

Omega Funds Investment Ltd

Risk Management Disclosures Year ended 31st December 2017

“This document has been prepared in accordance with the provisions of Title II (“Technical Criteria on Transparency and Disclosure”), Articles 435-455 of Regulation (EU) No 575/2013 of 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms”

Signed for identification purposes only
Deloitte Limited



Contents

1. Introduction & Scope of Application.....	2
2. License Information.....	2
3. The Company's Approach to Risk Management.....	3
4. Risk Management Framework	4
5. Adequacy of Risk Management Arrangements.....	5
6. Risk Statement.....	6
7. Internal Governance.....	9
8. Disclosures on Governance Arrangements	13
9. Material Risks.....	15
10. Analysis of Risks	16
11. Capital Management.....	25
12. Remuneration Policy and Practices.....	33

1. Introduction & Scope of Application

1.1. Omega Funds Investment Ltd (hereinafter called the “Company”) is an investment firm regulated by the Cyprus Securities and Exchange Commission (License No. 102/09). The *Risk Management Disclosures* (hereinafter called “the *Disclosures*”) are provided to clients and potential clients and to all market participants in accordance with the provisions of Title II (“*Technical Criteria on Transparency and Disclosure*”), Articles 435-455 of Regulation (EU) No 575/2013 (hereinafter “*the Capital Requirements Regulation*” or “*the CRR*”) of 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

1.2. The Company obtained its license to act as a Cypriot Investment Firm, on the 6th of August 2009. The information provided in the *Disclosures* is based on procedures followed by the senior management of the Company to identify, measure, monitor and manage risks for the year ended 31st December 2017 and on annual and other reports submitted to the competent authority, the Cyprus Securities and Exchange Commission (hereinafter called the “CySEC”), for the year under review. The Company’s reporting currency is the Euro.

2. License Information

The table below illustrates the current license information of the Company as at the time of preparation of the *Disclosures*.

		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	✓	✓	✓	✓	-	-	-	-	✓	✓					

Signed for identification purposes only

3. The Company's Approach to Risk Management

- 3.1. In order to be sufficiently positioned to manage financial and non-financial risks in a company that operates in markets across the globe, offering both investment and ancillary services mostly in relation to transferable securities such as fixed income securities, exchange traded shares, over the counter instruments related to foreign exchange, repurchase and reverse repurchase agreements etc. to clients of international origin, the establishment and implementation of sound risk management policies and procedures is a necessity.
- 3.2. As a result of the aforementioned, the Company has indeed established an effective risk oversight structure and the necessary internal organisational controls to ensure that the identification and management of its financial and non-financial risks is being performed in an adequate manner, efficiently implements the necessary policies and procedures, sets and monitors relevant risk limits and complies with the requirements of applicable legislation.
- 3.3. The principal responsibilities of the Company's Board of Directors, the Senior Management, the Internal Auditor, and the Risk Management function in relation to the management of the Company's risks include the following:
- The Board reviews and discusses, during its meetings, the written reports prepared by the Risk Manager and identifies the risks faced by the Company;
 - The Company's Senior Management also reviews the written reports prepared by the Risk Manager, applies the decisions of the Board with respect to risk management and monitors whether all the Company's risk management procedures are followed;
 - The Internal Auditor evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures with respect to risk management;
 - The Risk Manager ensures 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 operation of the Company in general. Furthermore, the Risk Manager bears the responsibility to monitor the following:
 - the adequacy and effectiveness of the risk management policies and procedures that are in place,
 - the level of compliance by the Company and its relevant persons with the adopted policies and procedures, in addition to the Company's obligations stemming from applicable legislation, and

- the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures;
- Moreover, the Risk Manager is responsible for making recommendations and indicating, in particular, whether the appropriate remedial measures have been taken in the event of any deficiencies identified, as aforementioned.

4. Risk Management Framework

- 4.1. The Company has a full time Risk Manager who heads the Risk Management function of the Company (Mrs. Olga Mikhaleva). The Risk Manager, on a continuous basis, identifies, measures, monitors and manages the Company's exposures to all financial and non-financial risks.
- 4.2. As mentioned above, the Company's Risk Manager identifies, measures, monitors and manages the Company's exposures to external and internal risks. The Board's Investment Committee (which currently monitors and controls the work of the Risk Manager and which evaluates the effectiveness of the risk management policies and procedures), in close coordination with the Risk Manager, defines and suggests risk management limits with respect to risks identified, updates/amends the internally determined risk management measurement methodology when such necessity arises, monitors and assesses the Company's internal control mechanisms and risk management policies and procedures, recommends the imposition of additional risk mitigation mechanisms/controls and the allocation of additional capital with respect to risks not adequately covered or totally ignored in the context of regulatory requirements, et cetera. Nevertheless, the Company's Board bears and shall continue to bear the ultimate responsibility and has the final call as regards final decisions and approvals.
- 4.3. Subsequent to their identification, the Risk Manager profiles each risk using two parameters; the risk's potential financial impact and its probability of occurrence. In determining these parameters, the Risk Manager's competent, but subjective, judgment along with her applicable experience but also the Company's current financial position are seriously taken into consideration. The ending risk profile of each risk is of course determined by the interaction of the aforementioned rated parameters. In the case where such profile indicates materiality, which corresponds to a risk exposure falling outside the Company's risk tolerance, additional analysis is conducted and proposals are made to the

Board's Investment Committee as regards the necessity for the allocation (i.e. the preservation) of additional capital (based on a fraction of the potential financial impact) or whether additional risk control mechanisms need to be developed and implemented in order to mitigate the Company's exposure to such risks.

4.4. The Risk Manager also carefully examines and monitors the Company's capital adequacy, large exposures and the financial results of the Company based on management accounts received by the Company's Accounting Department.

4.5. All employees of the Company receive continuous support, on the job training and proper guidance on internal and regulatory risk management matters by the Company's Risk Manager and they are fully aware that risk related issues should be promptly reported to her.

5. Adequacy of Risk Management Arrangements

5.1. The Board is responsible for the overall risk management framework of the Company as it bears the ultimate responsibility and has the final call as regards final risk management related decisions and approvals and as regards the monitoring of the effectiveness of the Company's risk management arrangements.

5.2. In accordance with the provisions of the CRR, the Board has to provide a declaration on the adequacy of the Company's risk management arrangements and assure that the risk management systems in place are adequate with regard to the Company's profile and strategy.

