DISCLOSURES AND MARKET DISCIPLINE REPORT

For the year 2018

ATHLOS CAPITAL

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Athlos Capital Investment Services Ltd (Reg. No HE 362228) – Regulated by the Cyprus Securities and Exchange Commission (CySEC), License No. 348/17

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1. INTRODUCTION

1.1. Regulatory Framework

Athlos Capital Investment Services Ltd, is a private limited company incorporated under the laws of the Republic of Cyprus with Company Registration Number HE 362228 and has its registered address at 4 Menandrou Street, 4th Floor, Office 401, 1066 Nicosia, Cyprus (hereinafter the "**Company**"). The Company has been authorised by the Cyprus Securities and Exchange Commission (hereinafter the "**Commission**") on 11th of December 2017 as a Cypriot Investment Firm with License Number 348/17.

In accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (herein the "**CRR Directive**") and of Directive DI144-2014-14 of the Commission for the prudential supervision of investment firms (herein the "**Directive**"), the Company is required to disclose information on its risk profile comprehensively to market participants, at least on annual basis and for this purpose it has prepared the Disclosures and Market Discipline Report (hereinafter the "**Report**"), which is publicly available through the Company's website.

Part Eight of the CRR Directive specifies the disclosure requirements with which institutions must comply i.e. disclosures with respect to their risk management policies and processes, capital structure and capital adequacy, the various risk exposures which institutions are exposed to and the characteristics of the institution's corporate governance arrangements including but not limited to the remuneration policies and practices.

The CRR Directive aims to promote the transparency of financial institutions and to contribute to the orderly functioning of financial markets. Disclosure requirements under Part Eight of the CRR Directive should be a cornerstone of market discipline and enhance the ability of stakeholders to assess risk in financial institutions. These disclosure requirements are the European transposition of the Pillar III disclosure requirements included in the Basel Framework as amended from time to time. The current regulatory framework comprises of three fundamental pillars, namely:

Pillar I – three types of risks are identified that need to be managed i.e. credit risk, market risk and operational risk.

Pillar II – establishes a process of prudential interaction that complements and strengthens Pillar I, by promoting an active dialogue between the Commission and the regulated entities i.e. the Supervisory Review and Evaluation Process ("**SREP**") which assesses the Internal Capital Adequacy Assessment Process ("**ICAAP**") established by each regulated entity to monitor and self-assess the capital adequacy and internal processes.

Pillar III – involves the requirement for public disclosure of information as per Part Eight of the CRR Directive.

1.2. Scope of application

In accordance with Article 436 of the CRR Directive, the scope of application of the requirements outlined in Part Eight of the CRR Directive requires institutions to disclose information regarding the name of the institution to which the requirements of the CRR Directive apply and an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein.

The Company wishes to inform that the requirements of the Part Eight of the CRR Directive are applicable on a solo basis. The following tables indicate the Company's corporate information and the Investment services/activities and Ancillary services which the Company is authorised to provide:

Corporate Information	
Legal Name	ATHLOS CAPITAL INVESTMENT SERVICES LTD
CIF Authorization Date	11/12/2017
CIF License Number	348/17
Company Registration Date	09/11/2016
Company Registration Number	HE 362228

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1.3. Frequency of disclosure

The Company is required to publish the Report at least on an annual basis. It is noted that the Company shall assess the need to publish some or all of the disclosures required by Part Eight of the CRR Directive more frequently than annually, in light of any changes in the Company's total assets and exposures.

1.4. Verification

The Report has been prepared in accordance with Part Eight of the CRR Directive and is subject to internal review by the Risk Management Committee prior to being approved by the Board of Directors. It is noted that the Report and the disclosures contained herein have been reviewed and approved by the Board of Directors on 30th of April 2019.

2. CORPORATE GOVERNANCE

2.1. Board of Directors

The Board of Directors is ultimately responsible for approving and periodically reviewing the strategies and policies for taking up, managing, monitoring and mitigating the risks the Company is or might be exposed to. The Board of Directors devotes sufficient time to the consideration of risk issues faced by the Company and is actively involved in and ensure that adequate resources are allocated for the management of all material risks which the Company is exposed to. The Board of Directors is composed of two Executive Directors and two Independent, Non-Executive Director, as depicted in the table below:

Name of Director	Position	Country
Mr. Ioannis Petri	Executive Director	Cyprus
Mr. Savvas Savva	Executive Director	Cyprus
Mr. Andreas Lambrou	Independent, Non-Executive Director	Cyprus
Mr. Christos Kassianides	Independent, Non-Executive Director	Cyprus

2.2. Recruitment Policy

The Company has established a Recruitment Policy to set out the criteria for recruiting new employees, including new members to the Board of Directors. The Recruitment Policy of the Company lays down the requirements which need to be fulfilled by a person in order to be approved as a member of the Board.

