**Aggregate Remuneration**
Senior Management (incl. Executive & Non-Executive Directors)	12	474	-	474
Other staff	47	994	-	994
Total	**59**	**1.468**	**-**	**1.468**

“Senior Management” includes the two Executive and four Non-Executive Directors (of which the one Non-Executive director resigned before year end), as well as the heads of the business areas presented in Table 12 above, while “Other risk takers” includes the remaining persons employed in these business areas.

During 2018 the Company did not provide any non-cash benefits. In addition, the Company did not make any severance or sign-on payments, nor did it pay or award any deferred remuneration, in vested or unvested portions.

Remuneration of Executive Directors

The remuneration of the Executive Directors ensures the Company’s 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. The remuneration of the Executive Directors consists of a fixed pay. The performance of Executive Directors is assessed once a year.

Remuneration of Board members

Members of the Board receive a fixed fee. Board members are not covered by incentive programs and 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 the Company’s complexity, the extent of the responsibilities and the number of Board meetings. No pension contributions are payable on Board members’ fees. The amount of payment to Independent Non-Executive Directors is controlled so as not to potentially create incentives for the compromise of independence. The Board may deviate from this policy in individual cases if justified by extraordinary circumstances.

Remuneration of Risk takers and employees in control functions

The remuneration of material risk takers (including staff in control functions) is subject to strict conditions. Once a year, the Board identifies employees who may take material risks on behalf of the Company and ensures that employees in these functions receive competitive remuneration. The definition of risk takers in the Company must be based on a thorough assessment of roles, responsibilities and actual mandates of positions that could be included as risk taker positions by the intention of the new legal framework, as well as a sound assessment of risk under the specific characteristics of the Company’s business.

7. ANNEX

ANNEX I

RISK STATEMENT

The strategic objective of the Company is to ensure company success through the quality provision of investment services and activities relevant to the Company's business model, licenses and authorisations. The Company focuses on customer satisfaction and its strategy is pursued within a defined risk appetite.

During the year 2018 the Board of Directors considered the nature and extent of the principal risks that the Company is willing to take to achieve its strategic objective (its risk appetite) and for maintaining sound risk management and internal control systems. The Board reviews and monitors its risk appetite on an annual basis to ensure that it is appropriate and consistent with internal policies.

The Board expresses the Company's risk appetite through a number of key measures that define the acceptable level of risk, across the following categories:

- Credit risk
  - Concentration risk
- Operational risk
  - Third Party Dependency risk
- Market risk
  - Foreign Exchange risk
- Regulatory risk
  - Money Laundering and Terrorist Financing risk
  - Compliance risk
- Business risk
- Liquidity risk
- Reputation risk
  - Confidence risk
- Political risk
- Country Concentration risk

The Company's activities are consistent with its risk tolerance levels and establish the overall limits for the main risk exposures, reviewing them systematically and resolving those operations which exceed the powers delegated in bodies lower down the hierarchy.

The following table sets out a number of the key measures used to monitor the Company's risk profile:

Risk Category	Comments	Key Measures
Credit Risk	The Company has no significant concentration of credit risk while it uses the Standardised Approach to Credit Requirements for the calculation of its credit risk.	8% of total risk weighted assets: EUR 95.734.
Operational Risk	The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated. For the calculation of operational risk in relation to the capital adequacy reports, the Company uses the Fixed Overheads Approach.	Based on the relevant calculations of the Company's capital requirements for operational risk, as at 31 December 2018 the calculated figure is EUR 1.427.041.
Third Party Dependency Risk	Third party dependency risk exists as the Company outsources its IT Department, Marketing Department, Sales, Customer Support Department and Internal Audit function. The Company also depends on a third party Liquidity Provider and various financial institutions and payment service providers.	The Company performs due diligence of third party providers prior to the commencement of the relationship and on a yearly basis. Also, wherever the third party is part of the group of companies to which Depaho belongs, this reduces the risk of non-cooperation or non-fulfilment of its obligations towards the Company.
Foreign Exchange Risk	Foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.	The Company's foreign exchange risk weighted assets are EUR 85.657, with EUR 6.853 capital requirement, based on the latest relevant calculations of the Company's capital requirements as at 31 December 2018.
Money Laundering and Terrorist Financing Risk	In order to mitigate money laundering and terrorist financing risks the Company maintains and updates relevant policies,	

	procedures and controls such as the Client Identification process, Due Diligence process and on-going monitoring of transactions, in line with a risk-based approach.
Compliance Risk	The Company aligns its policies, procedures and control measures according to the relevant applicable laws and regulations of Europe and Cyprus, and other relevant jurisdictions, in order to eliminate any risk of non-compliance with its obligations. The Compliance Officer's reviews of all Company policies, procedures and control measures throughout the year serve to identify any weaknesses or deficiencies and to rectify them immediately or to set a timeframe for relevant corrective actions to be taken.
Business Risk	The Executive Directors are actively involved in the daily operations of the Company and the Board of Directors are kept updated, including the financial standing and overall position of the Company with respect to the strategic goals set. In this way, the Company's strategic plans are efficiently executed. The Company performs quality checks and remains vigilant in order to take actions if needed and where needed, in cases of risk of competition.
Liquidity Risk	The Financial Controller monitors on an on-going basis the Company's cash position to ensure that sufficient cash is available to meet urgent or imminent obligations, as these fall due. As a result, the Company has never delayed to meet any obligations.
Reputation Risk	During 2018 the Company had kept the same number of complaints of 2017. The Complaints Handling Team is responsible for treating and resolving client complaints as per the official procedures. Through its Monitoring and Scoring Program the Company performs quality checks of communication with clients, as well as conducts investigations of client complaints and suspicious transactions that have been reported internally. The Company's Brand Monitoring team performs internet checks in order to identify risks arising from forum comments or any type of negative publicity. The Company has also established relationships with external legal consultants in order to assist with complicated cases and receive advice. The Company recognizes that the reputational risk always exists due to the characteristics of the market in which it operates. For that reason, Reputation Risk is considered to be a high risk for the Company.

Confidence Risk	Although this risk is identified, the Company's management recognizes it will always exist due to the characteristics of the market in which it operates. Confidence risk is tolerated and the Company tries to ensure the lowest levels through best execution, ongoing training of its client-facing staff, compliant marketing practices and safekeeping of client funds, at all times.
Political Risk	The Company monitors this risk and has procedures in place in order to remain vigilant. However, further research may be required.
Country Concentration Risk	The Company's client base is concentrated in specific European countries, resulting to country concentration risk. Specifically as at 31 December 2018, the majority of the trading volume processed by the Company resulted from the activity of Italian, Spanish and Swedish clients. In order to mitigate the risk, during the period under review the Company enhanced its position in the Spanish market. The Company is always considering new markets or a shift in concentration, in order to diversify the concentration risk.

ANNEX II

Impairment:

Financial instruments and contract assets

The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on:
- Financial assets measured at amortized cost;
- Debt investments measured at FVOCI; and
- Contract assets.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:
- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:
- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- The financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be Baa3 or higher per Moody's rating agency or BBB- or higher per Moody's Rating Agency.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer.
- A breach of contract such as a default or being more than 90 days past due.
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise.
- It is probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.