5.3. Declaration

The Board acknowledges its ultimate responsibility for monitoring the effectiveness of the Company's risk management arrangements. Such arrangements are designed to identify and manage the Company's risks. The extinction of risks is undoubtedly not possible. As a result, the efficient implementation of the Company's risk management policies and procedures offers reasonable assurance against fraud, material misstatement, financial loss and reputational damage. Absolute assurance cannot possibly be provided.

In general, the Board has reasonable grounds to believe that the Company has established and implemented adequate risk management arrangements and the risk management systems in place are reasonably adequate with regard to the Company's profile and strategy.

Signed for identification purposes only



6. Risk Statement

6.1. In accordance with the provisions of the Regulation, the Board must provide a concise risk statement describing the Company's overall risk profile associated with its business strategy. It should include key ratios and it should show how the risk profile of the Company interacts with the risk tolerance set by the management body.

6.2. Risk Statement approved by the management body (i.e. the Board)

The activity of the Company is the provision of the Brokerage services, mostly with respect to transferable securities such as fixed income securities, exchange traded shares, exchange traded derivatives, over the counter instruments related to foreign exchange and derivatives, repurchase and reverse repurchase agreements etc. to clients of international origin.

Dealing on Own Account. The Company has low risk appetite. The main Company's portfolio includes Eurobonds with low price volatility and rated Ba3 or higher, with a maturity of 6 years (2025) or less, the target Yield-to-maturity of portfolio is 4-5%. The size of initial investment into the portfolio is to be 6 million USD, which should be leveraged via REPO trades by a total of 3 times (up to 18 million USD). The leverage may be smaller in case of unappropriated cash availability, but is not to exceed x3. The Company implements and will continue to implement its strategic plans whilst honoring both its regulatory and internally determined risk limits.

Although Portfolio Management was active throughout the year, it is still in its early stages.

The favorable outcome of the efficient interaction of the Company's risk profile (which is inevitably linked with the Company's business strategy) and its overall risk tolerance is evident in the key ratios relevant to different risk areas within the Company, as presented in the table that follows. Within 2017, the Company decided in essence to utilize part of its excess liquidity while maintaining healthy ratios which are still well above permissible thresholds.



Risk Area	Metrics	Comment	Measure
Regulatory Capital	Core Equity Tier I - CET1	The Company's core objective is to always maintain regulatory ratios well within the minimum thresholds imposed by CySEC, while utilizing available excess liquidity. The Company targets to maintain a robust capital adequacy position which allows it, at any point in time, to efficiently absorb the potential losses stemming from its exposures to risks.	CET1 = 21.32% Tier 1 Capital Ratio = 21.18%
Liquidity Risk	Current Ratio - CR	The largest part of the Company's current liabilities are trade and other payables whilst on the other side of the equation cash and cash equivalents as well as liquid financial instruments (available-for-sale portfolio) may cover such current liabilities. These financial assets are available upon demand, as they are held with credit and other financial institutions in current and other accounts of readily available nature. In addition, the aggregate amount of other current liabilities such as payables/accruals and other short term liabilities is relevantly small and can be met using funds held in various credit/financial institutions.	CR = 2.33
Market Risk	Capital charge as a % of total capital charges - CC%, Euro Eq. Exposure as a % of T1 Capital - CC	Although the Company is essentially immunized against Equity Risk, it is exposed to (a) Foreign Exchange Risk as mismatches between assets and liabilities do exist but are fully manageable. Although this quantifies as a material risk, the Company does not consider it as such because it mainly derives from keeping excess liquidity and other assets in currencies other than the reporting currency. In no case such mismatch prevent the Company to settle all its liabilities	CC% = 50.48% CC = 238.31%

Signed for identification purposes only



		(which are very small in relation to its equity) at any time, (b) interest rate risk since the company invested part of own funds to fixed income instruments (Eurobonds)	
Credit Risk	Exposures to Institutions and non-Institutions as a % of regulatory own funds - E% (calculated for the three largest exposures)	The Company has policies in place to ensure that proper diversification/dispersion of funds held with credit/financial institutions is assured. The largest part of the Company's funds are held with reputable European banks (lower default risk) which have high ratings issued by Moody's, S&P or Fitch and which are subject to regulatory supervision by the central banks in the jurisdictions where they are located while its investments in Eurobonds, expose the Company to their Issuers credit risk. Such risk is mitigated by the fact that The issuers have sufficient ratings by international rating agencies ranging Ba3 or higher.	E% Alfa Capital Holdings LTD = 28.15% E% SIB (Cyprus LTD) = 9.56% E% RN International Holding LTD = 18.24% E% SCF Capital = 17.05% E% Veon Holding = 17.04% E% GPB = 16.72% E% University of Oxford = 10.12%
Leverage Risk	CRR Leverage Ratio	Based on the Company's internal risk assessment, the Company is not seriously exposed to Leverage Risk. This can be further justified by looking at its latest leverage ratio based on audited figures. The said ratio has been estimated at around 51% which, in comparison with the indicative benchmark (minimum ratio) set by the Basel Committee of 3%, is considered highly acceptable. Despite the fact that the Company is not seriously exposed to risk of excessive leverage, it has established procedures to monitor such exposure and uses as indicators the leverage ratio and mismatches between assets and obligations.	LR = 51.26%
Operational Risk	The Company manages operational risk through a control-based		

Signed for identification purposes only



<p>(certain types of operational risk: Systems Failure Risk, Internal and External Fraud, Workplace Safety, Information and Technology Risk, External Events Risk, Execution, Delivery & Process Management)</p>	<p>environment in which procedures are documented and transactions are reconciled and monitored on a daily basis. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated. Further, the Company has in place documented policies and procedures whose implementation assists with the evaluation and management of any exposures to different types of operational risk. IT and Systems Policies, which include but are not limited to backup procedures, software/hardware maintenance, use of the internet and anti-virus procedures have been adequately documented and put in place. Furthermore, the Company has prepared a comprehensive business contingency and disaster recovery plan with recovery procedures and actions to be followed in the case of damage to any vital part of the Company's headquarters. Lastly, the Company implements a comprehensive training program to ensure that staff can securely perform multiple activities.</p>
<p>AML Compliance Risk</p>	<p>The Company has established policies, procedures and controls in order to mitigate Money Laundering and Terrorist Financing risks. Among others, these policies, procedures and controls include the adoption of a risk-based approach that involves specific measures and procedures in assessing the most effective way to identify and manage the Money Laundering and Terrorist Financing risk faced by the Company, the adoption of adequate Client Due Diligence and Identification Procedures, the establishment of minimum standards of quality and extent of the required identification data for each type of client, the receipt of additional data and information from clients for a better understanding of their activities and the on-going monitoring of high risk clients' transactions and activities. The Company purchased new systems which will automate the monitoring of accounts and transactions. In this respect, the Company is under the implementation process of SAP (the front-to-back system) while the implementation of iSPIRAL (KYC, Transactions monitoring, Case management software) has finished and its already being used.</p>

7. Internal Governance

7.1. The Company has adopted an effective internal governance framework as part of its overall corporate governance, on the basis of which the Company's processes and procedures are governed on a daily basis and which, in combination with additional allocation of capital (where deemed necessary) and/or additional risk controls, ensures mitigation of risks. The Company considers that its Internal Control Mechanisms are sufficient and adequate, taking under consideration the Company's level of complexity and operating model. A summary of the principal responsibilities of the Board, the Senior Management, the Internal Auditor, the Compliance Department, the Investment Committee and the Risk Management Function in relation to the management of the Company's risks is provided in the following subsections.