In order for a person to be qualified as a Director, the Company must be satisfied that:

(a) The person is of good repute, has integrity, morals and credibility;

(b) Possesses adequate knowledge of financial matters and is able to make appropriate decision-making with respect to the Company's business operations;
(c) Possesses adequate experience in the financial sector and/or has been occupied in similar positions;
(d) Has adequate risk management experience;
(e) His academic qualifications either in finance, accounting, law or any other related subject.

2.3. Diversity Policy

The Company is committed to fostering, cultivating and preserving a culture of diversity and inclusion. The Company considers diversity as an asset to its organisation and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success. The Company considers that building a diverse and inclusive workforce will provide sustainability in the future.

In line with the recent changes in the regulatory reporting framework, the Company is in the process of establishing a dedicated diversity policy in relation to the management body.

2.4. Reporting and Control

In accordance with the requirements set out in the CRR Directive, the Company has been able to maintain a good information flow to the management body as it can be seen in the table below:

Report Name	Report Description	Owner	Recipient	Frequency	Due Date
Annual Compliance Report	To inform Senior Management and the BoD of the Company regarding the performance of the Compliance Function during the year	Compliance Officer	BoD, CySEC	Annual	30/04/2019
Annual Internal Audit Report	To inform Senior Management and the BoD of the Company regarding the Internal Auditor during the year	Internal Auditor	BoD, CySEC	Annual	30/04/2019
Annual Risk Management Report	Represents the work and activities undertaken by the Risk Manager during the year	Risk Manager	BoD, CySEC	Annual	30/04/2019
Pillar III Disclosures (Market Discipline and Disclosure)	The Company is required to disclose information regarding its risk management, capital structure, capital adequacy and risk exposures	Risk Manager	BoD, CySEC, Public	Annual	30/04/2019
Financial Reporting	It is the formal record of the financial activities of the Company	External Auditor	BoD, CySEC	Annual	30/04/2019
Capital Adequacy Reporting	A measure of the Company's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world	Risk Manager/Accounting	Senior Management, CySEC	Quarterly	11/05/2019 11/08/2019 11/11/2019 11/02/2020 30/05/2019 (audited figures)

2.5. Other Directorships

In 2018, the members of the Management body of the Company, given their industry experience, have been taking seats in other Company boards. In this respect, the following table indicates the number of positions that each member holds:

Name	Position in the Company	Directorships (Executive)	Directorships (Non-Executive)
Mr. Ioannis Petri	Executive Director	-	-
Mr. Savvas Savva	Executive Director	-	-
Mr. Andreas Lambrou	Independent, Non-Executive Director	-	-
Mr. Christos Kassianides	Independent, Non-Executive Director	1	2

2.6. Committees

The Company has established a Risk Management Committee whose purpose is to advise the Board of Directors on the overall current and future risk appetite and strategy, as well assist the Board in its duty to oversee the implementation of that strategy by the senior management of the Company. The Risk Management Committee has a material role in the establishment of sound remuneration policies and practices i.e. examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood of timing and earnings. The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of measures taken to address any deficiencies with respect to the risk management policies and practices established by the Company.

The Risk Management Committee is appointed by the Board of Directors and reports directly to the Board of Directors. The Risk Management Committee is composed of the following persons, and during the year 2018 held three meetings:

(a) the appointed Risk Manager;

(b) an Independent, Non-Executive Director;

(c) the General Manager; and

(d) the Head of the Trading Department.

3. RISK MANAGEMENT

3.1. Risk Management policy and objectives

The Company has established its Risk Management policy and objectives in order to establish a framework for the Company's risk management process and to ensure its implementation. The main objective is to ensure sustainable business growth with financial stability by promoting a pro-active approach in reporting, evaluating and resolving risks associated with the Company's operations.

The Risk Management framework established by the Company further aims to ensure that the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated, minimized and managed through adequate and efficient systems.

The Risk Management policy describes the roles and responsibilities of the Risk Manager, the Board of Directors and the Senior Management and sets out the reporting lines of the Risk Management Function, describes the risk management process, the risk management methodology and makes appropriate reference to the Risk Register maintained by the Risk Manager.

3.2. Risk Management Function

The Company has established a Risk Management Function which is independent from the operational functions of the Company and has sufficient authority, resources and access to the Board of Directors. The Risk Management Function of the Company is composed of the Risk Manager who is responsible for reporting to the Board of Directors and the Risk Management Committee.

The Company, taking into consideration, its nature, scale and complexity of its business decided to combine the Compliance Function with the Risk Management Function as it considers that the independent functioning of each function is not in any way jeopardised.

