Risk Management Disclosures 2013

Deloitte Investment Services Limited

Introduction

Following the provisions of Directive DI144-2007-05 (namely the “Directive of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms”), Deloitte Investment Services Limited (“the Company”) has an obligation to publicly disclose information relating to the risk management objectives and policies of the Company as well as information regarding the capital adequacy requirements of the firm. The information will be published on an annual basis at a minimum and at the latest within five months from the end of each financial year.

1. Credit Risk

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 balance sheet date. In the ordinary course of business, the Company uses various control mechanisms to ensure that the provision of its services is given to clients with reliable history of credit and constantly monitors the payment of trade receivables.

Some concentrations of credit risk with respect to trade receivables exist due to the small number of customers. Trade receivables are shown net of any provision made for impairment of the receivables. Due to this factor the management of the Company believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in the trade receivables.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk:

	2013
	€000
Capital Requirements/Risk weighted assets:	
Cash	136
Trade and other receivables	122
Unlisted Investments	10
Other assets	11
Total Risk Weighted Assets	279
Credit Risk (8% of Total Risk Weighted Assets)	***22***

2. Market Risk

a. Foreign Exchange 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. At the year-end the Company had certain receivables and cash balances denominated in foreign currencies. The main currencies, whose fluctuations may have an impact on the results of the Company, are the British Pound, the US Dollar and the Swiss Franc. The management of the Company monitors on a regular basis the fluctuations in exchange rates and acts accordingly to minimize foreign exchange risk.

The table below shows the Company's exposure to Foreign Exchange Risk (Market Risk):

	Assets	**Liabilities**	**Overall Net FX Position**
2013	**€000**	**€000**	**€000**
GBP	6	0	6
USD	245	0	245
CHF	3	0	3
Total foreign exchange risk	254	0	**254**
Market Risk (8% of total foreign exchange risk)			***20***

Sensitivity Analysis

At 31 December 2013, the strengthening of Euro by 10% relative to the following foreign currencies with all other variables and especially interest rates held constant would have the following impact on the Company's own funds and results. In case of weakening of Euro by 10%, the same but opposite impact on the results would occur:

	Own Funds	***Results***
	2013	***2013***
	€000	***€000***
GBP	-	(1)
USD	-	(25)
	-	(26)

b. Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company is exposed to interest rate risk relating to short term lending. Other than cash at bank, which attracts interest at normal commercial rates, the Company has no other significant interest bearing financial assets or liabilities. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

On the day of presenting the accounts of the Company, the analysis of the interest bearing financial instruments was as follows:

		2013
		€000
Financial instruments with floating interest rate		
	Financial liabilities	(504)
	Financial assets	580
		76

Sensitivity Analysis

At 31 December 2013, the increase in interest rates by 100 basis points with all other variables and especially exchange rates held constant would have the following impact on the Company's own funds and results. In case of a decrease of interest rates by 100 basis points, the same but opposite impact on the results would occur:

	Own Funds	***Results***
	2013	***2013***
	€000	***€000***
Financial instruments with floating interest rate	-	1
	-	1

3. Liquidity Risk

Liquidity risk is defined as the risk 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 policies and procedures, such as to maintain sufficient amounts in cash and other financial assets with high liquidity, with the objective of minimizing such losses.

At 31 December 2013, the Company's only financial liabilities comprise trade and other payables which have a maximum maturity term of three months.

4. Other Risks

4.1 Operational Risk

The Cyprus economy has been adversely affected from the crisis in the Cyprus banking system in conjunction with the inability of the Republic of Cyprus to borrow from international markets. As a result, the Republic of Cyprus entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund (the "Troika"), for financial support, which resulted into an agreement and the Eurogroup decision of 25 March 2013. The decision included the restructuring of the two largest banks in Cyprus through "bail in". During 2013 the Cyprus economy contracted further with a decrease in the Gross Domestic Product.

