# Deloitte Investment Services Limited

Wealth Advisory Services

## Risk Management Disclosures 2015

## Introduction

Deloitte Investment Services (DIS) Ltd, a private entity with Company Registration Number HE 163314, is a Regulated Entity under License Number 068/06. The License was issued on 22/06/2006 by the Cyprus Securities and Exchange Commission (CySEC).

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 per Chapter 7, Sub-Chapter A and Annex XII of the Directive. 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.

## Regulatory framework

The CRD IV package, consisting of the Capital Requirements Directive ("CRD" or Directive 2013/36/EU) and the Capital Requirements Regulation ("CRR" or Regulation (EU) No 575/2013) is applicable from 1 January 2014 and repeals Directives 2006/48/EC and 2006/49/EC.

In light of the above, CySEC has proceeded with the following actions:

- Amended the Investment Services and Activities and Regulated Markets Law – Law144(1)/2007;
- Implemented Regulation (EU) 575/2013 of the European Parliament and of the Council of 26
- June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no 648/2012;
- Released Directive DI144-2014-14 for the prudential supervision of Investment Firms;
- Released Directive DI144-2014-15 on the discretions of the Cyprus Securities and Exchange Commission arising from Regulation (EU) No 575/2013;
- Released new supervisory reporting templates.

## Scope of application

Under the new Regulations, Deloitte Investment Services Limited is exempted from capital adequacy reporting requirements under CRD IV and from the ICAAP and Pillar III disclosures reporting requirements.

## Risk Management Disclosures

Notwithstanding, the Company is exposed to market price risk, interest rate risk, credit risk, liquidity risk, currency risk, operational risk, compliance risk, litigation risk, reputation risk, capital risk management and other risks arising from the financial instruments it holds. Below are extracts from the audited and signed Financial Statements of the Company, outlining the risk management policies employed by the Company to manage these risks.

## 22.1 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 as the Company has no significant interest bearing assets. The Company is exposed to interest rate risk in relation to its non-current borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

At the reporting date the interest rate profile of interest- bearing financial instruments was:

| | **2015** | 2014 |
|---|---|---|
| | **€** | € |
| **Variable rate instruments** | | |
| Financial assets | **562.417** | 663.564 |
| | **562.417** | 663.564 |

<u>Sensitivity analysis</u>
An increase of 100 basis points in interest rates at 31 December 2015 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. For a decrease of 100 basis points there would be an equal and opposite impact on the profit and other equity.

| | **Profit or loss** | |
|---|---|---|
| | **2015** | 2014 |
| | **€** | € |
| Variable rate instruments | **5.624** | 6.636 |
| | **5.624** | 6.636 |

## 22.2 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.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | **2015** | 2014 |
|---|---|---|
| | **€** | € |
| Trade and other receivables | **8.626** | 12.305 |
| Cash at bank | **562.417** | 472.360 |
| Bank deposits | **-** | 191.204 |
| | **571.043** | 675.869 |

## 22.3 Liquidity risk

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

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

| **31 December 2015** | Carrying amounts | Contractual cash flows | 3 months or less | 3-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| Bank overdrafts | 3.176 | 3.176 | 3.176 | - | - | - | - |
| Trade and other payables | 4.388 | 4.388 | 4.388 | - | - | - | - |
| Payable to the parent company* | 447.148 | 447.148 | - | - | 447.148 | - | - |
| | **454.712** | **454.712** | **7.564** | **-** | **447.148** | **-** | **-** |

| 31 December 2014 | Carrying amounts | Contractual cash flows | 3 months or less | 3-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| Bank overdrafts | 5.557 | 5.557 | 5.557 | - | - | - | - |
| Trade and other payables | 1.605 | 1.605 | 1.605 | - | - | - | - |
| Payable to the parent company* | 529.018 | 529.018 | - | - | 529.018 | - | - |
| | **536.180** | **536.180** | **7.162** | **-** | **529.018** | **-** | **-** |

* There is no contractual obligation of repayment within the next 12 months for amounts payable to the parent company. These amounts are shown as due more than one year in the financial position.

## 22.4 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 recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollars and the British Pounds. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| United States Dollars | **-** | - | **209.029** | 182.377 |
| Swiss Francs | **-** | - | **5.639** | 4.704 |
| British Pounds | **-** | - | **7.123** | 6.720 |
| | **-** | - | **221.791** | 193.801 |

Sensitivity analysis

A 10% strengthening of the Euro against the following currencies at 31 December 2015 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the Euro against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

| | **Profit or loss** | |
|---|---|---|
| | **2015** | 2014 |
| | **€** | € |
| United States Dollars | **(20.903)** | (18.238) |
| Swiss Francs | **(564)** | (470) |
| British Pounds | **(712)** | (672) |
| | **(22.179)** | (19.380) |

## 22.5 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.

## 22.6 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.

### 22.7 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.

### 22.8 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.

### 22.9 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from last year.

### 22.10 Other risks

The general economic environment prevailing in Cyprus and internationally may affect the Company's operations to a great extent. Economic conditions such as inflation, unemployment, and development of the gross domestic product are directly linked to the economic course of every country and any variation in these and the economic environment in general may create chain reactions in all areas hence affecting the Company.

**Fair value estimation**

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the reporting date.

**Fair value measurements recognised in statement of financial position**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| **31 December 2014** | Level 1<br>€ | Level 2<br>€ | Level 3<br>€ | Total<br>€ |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets available for sale | 9.862 | - | - | 9.862 |
| **Total** | **9.862** | **-** | **-** | **9.862** |

Financial assets available for sale totaling € 9.862 on December 31, 2014 consist of Bank of Cyprus shares, which have resulted from the conversion of 47.5% of the Company's deposits at the Bank of Cyprus in shares. These shares have been disposed of during 2015 at a loss of € 1.456.