- 7.2. The Board of Directors has unequivocal responsibilities as regards the approval and the efficient monitoring of all risks identification and management mechanisms as aggregated within the Company's risk management framework (based on recommendations received by the Investment Committee and the Company's Risk Manager), the internal control mechanisms and the Company's capital adequacy. The Board is responsible for determining the Company's risk profile in terms of its overall risk tolerance/appetite and for arranging for the necessary work to be conducted in order for the Company to be able to operate within this predetermined risk profile at all times. Further, the Board is responsible for evaluating and monitoring the adequacy of the Company's capital both with respect to regulatory imposed limits and in proportion to the nature and level of material risks to which the Company is or might be exposed.
- 7.3. In addition to the above, the Board reviews and discusses, during its meetings, the written reports generated by the internal control functions of the Company (and approves the relevant Annual Reports), namely the Risk Management, the Internal Audit, the Compliance Department and the Money Laundering Compliance Department, so as to remain up to date with the Company's position as regards the aforementioned functions. Lastly, the Board is responsible to address any deficiencies identified throughout the said reports at the soonest possible, especially where there is a breach of the regulatory framework, something which could potentially have adverse consequences on the Company.
- 7.4. In accordance with the governing regulatory framework, the Company is required to have a Senior Management function, also named as the "4-Eyes" function, which will be responsible to ensure that the Company complies with its continuous obligations arising from its day to day operations. Given that the Company's "4-Eyes" function consists of two Executive Directors, its involvement in the ongoing operations is both direct and effective, ensuring the exercise of an efficient overall supervision, the provision of on the job advice/guidance on risk management related matters and the prevention of the possibility of a breach of the legal framework and/or the Company's internal policies and procedures.
- 7.5. The aforementioned executive directors, under their capacity as the "4-Eyes" of the Company, are responsible to perform frequent assessments and reviews of the Company's policies in order to ensure that they remain fully updated and reflective of the actual operations of the Company and that they provide a



complete, detailed and transparent picture of all the operations, internal controls and functions within the Company. In addition to the aforementioned, the Senior Management performs frequent assessments of any arrangements and procedures put in place which are not documented through the Company's IOM (i.e. internal department-specific procedures followed) so as to ensure that the Company is, at all times, in compliance with its obligations deriving from the relevant regulatory framework. Moreover, the "4-Eyes" function is responsible to decide on which corrective measures to be taken in cases where deficiencies are identified, which can potentially harm the financial performance and reputation of the Company if not addressed timely. It is also responsible to apply the decisions of the Board with respect to risk management. As a tool to ensure that the monitoring performed is both efficient and effective, the Senior Management ensures that written reports are provided by the Company's Compliance Officer, Internal Auditor and Risk Manager presenting each person's/function's findings as per their inspections performed throughout the year.

- 7.6. The Internal Audit Function (which is currently outsourced) evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures with respect to risk management. The Internal Audit Function reports to the Senior Management and the Board of the Company and is separated and independent from the Company's other functions and activities.
- 7.7. The Internal Auditor's aim is to ensure compliance of procedures included in the IOM with applicable regulatory framework, compliance of different departments of the Company with the IOM and its procedures in place and with the relevant decisions taken by the Board. This independent function is allowed full access to the software and to all documents, files and data of the Company and receives all necessary assistance by the employees and management of the Company in the course of exercising its duties. The conclusions of the regular or extraordinary audits are submitted in the form of a report to the Company's Board alongside with possible suggestions/recommendations in respect of any corrective and/or further action to be taken by the Company, at least annually.
- 7.8. Pursuant to the regulatory obligations of the Company and with the view to complement its Internal Governance Framework, the Board has appointed a full time Compliance Officer to head the Compliance and the Money Laundering Compliance Functions of the Company. The said Officer monitors and manages the Company's exposures to compliance and money laundering compliance risks. The main responsibilities of the Compliance Function is the

establishment, the implementation and the maintenance of effective policies and procedures designed to detect any risk of failure by the Company to comply with its obligations under applicable legislation, to put in place adequate measures and procedures designed to minimize such risks and to enable the competent authorities to exercise their powers effectively.

7.9. The Compliance Officer monitors the day to day operations of the Company and the actions of its personnel in order to ensure that such actions will conform to the internal control procedures and the laws and regulations governing the financial services industry and any other applicable laws and regulations. With respect to AML Compliance risk, the said function establishes and maintains adequate policies and procedures designed to detect potential threats related to Money Laundering and Terrorist Financing. The Compliance Officer is responsible to ensure the establishment and implementation of appropriate internal policies and procedures designed to prevent and suppress Money Laundering and Terrorist Financing in accordance with the provisions of applicable legislation and relevant FATF recommendations.

7.10. In order to ensure the independent and unhindered access of the Compliance Function to information necessary to exercise its duties and responsibilities, the Compliance Officer has wide access to the Company's information technology infrastructure, accounting records and to all client transactions and reports directly to the Company's Board. At least once a year, the Compliance Officer's Compliance and Anti Money Laundering Compliance Reports are discussed and approved by the Board which undertakes the responsibility of implementing corrective actions when necessary.

7.11. The existence of the Investment Committee 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 operation of the Company, in general. Despite the fact that it is primarily responsible for managing and evaluating the credit, market and operational risks of the Company, this committee bears the responsibility to monitor the adequacy and effectiveness of all risk management policies and procedures, the level of compliance by the Company and its relevant persons with such policies and procedures as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures, including failures by the Company's relevant persons to comply with those policies and procedures. The Investment Committee is actually a subcommittee of the Board. It monitors and evaluates the work of the Company's Risk Manager, whose recommendations are received and discussed

Signed for identification purposes only



during regular and/or ad-hoc meetings and are subsequently submitted to the Board for final approval. The Committee shall convene at least quarterly. Currently, as aforementioned, the risk management related responsibilities of the soon to be established Investment Committee are undertaken by the Board's Investment Committee which is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties. From this point onwards the phrases Investment Committee and Investment Committee shall be used interchangeably.