The Risk Manager is responsible, inter alia, for the design of the risk management system, including but not limited to the risk management process, the risk management methodology and appropriate risk management policies and practices. The Risk Manager is further responsible for the independent risk assessment of the Company's risk management procedures in order to (i) identify the risks which the Company is exposed to (ii) understand and estimate the effect of the identified risks to the Company's operations and the acceptable level of risk (iii) establish adequate and appropriate methods of monitoring and measurement (iv) preparation and implementation of the ICAAP process and the relevant ICAAP report which is submitted to the Commission (v) proposes the capital allocation under Pillar II and (vi) provides ICAAP training to relevant employees and the Senior Management where necessary.

3.3. Risk Appetite

Risk appetite can be defined as the amount and type of risk that the Company is willing to take in order to meet its strategic objectives. Based on its risk appetite, the Company is able to understand the specific risks which it is exposed to, monitor those risks and report the findings of such reports to the Board of Directors.

The risk appetite of the Company is reviewed on an annual basis and is monitored on an on-going basis to ensure that the Company's strategy, business plan, capital requirements and liquidity are in line with its risk appetite. The Board of Directors is responsible for reviewing and approving the risk appetite of the Company. In this respect, the Board of Directors is also responsible for reviewing and approving on an annual basis the

Company's business plan, budget, ICAAP and monitor the Company's risk profile and capital adequacy position.

Taking into consideration the Company's size, services offered, the complexity and date of commencement of its business operations (11th of December 2017), the following risks were considered to be significant and/or material during 2018:

(a) Credit Risk (paragraph 4.1);
(b) Operational risk (paragraph 4.2) and
(c) Market Risk (paragraph 4.3).

The Company's exposure to risks increased significantly during the year due to the commencement of operations in the financial markets, since during the previous reporting year it was not operative.

3.4. Risk assessment

The Company has established a risk assessment process whereby it is able to identify the various risks which have an adverse effect to its business operations and capital, analyse and evaluate those risks and determine appropriate ways to eliminate the possible impact of the identified risks where such risks cannot be avoided. The risk assessment conducted by the Company is based on the risk management methodology developed by the Company. The risk assessment process is depicted in the Risk Register maintained by the Risk Manager.

3.5. Board of Directors Declaration

The Board of Directors is ultimately responsible for the risk management framework of the Company. The Risk Management Framework involves the overall systems, policies, processes and people within the Company that is used to identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company's business operations.

The Board of Directors hereby approves the adequacy of the Risk Management arrangements established by the Company providing assurance that the risk management systems in place are adequate and in line with the Company's risk profile and strategy.

3.6. Board Risk Statement

The Company has established a comprehensive risk management system designed to identify the risks which it is or might be exposed to and has developed adequate measures to minimize those risks i.e. to be in line with the Company's risk appetite. Taking into consideration the Company's nature, scale and complexity of business, the Company has adopted a dynamic risk management process, which takes into account internal and external risks, to capture any developments and changes in its risk profile from time to time. The risk management process includes the following elements; the establishment of the Risk Register, identification of risks, analysis and evaluation of the risks, treatment of the risks, monitoring and review of the risks, communication and consultation as appropriate at each stage of the process. The Risk Management process is attached to this Report as Appendix A.

The Board of Directors along with the Senior Management of the Company are responsible for defining the corporate objectives and risk strategies, the risk profile of the Company and the associated processes and procedures and are further responsible for the dissemination of these information to the Risk Management Function. In this respect, the Risk Management Function is responsible for designing the risk management system, the preparation of appropriate risk management policies and procedures and the establishment of the Risk Register. Similarly, the Risk Manager is responsible for the identification of risks, analysing the risks and establishing appropriate methods for monitoring and reviewing the identified risks. The Risk Manager is also responsible for communicating and consulting with the Risk Management Committee on the evaluation and treatment of the identified risks, which is responsible for overviewing the risk management process, approve and update of the risk management policies and arrangements and monitoring the identified risks. The Risk Management Committee is responsible for providing the Board of Directors with updates and recommendations on the risk management policies and procedures. The Risk Manager is also responsible for providing annual reports to the Board of Directors to enable the Board to review the systems, procedures and processes in place and where applicable make appropriate amendments.

