

**OMEGA FUNDS INVESTMENT LTD
PILLAR III DISCLOSURES
BASEL III**

YEAR ENDED 31 DECEMBER 2014

May 2015

ACCORDING TO SECTION 4 (PAR. 32) OF THE CYPRUS SECURITIES AND
EXCHANGE COMMISSION **DIRECTIVE DI144-2014-14** FOR THE PRUDENTIAL
SUPERVISION OF INVESTMENT FIRMS OF INVESTMENT FIRMS

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Overview

1.1 Background

This report has been prepared in accordance with Section 4 (Paragraph. 32) of the Cyprus Securities and Exchange Commission (hereinafter the “CySEC”) Directive DI144-2014-14 of 2014 (the ‘Directive’) for the prudential supervision of investment firms which implements the Regulation 575/2013 (the “Regulation”) and the European Directive 2013/36/EU (the “European Directive”).

The Regulation framework consists of a three “Pillar” approach:

- **Pillar I** establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating RWA.
- **Pillar II** requires firms and supervisors to take a view on whether a firm should hold additional capital against risks considered under Pillar I that are not fully captured by the Pillar I process (e.g. credit concentration risk); those risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk); and factors external to the firm (e.g. business cycle effects). 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 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 as applicable.

According to the 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. The Pillar III disclosure requirements are contained in Articles 431 to 455 of the Regulation. 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 CySEC. 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 has been made by the external auditors and sent to CySEC.

1.2. Disclosure Policy: Basis and Frequency of Disclosure / Location and verification

The following sets out the Company's Disclosure Policy as applied to Basel III Pillar III Disclosures.

1.2.1. Information to be disclosed

Omega Funds Investment Ltd's (hereinafter the "Company") policy is to meet all required Pillar III disclosure requirements as detailed in the Regulation.

1.2.2. Frequency

The Company's policy is to publish the disclosures required on an annual basis (*Article 433*, Frequency of disclosure of the Regulation). The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

1.2.3. Medium and location of publication

According to *Article 434*, Means of disclosures, of the Regulation, Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements. In this respect, the Company's Pillar III disclosures are published on the Company's website: <http://www.omegainvest.com.cy/>

1.2.4. Verification

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. The Company's Pillar III disclosures have been reviewed and approved by the Board.

1.3. Scope of application

The Company was incorporated in in the Republic of Cyprus on 27 May 2008 as a limited liability company with registration number *HE230096* and it is a financial services firm. The Company was licensed by the CySEC with number *CIF 102/09* to provide financial services, on 06 August 2009 .

Further to the company's CIF licence extension on the 4 February 2014, Table 1 below illustrates the current licence information of the Company:

Table 1 – Company Licence Information (based on the Third Appendix of the Law 144(I)/2007-2014)

		Investment Services and Activities								Ancillary Services						
		1	2	3	4	5	6	7	8	1	2	3	4	5	6	7
Financial Instruments	1	✓	✓	✓	-	-	✓	✓	-	✓	✓			-		-
	2	✓	✓	✓	-	-	✓	✓	-	✓	✓			-		-
	3	✓	✓	✓	-	-	✓	✓	-	✓	✓			-		-
	4	✓	✓	✓	-	-	✓	✓	-	✓	✓			-		-
	5	✓	✓	✓	-	-	✓	✓	-	✓	✓	✓	✓	-	✓	-
	6	✓	✓	✓	-	-	✓	✓	-	✓	✓	✓	✓	-	✓	-
	7	✓	✓	✓	-	-	✓	✓	-	✓	✓			-		-
	8	✓	✓	✓	-	-	✓	✓	-	✓	✓			-		-
	9	✓	✓	✓	-	-	✓	✓	-	✓	✓			-		-
	10	✓	✓	✓	-	-	✓	✓	-	✓	✓			-		-

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The Company is authorised to provide the following Investment Services, in accordance with Part I of the Third Appendix of the Law 144(I)/2007-2014):

1. Reception and transmission of orders in relation to one or more financial instruments
2. Execution of orders on behalf of clients
3. Dealing on own account
6. Underwriting of financial instruments and/or placing of financial instruments on a Firm commitment basis
7. Placing of financial instruments without a firm commitment basis

The Company is authorised to provide the following Ancillary Services, in accordance with Part II of the Third Appendix of the Law 144(I)/2007-2014):

1. Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
2. Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
3. Advice to undertakings on capital structure , industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings.
4. Foreign exchange services where these are connected to the provision of investment services
6. Services related to underwriting.