7.12. The Risk Manager (heading the Risk Management Function) identifies, measures, monitors and manages the Company's financial and non-financial risks and ensures that all exposures to different types of risks taken by the Company are in compliance with its requirements stemming from applicable legislation, with its internally determined limits of risk tolerance and that all necessary risk management policies and procedures are in place and are implemented efficiently. Moreover, the Risk Manager is responsible for making recommendations to the Investment Committee and to the Board and for indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified.

8. Disclosures on Governance Arrangements

8.1. Number of directorships held by members of the Board (including position in the Board of the Company)

Director	Function	Directorships (Executive)	Directorships (Non-Executive)
Mr. Roman Levshin	Executive Director	1	-
Mr. Marinos Vassiliou	Executive Director	1	-
Mr. Marios Kyriakou	Non-Executive Director	-	1
Mrs. Marina Droushiotou	Non-Executive Director	-	1

8.2. Recruitment procedure in relation to the selection of members of the Board of Directors

The Company follows an internal procedure for selecting the members of its Board of Directors. Firstly, they must have a clear criminal record and they must

Signed for identification purposes only

present a certificate of non-bankruptcy along with their detailed curriculum vitae. Secondly, they must be recognized in the industry for the integrity of their character, their ethos and their business culture. References are always required. They must also have the necessary academic and/or professional qualifications and definitely the relevant work experience. Further, they must ideally come from different sectors of the financial industry in order to sufficiently complement each other and they must have diverse skills and be competent enough in order to effectively exercise their duties. Furthermore, they need to have relevant financial knowledge and risk management experience in order to understand the risk characteristics of products/services offered by the Company. The current members of the Board identify and evaluate, based on the aforementioned criteria, potential candidates who would be able to respond to the requirements of the Company. The Company had not officially documented its recruitment policy up to the date of preparation of this report; however, it is currently in the process of doing so.

8.3. Diversity procedure in relation to the selection of members of the Board of Directors

The Company understands the necessity of having a Board constituted by members of diverse skills, financial knowledge and work experience. Diversity is one of the variables that is seriously taken into consideration in the identification and selection of members of the Board; hence, in the determination of its ultimate composition.

8.4. Investment Committee (in its risk management role)

As mentioned in section 6, "*Internal Governance*", the Investment Committee of the Company is a subcommittee of its Board of Directors which 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 operation of the Company, in general. Despite the fact that it is primarily responsible for managing and evaluating the credit, market and operational risks of the Company, it bears the responsibility to monitor the adequacy and effectiveness of all risk management policies and procedures, the level of compliance by the Company and its relevant persons with such policies and procedures as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures, including failures by the Company's relevant persons to comply with those policies and procedures.

The composition of the Investment Committee is as follows:

- Roman Levshin – Executive Officer
- Marinos Vassiliou– General Manager
- Vladislav Pankov - Head of DOA Department

The Investment Committee’s members discharge their duties solely in the joint interest of the clients and the Company, and exercise the level of care, skill, prudence and diligence that a prudent person, acting in a like capacity, would be expected to exercise in discharging such duties.

The Investment Committee targets to meet at least quarterly and all its decisions are taken on a majority vote. A quorum constitutes two persons present either physically or through conference calls. Quorum must be achieved before meetings can be considered open. The decisions of the Investment Committee are communicated to all relevant departments, in a timely manner relevant to their significance/urgency.

As aforementioned, the Investment Committee meets on a quarterly basis, at a minimum, except where the circumstances require extraordinary meetings, which can be called by the Risk Manager or by any member of the Investment Committee. In general, the Investment Committee presents its findings to the Board; however, the Company’s Board may decide to grant permission to the Investment Committee to approve the Company’s risk management policies and procedures and to take decisions on risk management related matters, on its behalf.

The Investment Committee has met five (5) times during 2017.

9. Material Risks

9.1. The Company identifies and categorizes all risks that it is currently exposed to, or to which it could potentially be exposed to in the future. As mentioned in section 4, “*Risk Management Framework*”, subsequent to their identification, the Risk Manager profiles each risk using two parameters; the risk’s potential financial impact and the risk’s probability of occurrence. In determining these parameters, the Risk Manager’s competent, but subjective, judgment along with her applicable experience but also the Company’s current financial position are seriously taken into consideration. The ending risk profile of each risk is of course determined by the interaction of the aforementioned rated parameters. In the case where such profile indicates materiality, which corresponds to a risk exposure falling outside the Company’s risk tolerance, additional analysis is conducted and proposals are made to the Board’s Investment Committee as regards the necessity for the allocation (i.e. the preservation) of additional

capital (based on a fraction of the potential financial impact) or whether additional risk control mechanisms need to be developed and implemented in order to mitigate the Company's exposure to such risks.

9.2. Following the aforementioned internal risk assessment, the Company considers as material the following risks:

- Credit Risk
- Foreign Exchange Risk
- Interest Rate Risk
- Funding Liquidity Risk
- General Operational Risk (includes several subtypes of Operational Risk)
- Legal and Compliance Risk
- Money Laundering and Terrorist Financing Risk
- Leverage Risk
- Reputational Risk
- Information Technology Risk

The analysis of the risks included in the following section of the *Disclosures* describes, among other risks, each type of material risk, the measures and policies taken by the Company to manage these risks and the status of the Company with respect to each risk, as applicable.

10. Analysis of Risks

10.1. Credit Risk

Credit Risk is the risk of loss due to the failure of a counterparty to fulfill its obligations. Holding other things constant, such risk is directly related to time (i.e. the longer the duration of a deal the greater the risk). All the custodians and other counterparties of the Company have been assessed in accordance with the provisions of the Company's Internal Operations Manual and Directive DI144-2007-01 of 2012 of the CySEC. The Company subdivides its overall exposure to Credit risk into two large categories:

- (a) *Market independent Credit Risk*, where the full principal amount is at risk. Among others, deposits held with credit and other financial institutions, money market placements, exposures in commercial paper (CP), certificates of deposits (CDs) and fixed income securities fall under this category. The Company is mainly exposed to Market Independent Credit Risk as a result of balances held with Credit and other Financial Institutions. The risk is that the counterparty will not meet its obligation

in respect to periodic payments (e.g. interest, if any) and/or balance owed. The amount of any guarantees (G) is deducted from the calculation of Market independent Credit Risk. This gives the adjusted Market independent Credit Risk.