The negotiations of the Cyprus Government with the European Commission, the European Central Bank and the International Monetary Fund (the "Troika"), in order to obtain financial support, resulted in an agreement and decision of the Eurogroup on 25 March 2013 on the key elements necessary for a future macroeconomic adjustment programme which includes the provision of financial assistance to the Republic of Cyprus of up to €10 billion. The programme aims to address the exceptional economic challenges that Cyprus is facing, and to restore the viability of the financial sector, with a view to restoring sustainable economic growth and sound public finances in the coming years.

The Eurogroup decision on Cyprus includes plans for the restructuring of the financial sector and safeguards deposits below €100.000 in accordance with European Union legislation. In addition, the Cypriot authorities have reaffirmed their commitment to step up efforts in the areas of fiscal consolidation, structural reforms and privatizations.

On 12 April 2013 the Eurogroup welcomed the agreement that was reached between Cyprus and the Troika institutions regarding the macroeconomic adjustment programme for Cyprus. Subsequently all the necessary procedures for the formal approval of the Board of Directors of the European Stability Mechanism were completed, as well as the ratification by Eurozone member states. Following the completion of the above procedures, the first tranche of the financing of the Republic of Cyprus was released in line with the provisions of the Memorandum.

On 22 March 2013 legislation was enacted by the House of Representatives concerning restrictive measures in respect of transactions executed through the banking institutions operating in Cyprus. The extent and duration of the restrictive measures are decided by the Minister of Finance and the Governor of the Central Bank of Cyprus and were enforced on 28 March 2013. The temporary restrictive measures, with respect to banking and cash transactions include restrictions on cash withdrawals, the cashing of cheques and transfers of funds to other credit institutions in Cyprus and abroad. They also provide for the compulsory partial renewal of certain maturing deposits.

On 29 March 2013 the Central Bank of Cyprus issued decrees relating to Laiki Bank and Bank of Cyprus, implementing measures for these two banks under the Resolution of Credit and Other Institutions Law of 2013.

On the basis of the relevant decrees, Laiki Bank was placed into resolution. What remained in Laiki Bank were mainly the uninsured deposits and assets outside Cyprus. The assets of Laiki Bank in Cyprus, the insured deposits and the Eurosystem financing have been transferred to Bank of Cyprus, with compensation for the value of the net assets transferred, the issue of shares by Bank of Cyprus to Laiki Bank.

The recapitalization process for the Bank of Cyprus was completed in accordance with the relevant decrees of the Resolution Authority through "bail-in", that is through the partial conversion of uninsured deposits into shares. In addition, the holders of shares and debt instruments in Bank of Cyprus on 29 March 2013 have contributed to the recapitalization of Bank of Cyprus through the absorption of losses.

Following the positive outcome of the first and second quarterly reviews of the Cyprus economic programme by the European Commission, the European Central Bank and the International Monetary Fund, during 2013, the Eurogroup endorsed the disbursement of the scheduled tranches of financial assistance to Cyprus.

The Company's management has assessed:

1. Whether any impairment allowances are deemed necessary for the Company's financial assets carried at amortized cost by considering the economic situation and outlook at the end of the reporting period. Impairment of trade receivables is determined using the "incurred loss" model required by International Accounting Standard 39 "Financial Instruments: Recognition and Measurement". This standard

requires recognition of impairment losses for receivables that arose from past events and prohibits recognition of impairment losses that could arise from future events, no matter how likely those future events are.

2. The ability of the Company to continue as a going concern

The Company's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Company.

On the basis of the evaluation performed, the Company's management has concluded that no provisions or impairment charges are necessary. The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment.

4.2 Concentration Risk

Concentration risk can arise from large individual exposures of a client and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc.

Some concentration of credit risk with respect to trade receivables exists due to the Company's small number of customers. The Company's experience in the collection of trade receivables has never caused debts which are past the due payment period of 180 days to be impaired. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Company's trade receivables.

The Company has a policy in place to monitor debts overdue by preparing on a monthly basis a debtors ageing report. Fees receivable which are past due the payment period are chased for collection.