The Company is authorised to provide the aforementioned investment and ancillary services, as applicable for each service, for the following Financial Instruments, in accordance with Part III of the Third Appendix of the Law 144(I)/2007-2014:

1. Transferable Securities
2. Money Market Instruments
3. Units in Collective Investment Undertakings
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).
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, forwards 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 recognised clearing houses or are subject to regular margin calls.
8. Derivative instruments for the transfer of credit risk.
9. Financial contracts for differences
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 one 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

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derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

Moreover, following the implementation of CRDIV, the Company is categorised as “**Full Scope**” CIF with minimum/initial capital requirement of Euro 730.000.

Based on *Article 436*, Scope of the Application, of the Regulation, the Company is neither consolidated nor deducted from own funds.

2. Governance - Board and Committees

2.1 The Board of Directors

The Board of Directors has the overall responsibility for the establishment and oversight of the Company’s Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust. The Board comprises of 2 executive directors and 2 independent non-executive directors.

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the Board of Directors, Committees, Senior Management and staff constituting the Company.

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company’s leadership framework.

The Company implements and maintains adequate risk management policies and procedures which identify the risks relating to the Company’s activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify. The Investment Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.

2.2 Number of Directorships held by members of the Board

Based on Directive, Section 4, Paragraph 32 (*Article 435(2)(a)* of Regulation) the CIF discloses the number of directorships held by members of the management body, as follows:

Director	Function	Internal Directorships
Mr. Roman Levshin	Executive Director	1
Mr. Marinos Vassiliou	Executive Director	1
Mrs. Areti Charidemou	Non-Executive Director	1
Mrs. Marina Droushiotou	Non-Executive Director	1

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2.3 Governance Committees

In order to support effective governance and management of the wide range of responsibilities the Board is in process of establishing the *Risk Management Committee*. The role of this Committee is to provide oversight, review and challenge of the material risks both current and future affecting the business whilst ensuring that there is effective management and control of all key risks and issues facing the Company. It is noted that the composition of the Risk Committee should be members of the board of directors who do not perform any executive function in the company concerned.

The Risk Management Committee, inter alia, scrutinizes, and decides on various risks inherent with the operation of the Company with the view to increase the awareness of, formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company. Moreover, the Risk Management Committee reviews the risk management procedures in place (monitors and controls the Risk Manager in the performance of his duties and the effectiveness of the Risk Management Department).

3. Own Funds

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

During the 12 month accounting period to 31 December 2014 the Company complied fully with all capital and liquidity requirements and operated well with the regulatory requirements.

The minimum Total Capital Ratio (i.e. 8%) was maintained by the Company during the year.

3.1 Tier 1 & Tier 2 Regulatory Capital

According to *Article 437* of the Regulation, Own Funds Disclosures, Institutions shall disclose details of Common Equity Tier 1, Tier 2 and deductions to own funds of the institution. Furthermore, Institutions shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 2 instruments and Tier 2 instruments issued by the institution. In this respect, the Company's Tier 1 capital is wholly comprised of Core Tier 1 Own Funds. Specifically, Equity capital comprises share capital, share premium, Profit and loss reserves.

The composition of the capital base and capital ratios of the company is shown in the following table:

	2014	2013
	€000	€000
Core Tier 1 Capital (Original Own Funds)		
Share capital	1.000	1.000
Reserves (Retained earnings)	4.037	72
Income/Loss from current year	6.594	3.965
Regulatory Deductions		
Intangible Assets	-7	-4
Core Tier 1	11.624	5.033
Tier 2 Capital	0	0
Total Own Funds	11.624	5.033
Core Tier 1 Capital Ratio	54.69%	41.98%
Tier 1 Capital Ratio	54.69%	41.98%
Total Capital Ratio	54.69%	41.98%

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

Article 437 of the Regulation requires disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments.