(b) *Market Contingent Credit Risk*, where the amount of risk exposure is contingent upon the way market rates (e.g. foreign exchange rates) and prices move. The Company is mainly exposed to Market Contingent Credit Risk in respect to open profitable foreign exchange and other OTC deals with its trading counterparties. For example, if the counterparty in a foreign exchange deal defaults, the Company is exposed to a loss, the extent of which depends upon the way the relevant foreign exchange rate has moved since the deal was executed (i.e. the cost of replacing the deal at new prevailing market rates). The result of any open losing foreign exchange deals is deducted from this amount. This gives the adjusted Market Contingent Credit Risk.

The credit exposure to a single counterparty is the sum of adjusted Market independent Credit Risk and adjusted Market Contingent Credit Risk. During the course of 2017 the Company's largest part of its total exposures was of ICR nature.

The Company targets to set its maximum credit exposure to any counterparty in line with the loss that, statistically (i.e. based on credit ratings and relevant probabilities of default), can be expected from the particular exposure but also in relation to the level of the Company's regulatory own funds. To this end, the overall credit exposure to any given institution/non-institution is limited within internally established maximum counterparty limits, which are formed based on such expected losses and capped by the maximum credit exposure requirements. Where the amount of EUR 150 million is higher than 25 % of the institution's eligible capital the value of the exposure, after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 shall not exceed a reasonable limit in terms of the institution's eligible capital. That limit shall be determined by the institution in accordance with the policies and procedures referred to in Article 81 of Directive 2013/36/EU, to address and control concentration risk. This limit shall not exceed 100 % of the institution's eligible capital. Since the Company's eligible capital less than EUR 150 million the applicable limit is the 100% of eligible capital. During 2017 the above mention requirements were within the limits. The Company considers that there is limited counterparty credit risk deriving from trading operations since the vast majority of transactions are executed through DMA and the rest on a

Signed for identification purposes only



Delivery Versus Payment (DVP) basis, thus eliminating any settlement Counterparty Risk.

Further to the above, the Company has established policies designed to diversify concentration risk across countries to the best practical extent. In this respect, it should be noted that along with the revision of counterparty limits, the aforementioned risk mitigation policies are being reviewed regularly. Cash balances during 2017 were held mainly with financial institutions outside Cyprus. Further, as discussed, the Company has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty.

Lastly, the Company uses the Standardized Approach to Credit Requirements for the calculation of its credit risk in order to comply with the requirements of the CRR. The table below shows the Company's exposure to credit risk as at 31st December 2017:

Risk Weighted Assets (RWAs)	31/12/2017
Public Sector	€0
Institutions	€2,608,000
Reg. Government	€2,000
Corporates	€14,555,000
Other	€121,000
Equity	€136,000
Total RWAs	€17,422,000
Credit Risk (8% of RWAs)	€1,393,760

10.2. Foreign Exchange Risk

Foreign Exchange (FX) Risk is defined as the impact that adverse exchange rate changes may have on the financial position of the Company. In the ordinary course of business, the naturally created foreign exchange mismatches between the on and off balance sheet amounts of foreign currencies, expose the Company to foreign exchange (i.e. translation) risk.

The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of

Signed for identification purposes only



maximum value of exposure to a particular currency or currency pair. The Company intentionally keeps most of its own funds deposited in Non-Cyprus Bank accounts. It is exposed to the fluctuation of the United States Dollar (USD) and the Russian Ruble (RUB) versus the Euro, mainly due to the fact that the Company's biggest part of revenues are in USD, as well as RUB whereas the reporting currency is the Euro. Given the unstable situation throughout Eurozone, the management of the Company does not feel that at this point there is no need to convert and/or keep its reserves in EURO to reduce Foreign Exchange Risk further.

For the calculation of foreign exchange risk with respect to the requirements of the CRR, the Company uses the Standardized Approach. Based on the relevant calculations, the Company's capital requirement for position, foreign exchange and commodities risks, as at 31st of December 2017, was €791,360 (i.e. the overall net foreign exchange position in currencies other than the reporting currency of EUR was equal to €9,892,000).

10.3. Interest Rate Risk

Interest Rate Risk is the risk (variability in value) that is borne by an interest-bearing asset, such as a fixed income security, a loan or a deposit, due to the variability of relevant market interest rates. A company is exposed to interest rate risk due to the existence of interest-bearing liabilities and interest-bearing assets. Such exposure is usually measured with various means, the most usual one being the duration gap between total assets and total liabilities.

During the year under review, the Company was substantially independent from changes in market interest rates due to the fact that the Company, other than cash at bank, which attracts interest at normal commercial rates, has no other significant interest bearing financial assets or liabilities which could be affected by market driven fluctuations of the interest rates. As at end of year under review, the amount of EUR 13,950,698 was invested in Eurobonds (fixed income market instruments), the above mentioned investments are not affected by such market fluctuations since the rates involved are fixed. None-the-less, the Risk Manager monitors the interest rate fluctuations with the assistance of the accounting function and based on the fluctuations of the relevant rates, the necessary hedging activities will be undertaken, if applicable. The Company's capital requirement for Interest Rate Risk, as at 31st of December 2017, was €1,418,720 (i.e. the overall exposure was equal to €17,734,000)

10.4. Funding Liquidity Risk

Signed for identification purposes only



Liquidity Risk is the risk that, over a specific time horizon, the Company will be unable to meet its cash needs as a result of cash outflows exceeding cash inflows. The Company's major sources of liquidity risk are possible maturity mismatches between assets and liabilities, maturity mismatches between cash inflows and cash outflows and foreign exchange mismatches; albeit, at a lower extent.

The largest part of the Company's liabilities are current in nature trade and other payables whilst on the other side of the equation funds and available for sale financial assets held to cover such liabilities are available upon demand, as such funds and assets are segregated and held with credit and other financial institutions in current and other accounts of readily available nature. In addition, the aggregate amount of other current liabilities such as payables/accruals and other short term liabilities is relevantly small and can be met using funds held in various credit/financial institutions

In general, the Company's level of exposure to liquidity risk was from low to medium for the year under review and, as a result of the above mentioned inexistent maturity gap, the Company continuous to be not highly exposed to such risk.

10.5. General Operational Risk

General Operational Risk is the risk of loss resulting from inadequate or failed internal procedures, people and systems or from exogenous factors (external events). The following list presents the most important types of operational risks to which the Company is exposed; with some examples for each category (other types of operational risk are presented separately in the sections that follow):

- 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, negligent loss of Client assets.