A further aspect of concentration risk which the Company may be faced with is with regards to assets under advisement. For the most part, the Company's net income is derived from the collection of fees from a few large clients. Therefore concentrating on these large clients may pose a threat to the Company either if they fall due or decide to terminate their investment advisory agreement. For this reason the Company has begun seeking ways to attract additional funds under advisement from both individual and institutional investors.

4.3 Reputation Risk

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor customer service, fraud or theft, customer claims and legal action, regulatory fines.

The Company has policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company does not hold funds and/or financial instruments belonging to clients. In addition, the Company's Directors are made up of high caliber professionals who are recognized in the industry for their integrity and ethos; this adds value to the Company.

4.4 Strategic Risk

This could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

4.5 Business Risk

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. These are analyzed and taken into consideration when implementing the Company's strategy.

4.6 Capital Risk Management

This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company. Such procedures are explained in detail in the Internal Policy and Operations Manual ("the Manual") of the Company.

The Company is further required to report on its capital adequacy every six months and has to maintain at all times a minimum capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of accounts to monitor the financial and capital position of the Company.

4.7 Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with the relevant Laws and Directives issued by its supervisory body, the Cyprus Securities and Exchange Commission ("the Commission"). If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Manual. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore the risk of non-compliance is very low.

4.8 Legal and Compliance Risk

This could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

4.9 IT Risk

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. Policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

Capital Management

The adequacy of the Company's capital is monitored by reference to the rules established by the European Parliament and the Council as adopted by the Commission. In 2012 the Commission issued the Directive DI144-2007-05 (which abolishes and replaces the Directive DI144-2007-05 and DI144-2007-05(A)) for the calculation of the capital requirements of Investment Firms adopting the relevant European Union directive. MiFiD consists of three pillars: (I) minimum capital requirements, (II) supervisory review process and (III) market discipline. The Company has implemented the provisions of the Directive during the year ended 31st December 2013.

Pillar I – Minimum Capital Requirements

The Company adopted the Standardised approach for Credit and Market risk and the Basic Indicator approach for Operational risk.

According to the Standardised approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, after the consideration of various mitigating factors, according to the exposure class to which they belong. For exposures with institutions, the risk weight also depends on the term of the exposure (more favorable risk weights apply where the exposure is under three months). The categories of exposures the Company is exposed to with regards to credit risk are deposits with banks, other assets and fixed assets.

The Standardised measurement method for the capital requirement for market risk adds together the long and short positions of foreign exchange risk according to predefined models to determine the capital requirement. The main sources of foreign exchange risk for the Company are certain bank balances in foreign currencies and exposures in foreign currencies from fees receivables.

For operational risk, the Basic Indicator approach calculates the average, on a three year basis, of net income to be used in the risk weighted assets calculation. This includes the average over a 3 year period of advisory fees and interest income.

Pillar II – The Supervisory Review Process (SRP)

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 risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

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 original own funds. In addition the results and conclusions of ICAAP are disclosed.

According to the Commission's Directive, 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 auditors of the investment firm. The investment firm will be responsible to submit its external auditors' verification report to the Commission. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures have been made by the external auditors and sent to the Commission.

Capital management

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The Commission requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8%. The Commission may impose additional capital requirements for risks not covered by Pillar I.

During 2013 the Company had fully complied with all externally imposed capital requirements as shown in the table below:

	2013
	€000
Total Capital (Own Funds)	*203*
Capital Requirements/Risk Weighted Assets	
Credit, Counterparty Credit and Dilution Risks and Free Deliveries Capital Requirement	22
Settlement/Delivery Risk	0
Position, Foreign Exchange and Commodities Capital Requirement	20
Operational Risk Capital Requirements	119
Other and Transitional Capital Requirements	0
Total Risks	*161*
(Deficit)/surplus Capital Against Total Risks	42
Total Capital Adequacy Ratio	***10.08%***

Under the Directive, Own Funds consists mainly of paid up share capital, retained earnings less any proposed dividends, translation differences and un-audited current year losses. Current year profits are not added to own funds unless these are audited.