Additionally, in order to meet the requirements for disclosure of the main features of these instruments, as referred to in point (b) and (c) of Article 92(3), the company discloses the capital instruments' main features as outlined below:

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Capital Instruments Main Feature	CET1	AT1	T2
Issuer	Omega Funds Investment Ltd	N/A	N/A
Regulatory Treatment			
Eligible at Solo/(sub-)consolidated/solo	Solo		
Instrument type	Common Equity		
Amount recognized in regulatory capital	€1.000k		
Nominal amount of instrument	€1		
Issue Price	€1		
Accounting classification	Shareholders Equity		
Original date of issuance	€580.000 22/02/2012 €420.000 15/11/2013		
Perpetual or dated	Perpetual		
Original maturity date	No maturity		
Issuer call subject to prior supervisory approval	No		

It is noted that the Company does not have any forms of hybrid capital.

3.3 Deductions from Tier 1 Own Funds

Intangible assets relate to Computer Software, for the net amount of **EUR 7.730**, which relates primarily to the internal development of IT software assets in relation to the development of the operational platform.

4. Compliance with Regulatory Capital and the overall Pillar 2 Rule

4.1 Internal Capital

The purpose of capital is to provide sufficient resources to absorb the losses that a firm does not expect to make in the normal course of business (unexpected losses). The Company aims to maintain a minimum risk asset ratio which will ensure there is sufficient capital to support the Company during stressed conditions. The Company has adopted the Standardized Approach to the calculation of Pillar I minimum capital requirements for Credit and Operational Risk.

4.2 Approach to assessing adequacy of Internal Capital

The Company has established an Internal Capital Adequacy Assessment Process (hereinafter, the "ICAAP"), documented it in an ICAAP Manual and produced in this regard the ICAAP Report, as per the Guidelines GD-IF-02 & GD-IF-03. Upon CySEC's request the ICAAP Report shall be submitted to CySEC.

The Company operates a fully integrated ICAAP process throughout the year that rolls into the final ICAAP assessment. The Company also performs monthly key risk assessments supported by periodic stress testing. The ICAAP process considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be

mitigated and the amount of capital that it is prudent to hold against them both currently and in the future.

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

4.3. Pillar I Capital Requirements

The following table shows the overall Pillar I minimum capital requirement and risk weighted assets for the Company under the Standardised Approach to Credit and Operational Risk.

4.3.1 Credit Risk

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms. 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.

The Company has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Directive. The Company continuously monitors the fair value calculations, forecast and actual cash flows, and cost budgets so that to ensure that the carrying level of Company's own funds and consequently the Capital Adequacy ratio meet the regulatory requirements at all times.

No concentrations of credit risk existed at year end while it uses the Standardized Approach to Credit Requirements for the calculation of the credit risk.

Cash balances during the year are held with financial institutions outside Cyprus. Furthermore, the Company has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Directive.

4.3.1.1. Credit Risk – Risk Weighted Assets

Based on the Directive, Section 4, Paragraph 32 (*Article 442(c)* of Regulation 575/2013) the CIF shall disclose the total number of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes. The Company's total exposure was as follows:

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	Risk Weighted Assets	8% Own Funds Capital Requirements	Risk Weighted Assets	8% Own Funds Capital Requirements
	2014		2013	
	€000	€000	€000	€000
Exposure class				
Institutions	2.803	224	572	46
Other assets and receivables	473	38	2.196	176
Public Sector Entities	61	5	42	3
Equity	45	4	-	-
Total	3.382	271	2.810	225

Article 112 of the Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

4.3.1.2. Credit Risk – Analysis of Exposures by Credit Quality Step

Based on the Directive, Section 4, Paragraph 32 (Article 444(a) and (e) of Regulation 575/2013) the CIF shall disclose the names of the nominated ECAIs and the exposure values along with the association of the external rating with the credit quality steps. In determining risk weightings for use in its regulatory capital calculations, the Company uses Moody's as External Credit Assessment Institution (ECAI) and the exposure values with their associated credit quality steps are as follows:

The table below shows the total exposure to credit risk according to the CQS:

31 December 2014								
Credit Quality Step								
€000								
Exposure class	1	2	3	4	5	6	Unrated	Total
Institutions	-	8.520	-	-	263	252	2.262	11.297
Other assets and receivables	-	-	-	-	-	-	473	473
Public Sector Entities	-	-	-	-	61	-	-	61
Equity	-	-	-	-	-	45	-	45
Total	-	8.520	-	-	324	297	2.735	11.876

Article 112 of the Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

4.3.1.3. Credit Risk – Risk Weighted Assets by Geographical distribution of the exposure classes

Based on the Directive, Section 4, Paragraph 32 (*Article 442(d)*) of Regulation 575/2013) the CIF shall disclose the geographical distribution of the exposures, broken down in significant areas by material exposures classes. The geographical distribution of the exposure classes of the Company are as follows:

31 December 2014					
Geographical Distribution of the Exposures					
€000					
Exposure class	EMEA	Asia	Americas	Other	Total
Institutions	9.810	1.487	-	-	11.297
Other assets and receivables	473	-	-	-	473
Public Sector Entities	61	-	-	-	61
Equity	45	-	-	-	45
Total	10.389	1.487	-	-	11.876

Article 112 of the Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

4.3.2. Counterparty Credit Risk

Counterparty Credit Risk (CCR) may be defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, repurchase agreements and long settlement transactions.