The Company manages operational risk through a control-based environment in which procedures are documented and transactions are reconciled and monitored, on a daily basis. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated. Further, the Company has in place well-documented policies and procedures 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 returns, the Company uses the Basic Indicator Approach. Based on the relevant calculations, the Company's exposure to operational risk, as at 31st of December 2017, is Euro 9,939,000 (relevant capital requirements: Euro 795,120).

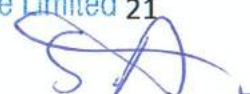
10.6. Legal and Compliance Risk

Compliance Risk is the risk that could arise as a result of a breach or non-compliance with laws, regulations, directives, circulars, contractual agreements or even ethical standards, which may have an effect on the revenue/income and, of course, on the capital of the Company. As far as Legal Risk is concerned, such risk pertains to the possibility that a contractual agreement with a counterparty may turn to be legally non-enforceable for any reason whatsoever (e.g. the counterparty may not be legally able to enter into such contract etc.). A special case of legal risk relates to regulatory risk, which pertains mostly to the possibility that applicable legislation might change during the life of a contractual agreement.

The probability of general compliance risk occurring is relatively low due to the internally established policies and procedures implemented by the Company and reviewed by the Internal Auditors on an annual basis. The Company's Internal Operations Manual and other internal manuals that properly guide compliance with applicable legislation and Company policies are revised and updated on a continuous basis.

The Company's organizational structure is designed to promote efficient coordination of duties and the management of the Company consists of individuals of adequate professional competence and integrity. In addition, the board of directors meets on a frequent basis in order to discuss general compliance issues and any suggestions to enhance compliance with legislation, agreements and internal policies are implemented by the Company's management.

Signed for identification purposes only



During the 2017, the Internal Auditor undertook an on-site internal audit inspection in order to assess the Company's compliance with the regulatory framework. Following the internal inspection, the Internal Auditor provided the Company with a list of recommendations for improvement in different compliance related areas.

The Company's aim is for the materialisation of the Compliance risk to be minimised to the lowest possible level and, as such, the Company has reviewed and examined in detail the Internal Auditor's recommendations and shall take all necessary remedy measures/actions in order to fully comply with the regulatory framework. Furthermore, the Company's Compliance Officer examined the level of compliance in certain areas of the Company with the relevant legislation in light of any deficiencies identified during the year under review and proposed appropriate remedy measures/actions to be taken (when and where applicable) within specific timeframes.

Furthermore, it must be noted that the compliance function had also offered training to the personnel and advisory services on compliance matters and involved dealing with compliance queries, such as compliance assistance to the personnel daily job tasks and to management decisions

10.7. Money Laundering & Terrorist Financing Risk

Money Laundering and Terrorist Financing Risk is the risk that the Company may be used as a vehicle to launder money and/or finance terrorism. The Company has established policies, procedures and controls in order to mitigate such risk. Amongst others, these policies, procedures and controls include the following:

- (a) The adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing risk faced by the Company;
- (b) The adoption of adequate Due Diligence and Identification Procedures in line with the client's assessed Money Laundering and Terrorist Financing risk;
- (c) Setting certain minimum standards of quality and extent of the required identification data for each type of client (e.g. documents from independent and reliable sources, third party information, documentary evidence);

Signed for identification purposes only



- (d) Obtaining additional data and information from clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction; and,
- (e) On-going monitoring of high risk clients' transactions and activities, as applicable.

The AMLCO's work during the year under review was concentrated on ensuring that the Company's policies and procedures in place, relating to the prevention and suppression of money laundering activities, were followed, communicated to the relevant personnel of the Company, as well as assessing the said policies and procedures in order to ensure compliance with the Law and the Directive, accordingly.

In this respect, the AMLCO's work has been mainly focused on the following areas:

- Compliance with new legislation, as applicable.
- Reviewing the performance of the Client due diligence procedures and obtaining appropriate identification documents and information from the potential Clients of the Company before the establishment of the business relationship with the Company.
- Reviewing the performance of due diligence procedures and documentation of existing Clients by obtaining necessary required documentation for the appropriate identification regarding the maintenance of their existing business relationship with the Company.
- Ensuring that the Company maintains the appropriate Client records.
- Monitoring and assessing the correct and effective implementation of the practices, measures, procedures and controls of the AML/CTF Manual.
- Monitoring Clients accounts and ensuring submission of the monthly statement regarding the prevention of money laundering and terrorist financing to CySEC.
- Monitoring of Client accounts for suspicious transactions.
- Ensuring that the Company's personnel receive the appropriate training and assistance accordingly.
- Further, analytical reference is provided to scheduled and non-scheduled inspections and reviews performed by the AMLCO that were undertaken in order to determine the degree of compliance of the Company and the Company's personnel in relation to the implemented policies, practices,



measures, procedures and controls applied for the prevention of money laundering and terrorist financing. Further, specific results of the inspections and reviews, indicating the significant deficiencies and weaknesses identified in the policies, practices, measures, procedures and controls applied by the Company for the prevention of money laundering and terrorist financing are presented herein. In this regard, the seriousness of the deficiencies or weaknesses are noted, the risk implications and the actions taken and the recommendations made for rectifying such deficiencies where applicable are presented, setting a timeframe for implementation.

The Company purchased new systems which will automate the monitoring of accounts and transactions. In this respect, the Company is under the implementation process of SAP (the front-to-back system) while the implementation of iSPIRAL (KYC, Transactions monitoring, Case management software) has finished and its already being used.

10.8. Leverage Risk

As highlighted in the Regulation, risk-based own funds requirements are essential to ensure sufficient own funds to cover unexpected losses. However, the crisis has shown that those requirements alone are not sufficient to prevent institutions from taking on excessive and unsustainable leverage risk. In September 2009, the G-20 leaders committed to developing internationally-agreed rules to discourage excessive leverage. To that end, they supported the introduction of a leverage ratio as a supplementary measure to the Basel II framework. Despite the fact that the Company is not obliged to report such ratio to the Commission (same goes for the maintenance/reporting of a countercyclical capital buffer and for the disclosure of indicators of global systemic importance, as the Company is not identified as G-SII in accordance with Article 131 of Directive 2013/36/EU), it fully complies with its responsibility to monitor the level and changes in the leverage ratio as well as leverage risk as part of its internal risk assessment.

Based on the Company's internal risk assessment, the Company is not highly exposed to Leverage Risk. The relevant leverage ratio has been estimated at around 51% which, in comparison with the indicative benchmark (minimum ratio) set by the Basel Committee of 3%, is considered highly acceptable. Despite the fact that the Company is not highly exposed to risk of excessive leverage, it has established procedures to monitor such exposure and uses as indicators the leverage ratio and mismatches between assets and obligations.

10.9. Reputational Risk

Signed for identification purposes only
Deloitte Limited



Reputational Risk is the risk related to the trustworthiness of business. It is the threat posed to a company's earnings and consequently to a company's capital as a result of an adverse perception of the image of the Company by counterparties, past, current and prospective clients, creditors, investors or regulators. Crystallization of Reputational Risk could be triggered by the loss of one or more of the Company's directors, poor performance, the loss of large clients, poor client service, fraud or theft, clients' claims, legal actions, regulatory fines and from negative publicity relating to the Company's operations irrespective of whether such fact is true or not.

The Company has policies and procedures in place when dealing with possible client and other third party complaints in order to provide the best possible assistance and service under such circumstances. Further, the Company's Board of Directors and Management are comprised of experienced professionals who are recognized in the industry for their competence and integrity, and, as such, add value to the Company. Furthermore, the Company believes that by efficiently identifying, measuring, managing and monitoring all other risks, it indirectly manages reputation risk.

Based on the Company's internal risk assessment, Reputational Risk has been categorized as a material risk, which implies the allocation of additional capital by the Company.

10.10. Information Technology Risk

Information Technology (hereinafter, "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 IT. Specifically, policies have been implemented regarding backup procedures, software and hardware maintenance, use of the internet and anti-virus procedures.

The aim of the Company is for the materialisation of the IT risk to be minimised to the lowest possible level and, as such, the Risk Manager shall take the respective rectifying measures, as and when deemed necessary. No additional capital is required to be allocated against such risk due to the fact that such capital is already included in the capital requirements relevant to General Operational Risk.

11. Capital Management

Signed for identification purposes only



11.1. The Company manages its capital to ensure that it will be able to continue as a going concern whilst maximising shareholder value. However, the Company also has a regulatory obligation to monitor and implement policies and procedures for capital management. Specifically, the Company is required to test its capital against specific regulatory requirements and has to maintain a minimum level of regulatory capital in accordance with the provisions of the CRR. CySEC has adopted the rules established by the Basel Committee in relation to the adequacy of an investment firm's capital. Currently, there are three (3) pillars:

- ***Pillar I - Minimum Capital Requirements***

The Company has adopted the Standardized approach for Credit and Market risks and the Basic Indicator approach for Operational risk.

In accordance with the provisions of the Standardized approach for calculating the minimum capital requirements with respect to credit risk, risk weights are assigned to exposures (after taking into consideration various risk mitigating factors) according to the exposure class to which they belong. For certain exposures, the risk weight also depends on the term and maturity of the exposure. The categories of exposures the Company is exposed to with respect to credit risk, are exposures to public sector's entities, regional government, institutions, corporate and other exposures (including equity), as previously shown.

The Standardized approach for calculating the minimum capital requirements with respect to market risk adds up the long and short foreign exchange positions per currency in order to arrive at the net exposure per currency. Subsequently and in accordance with predefined models the capital requirements with respect to market risk are calculated. In general, the main sources of market (i.e. foreign exchange risk) for the Company are mismatches between the Company's liquid assets (i.e. long positions) and the largest part of the liability side of its statement of financial position (i.e. short positions).

For operational risk, the Basic Indicator approach calculates the average, over a three (3) year horizon, of gross income to be used in the risk weighted assets calculation.

- ***Pillar II - The Supervisory Review Process (SRP)***

Signed for identification purposes only

Deloitte Limited



The SRP 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, reputational risk and business 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.

The purpose of the ICAAP is the alignment of three (3) parameters within the Company:

1. The Company's strategic plan;
2. The risks inherent in its strategic plan; and,
3. The capital needs for the implementation of its strategic plan based on the risks born.

In other words, the Company must have adequate capital in order to be able to cover all the risks (actual and potential) inherent in its strategic plan. Put it simply, the Company's Regulatory Own Funds (i.e. Total Eligible Funds), as defined within the legal framework, must be equal or less to the Company's Internal Capital (i.e. to the level of capital that the Company, after the application of its internal risk assessment process, considers as adequate for the coverage of all the risks, both Pillar I and II, that is, or could be, exposed to).

In accordance with the requirements of Pillar II, the Company determines the level of capital required in order to cover itself for actual and potential risks (i.e. it determines its Internal Capital Requirements by estimating the level of capital that is considered adequately sufficient to cover the Company's exposures to Pillar I and Pillar II risks). Upon demand from CySEC, the results of the ICAAP, including the composition of additional own funds requirements based on the supervisory review process, have to be included in the Disclosures.

Signed for identification purposes only



- **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 the minimum capital requirements based on audited figures, together with concise information as to the composition of original own funds. In addition, as aforementioned, the results and conclusions of the ICAAP are disclosed upon demand from the competent authority.

In accordance with the updated requirements of the CySEC, the risk management disclosures should be published on the Company's website by end of April each year. Further, these disclosures must be verified by the statutory auditors of the investment firm by end of April each year. The Company, which is a private firm, has indeed included its risk management disclosures (i.e. the *Disclosures*) on its website. Verification of these disclosures will be made by the statutory auditors and will be sent to CySEC by end of April 2018.

11.2. Capital Adequacy Ratio

The primary objective of the Company's capital risk 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 maximize shareholders' value.

The Company manages its capital structure and makes adjustments to it taking under consideration expected changes in business environment, changes in general economic conditions and the risk profile of its activities.

CySEC currently requires each investment firm to maintain a minimum ratio of regulatory capital to risk weighted assets of 8%. CySEC has the right to impose additional capital requirements for risks not covered by Pillar I. During 2017 the Company had fully complied with all externally imposed capital requirements as shown in the table below. In addition, consistent with the classification of the capital adequacy risk as material, it has allocated additional capital against the possibility of the Company's capital adequacy being unexpectedly hurt as a result of regulatory changes/amendments (e.g. new, stricter requirements when calculating capital charges) and/or impositions imposed by regulators and/or statutory auditors based on current legal framework and applicable IFRSs.