The Company in its ordinary course of business enters into over the counter (OTC) trades only on a DVP (Delivery Versus Payment) basis. Some trades are cleared through a highly rated clearing center based in EU, as part of its credit mitigation techniques.

4.4. Market Risk

Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. From a regulatory perspective, market risk stems from all the positions included in banks' trading book as well as from commodity and foreign exchange risk positions in the whole balance sheet.

As per requirement of *Article 445* of the Regulation, the Company shall disclose the own funds requirements for Market Risk exposures.

4.4.1. Foreign Exchange Risk

The Company's reporting currency is the Euro. Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The

risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's reporting currency.

Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The main currency, whose fluctuations may have a significant impact on the results of the Company are the US Dollar and the Russian Roubles. At the year-end the cash balances and receivables denominated in foreign currencies were significant.

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

	Exposure to foreign exchange risk		
	Net Position		
	Assets (Long)	Liabilities (Short)	Overall Net FX Position
2014	€000	€000	€000
USD	6.792	0	6.792
RUB	1.468	0	1.468
Total foreign exchange risk	8.260	0	8.260
<i>Capital Base</i>	11.624		
2 % Capital Base	232		
Market Risk (8% of total foreign exchange risk)	661		

	Exposure to foreign exchange risk		
	Net Position		
	Assets (Long)	Liabilities (Short)	Overall Net FX Position
2013	€000	€000	€000
USD	2.803	0	2.803
RUB	1.764	0	1.764
Total foreign exchange risk	4.567	0	4.567
<i>Capital Base</i>	5.033		
2 % Capital Base	101		
Market Risk (8% of total foreign exchange risk)	365		

4.4.2. Position Risk

The risk involved with a certain trading position, commonly incurred due to the changes in price of the debt and equity instruments. The Company calculates its capital requirements for position risk as the sum of the own funds requirements for the general and specific risk of its positions in debt and equity instruments. Securitisation positions in the trading book are treated as debt instruments.

4.4.3. Commodities Risk

The risk of the unexpected changes in commodities prices. These commodities are split into precious metals (except gold), base metals, agricultural products and other energy products (oil gas). The Company calculates its capital requirement with respect to commodities risk using the Simplified Approach.

4.4.4. 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. 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.

4.4.5. 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 with the object of minimizing such losses.

4.5. Operational Risk

Operational risk (as per *Article 446* of the Regulation) is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide range of issues.

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.

Furthermore, the Company has in place policies and processes whose implementation assists with the evaluation and management of any exposures to operational risk.

For the calculation of operational risk in relation to the capital adequacy reports, the Company uses the Basic Indicator Approach. Based on the relevant calculations in the

Company's capital requirements, the figure calculated shows that the Company's exposure to operational risk, as at 31st of December 2014, was **Euro 9.611.000** as provided by the table below:

The tables below show the Company's exposure to Operational Risk:

2014	Year 1	Year 2	Year 3	Average
	€000	€000	€000	€000
Total Net Income from Activities	8.238	5.687	1.452	5.126
2013				
Total Net Income from Activities	5.687	1.452	239	2.459

Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15% of the above relevant indicator, resulting in **Euro 769.000** capital requirements (2013: Euro 369.000)

4.6. Leverage Ratio

Based on the Directive, Section 4, Paragraph 32 (*Article 451* of Regulation 575/2013) the CIF shall disclose the Leverage Ratio and how it applies the definition of Tier 1 Capital. The Company's Leverage Ratio for the period up to 31 December 2014 was **97.88%** based on the fully phased-in definition of Tier 1.

4.7. Return on Assets

Based on the Directive, Paragraph 19, CIFs must disclose in their annual report among the key indicators their return on assets, calculated as their net profit divided by their total balance sheet. In this respect, please note that the Company's Return on Assets for the year is **55.49%** (EUR 6.594.298 / EUR 11.883.999)

4.8. Other Risks

4.8.1. Concentration Risk

This includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc.