Category (year 2017)	€ in 1000's
Eligible Own Funds (Common Equity Tier I Capital)	11,784*
Additional Own Funds (Additional Tier I Capital)	-77
Tier II Capital	0
Total Eligible Own Funds	11,707
Credit risk capital requirements	1,394
Market risk capital requirements	2,232
Operational risk capital requirements	795
Total Capital Requirements	4,421
Minimum C.A Ratio	8%
Capital Adequacy Ratio	21.18%**

*A full reconciliation is provided in the section that follows

** The formula is as follows: $[11,707/4,421]*8\% = 21.18\%$

11.3. Reconciliation of CET1, AT1, T2 items and filters and deductions applied to the Company's own funds and disclosure of the nature and amount of each prudential filter, each deduction and items not deducted from the Company's own funds

In accordance with the provisions of the Regulation, own funds of investment firms (i.e. the Regulatory Capital) constitute of Common Equity Tier I Capital, Additional Tier I Capital and Tier II Capital.

Items such as paid up capital (plus the related share premium), profits and losses brought forward as a result of the application of the final profit or loss (retained earnings), accumulated other comprehensive income, other reserves and funds for general investment firm risks (which the investment firm decides to put aside to cover such risks) less the book value of intangible assets, losses for the current financial year, deferred tax assets that rely on future profitability (subject to transitional provisions), defined benefit pension fund assets on the balance sheet etc. constitute CET1 Capital. The CET1 Capital of investment firms

Signed for identification purposes only

is also subject to certain prudential filters that are mentioned in separate paragraphs of the Regulation.

The Company's regulatory capital consists of CET1 Capital only and no prudential filters (as stated in articles 32-35 of the Regulation) were applied.

A full reconciliation of the Company's CET1 Capital (note that an amount of Euro 78k relevant to Additional deductions of CET1 Capital due to Article 3 CRR was deducted from the Company's own funds) is provided below:

Category	Component	Amount (€ in 1000's)	Nature	
Capital Instruments	Paid Up Capital Instruments	1,000	1,000,000 ordinary shares of 1 Euro nominal value each	
	Retained Earnings	11,332	11,332,000 Euro of previous years' audited income brought forward	
	Other reserves	(133)	Fair Value loss of the available-for-sell investments.	
	Deductions		(77)	ADDITIONAL TIER 1 CAPITAL
			(308)	Other transaction adjustment to CET1 Capital
			(107)	Additional deductions of CET1 Capital due to Article 3 CRR
Total Regulatory Capital	CET1 Capital	11,707 (= 1,000 + 11,332 - 133 - 77 - 308 - 107)	Calculation of CET1 Capital in accordance with the provisions of the CRR	

As far as the Company is concerned, no other restrictions apply relevant to the calculation of own funds in accordance with the provisions of the Regulation.

11.4. Terms and conditions of own funds

As aforementioned, the Company's regulatory capital consists of CET1 Capital only. The capital instruments comprising CET1 Capital fully qualify as Common Equity Tier 1 instruments as they meet all conditions set out in the CRR. Specifically:

- They have been issued directly by the Company with the prior approval of its owners;
- They have been fully paid up and their purchase was not funded directly or indirectly by the Company;
- They meet the following conditions as regards their classification:
 - (a) They qualify as capital within the meaning of Article 22 of Directive 86/635/EEC;
 - (b) They are classified as equity within the meaning of the applicable accounting framework; and,
 - (c) They are classified as equity capital for the purposes of determining balance sheet insolvency;
- They are clearly and separately disclosed on the statement of financial position of the Company;
- They are perpetual in nature;
- Their principal amount may not be reduced or repaid, except in either of the following cases:
 - (a) The liquidation of the Company; and,
 - (b) Following discretionary repurchases of the instruments or other discretionary means of reducing capital, where the institution has received the prior permission of the competent authority in accordance with Article 77 of the CRR;
- The following conditions apply as regards distributions:
 - (a) There is no preferential distribution treatment regarding the order of distribution payments, including in relation to other Common Equity Tier 1 instruments, and the terms governing the instruments do not provide preferential rights to payment of distributions;

Signed for identification purposes only

- (b) Distributions to holders of the instruments may be paid only out of distributable items;
 - (c) The conditions governing the instruments do not include a cap or other restriction on the maximum level of distributions;
 - (d) The level of distributions is not determined on the basis of the amount for which the instruments were purchased at issuance;
 - (e) The conditions governing the instruments do not include any obligation for the Company to make distributions to their holders and the Company is not otherwise subject to such an obligation;
 - (f) Non-payment of distributions does not constitute an event of default of the Company; and,
 - (g) The cancellation of distributions imposes no restrictions on the Company;
- Compared to all the capital instruments issued by the Company, the instruments absorb the first and proportionately greatest share of losses as they occur, and each instrument absorbs losses to the same degree as all other Common Equity Tier 1 instruments;
 - The instruments rank below all other claims in the event of insolvency or liquidation of the Company;
 - The instruments entitle their owners to a claim on the residual assets of the Company, which, in the event of its liquidation and after the payment of all senior claims, is proportionate to the amount of such instruments issued and is not fixed or subject to a cap;
 - The instruments are not secured, or subject to a guarantee that enhances the seniority of the claim by any of the following:
 - (a) The Company or its subsidiaries;
 - (b) The parent undertaking of the Company or its subsidiaries;
 - (c) The parent financial holding company or its subsidiaries;
 - (d) The mixed activity holding company or its subsidiaries;
 - (e) The mixed financial holding company and its subsidiaries; and,
 - (f) Any undertaking that has close links with the entities referred to in points (a) to (e);
 - The instruments are not subject to any arrangement, contractual or otherwise, that enhances the seniority of claims under the instruments in insolvency or liquidation.

signed for identification purposes only



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.

- 12.7. With respect to the link between pay and performance, it goes without saying that the two variables are positively correlated. Depending on the nature of the work of each department and each employee, departmental and individual qualitative and/or quantitative performance measures and targets (relevant to the nature of the work) are pre-agreed and set at the beginning of each year. The basis for such pre-agreement is a feedback loop between officers (i.e. individual employees) and relevant heads/managers. Performance appraisal and evaluation takes place at the end of each year based on aforementioned qualitative and/or quantitative benchmarks. Such appraisal and performance evaluation guides future salary adjustments decided by the - senior management.
- 12.8. The Company decided not to provide any amounts breakdown by business area as it considers such kind of information proprietary and confidential.
- 12.9. The table below shows aggregate quantitative gross figures (for 2017) related to the remuneration of independent members of the Board and Senior Management (for the purpose of the Disclosures senior management is defined as key management personnel which includes all employees and executive directors of the Company).

Type	Number of Beneficiaries	Fixed Remuneration (Euro)	Variable Remuneration (Euro)	Total (Euro)
Key Management Personnel	20	683,428	Zero	683,428
Independent Directors	2	16,800	Zero	16,800

Signed for identification purposes only