Concentration risk was partly addressed through diversification of counterparties, namely banking institutions and the amendment of the policy and procedures of credits and loans as in the relevant section of the Company's Internal Operations Manual (IOM).

Some concentration of credit risk with respect to trade receivables exists due to the Company's small number of counterparties. The Company's experience in the collection of trade receivables has never caused debts which are past due and have to be impaired. The company has a policy in place to monitor debts overdue by preparing debtors ageing reports.

4.8.2. 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, legal action and regulatory fines.

The Company has transparent 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 provides high quality services to clients. In addition, the Company's Board of Directors is made up of high caliber professionals who are recognized in the industry for their integrity and ethos; this adds value to the Company.

4.8.3. 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.

4.8.4. 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.

4.8.5. 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 the Procedures Manual of the Company.

The Company is further required to report on its capital adequacy quarterly 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 management accounts to monitor the financial and capital position of the Company.

4.8.6. Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. 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 Procedures 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.

4.8.7. 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.

4.8.8. 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. Specifically, 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.

4.8.9. Risk Reporting

The Company maintains a system in place to record any risk event incurred on a special form duly completed by personnel of each department and is submitted to the Compliance officer and Risk manager when such event occur.

5. Remuneration policy

The Company has established a remuneration policy, which its purpose is to set out the remuneration practices of the Company taking into consideration the salaries and benefits of the employees, in accordance with the provisions of Directive as well as the Circular 031 (Circular 031 has been issued in place of Guidelines GD-IF-07 for the correct filing purposes) on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Company's size, internal organization and the nature, scope and complexity of its activities.

The design of the Policy is approved by the people who effectively direct the business of the Company, after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance. The people who effectively direct the business are responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks that remuneration policies and practices can create.

Furthermore, the Policy also benefits from the full support of senior management or, where appropriate, the supervisory function, so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures.

Finally, the Policy adopts and maintains measures enabling them to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

5.1. Remuneration System

Based on the Directive, Section 4, Paragraph 32 (*Article 450* of Regulation 575/2013), the following is applicable with regards to the Company's remuneration system:

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management and members of the Board of Directors; the said practices are established to ensure that the rewards for the 'executive management' are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels.

The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long term success.

The remuneration mechanisms employed are well known management and human resources tools that take into account the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives.

The Company's remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

It is noted that the Company has taken into account its size, internal organisation and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee (based on paragraph 22 of the Directive). Decisions on these matters are taken on a Board of Directors level while the remuneration policy is periodically reviewed.

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's rank in the Company and professional activity as well as market practice.

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The two remuneration components are:

- fixed remuneration (including fixed supplements)
- other benefits

The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

5.2. Performance Appraisal

The Company implements a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit. These Indicators include quantitative as well as qualitative criteria. The appraisal is being performed as follows:

- a. Objectives are set in the beginning of each month, quarter and/or year (each department is being appraised on different periods) defining what the Company functions, departments and individuals are expected to achieve over an upcoming period of time.
- b. Performance checks and feedbacks: the Heads of Departments and the General Manager provide support and feedback to the concerned staff during the time periods decided, during the daily activities or during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.
- c. Annual performance evaluation: takes place annually, usually at the end of each year.

5.3. Remuneration of Senior Management Personnel and Directors

The remuneration of the senior management personnel of the Company, including Board of Directors are shown in the following tables:

2014	Directors		Key Management Personnel	
	Number of beneficiaries	Remuneration	Number of beneficiaries	Remuneration
Fixed reward	2	€13.020	8	€446.697
Variable reward	-	-	-	-
Total	2	€13.020	8	€446.697

2013	Directors		Key Management Personnel	
	Number of beneficiaries	Remuneration	Number of beneficiaries	Remuneration
Fixed reward	2	€13.020	8	€340.590
Variable reward	-	-	-	-
Total	2	€13.020	8	€340.590

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Based on Paragraph 5(2) of the Directive, it is required to disclose the number of natural persons that are remunerated Euro 1 million or more per financial year, in pay brackets of Euro 1 million, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. Nevertheless, currently there are no natural persons at the Company that are remunerated Euro 1 million or more per financial year and as such the above disclosure is not applicable to the Company.

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