The Company considers that the Risk Register is an appropriate risk management tool which enables it to document and categorise all the risks which it is or could be exposed to in the future. The Risk Register includes an indication of severity of the risk and the adverse impact it could have had on the Company if it had remained undefined. The Risk Register reflects the risk management methodology applied by the Company in order to effectively manage the risks which is or might be exposed to. The risk management methodology involves the following:

(a) The identification of the risks involved;
(b) Rating of the likelihood of the business activity not being properly performed (the likelihood is assessed on the assumption that there are no existing risk management and compliance processes in place);
(c) Rating the consequence of not properly performing the business activity (the damage can be quantified in terms of financial loss);
(d) Assigning the inherent risk rating based on the combination of rating of likelihood and consequence;
(e) Deciding whether a control is necessary to be adopted given the risk rating (a control might involve a policy, checklist, reporting mechanism etc);
(f) Assessing whether the existing controls are adequate and allocating the responsibility of monitoring the control to effectively treat the identified risk;
(g) Raise awareness of the Company’s risk culture, profile and appetite within the organisation; and

(h) Conducting on-going monitoring and reviews to ensure the effective management of the identified risks.

The Board of Directors considers that the Company has established an effective and comprehensible risk management framework for the proper identification, management and mitigation of the risks which the Company is or might be exposed to in the future.

4. RISKS EXPOSURES

In its capacity as a CIF to provide investment services, the Company is exposed to a variety of risks which are required to be mitigated and minimized to maintain an adequate capital base ensuring the continuation of the Company's operations while at the same time achieving the Company's business and strategic goals.

Further to this, the Company outlines in this Report the risks which it is exposed to or might be exposed in the future, considering that 2018 was the first year of operations for the Company. The Report provides figurative information with respect to Credit, Operational and Market risk and explains how the Company manages other risks which it is exposed to or expects that it will be exposed to in the upcoming years.

4.1. Credit Risk

Credit risk is the risk of loss of principal or financial reward caused by the borrower's failure to repay a loan or otherwise meet a financial obligation. The Company's exposure to credit risk arises mainly because of the following:

(a) By the Company's deposits in credit and financial institutions;
(b) By prepayments made.

As per the requirements of the CRR Directive, the Company follows the Standardised Approach under Pillar I in order to calculate its credit risk capital requirements. The Standardised Approach categorizes the assets in respect to their exposure class and uses the credit step methodology to determine its respective Risk Weights (RW).

In order to maintain its exposure to Credit risk, the Company has established effective mitigation techniques which involve the regular credit review of its counterparties and using credit institutions established within the EEA for the safekeeping of its clients' funds, to ensure that such credit institutions follow the applicable EU regulatory framework. The Company further ensures that its counterparties have high ratings and are of good repute.

4.1.1. External Ratings

For the purposes of calculating the capital requirements of the Company, and more specifically for the calculations of its credit risk exposures, the Company uses the external credit ratings from Moody's Analytics for the exposure classes listed below:

- Exposures to central governments or central banks;
- Exposures to public sector entities;
- Exposures to institutions;
- Exposures to corporates.

The general ECAI association with each credit quality step complies with the standard association published by CySEC as shown in the table below:

CQS	Moody's Rating	Institution Risk Weight (>3 months)	Institution Risk Weight (<3 months)	Sovereigns Risk Weight	Corporate Risk Weight
1	Aaa to Aa3	20%	20%	0%	20%
2	A1 to A3	20%	50%	20%	50%
3	Baa1 to Baa3	20%	50%	50%	100%
4	Ba1 to Ba3	50%	100%	100%	100%
5	B1 to B3	50%	100%	100%	150%
6	Caa1 and below	150%	150%	150%	150%

For exposures to regional governments or local authorities, public sector entities and institutions, the external ratings are applied in the following priority:

1. Issue/Exposure;
2. Issuer/Counterparty;

3. Sovereign.

For exposures to central governments or central banks and corporates the external ratings are applied in the following priority:

1. Issue/Exposure;
2. Issuer/Counterparty.

The ECAIs are not taken into account where exceptions or discretions as per the CRR apply.

4.1.2. Quantitative information on Credit Risk

The Company uses the Standardised Approach to calculate its credit risk exposures. The exposures are broken down by sectors and obligor ratings.

At 31/12/2018, the Company's capital requirements for credit risk amounted to 471,000 EUR, while the risk-weighted assets amounted to 152,000EUR. The following tables show the Company's maximum exposure to Credit Risk under Pillar I:

Asset Class	**Net Value of exposures at 31/12/2018 (*EUR '000)***	**Capital requirement**
Central governments or central banks	-	-
Regional governments and local authorities	-	-
Public sector entities	-	-
Institutions	398	6
Corporates	26	2
Other items	47	4
Total Standardised approach (SA)	471	12
Total Risk Weighted Assets	**152**	-
Total Credit risk exposure	**471**	**-**

Total Credit Risk Capital Requirements	**-**	**12**

The following table shows the Company's exposures to post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by exposure class:

Asset Class	Exposure before CRM	Exposure after CRM
Year 2018	EUR '000	EUR '000
Central governments or central banks	-	-
Regional governments and local authorities	-	-
Public sector entities	-	-
Institutions	398	398
Corporates	26	26
Other items	47	47
Total Risk Weighted Assets	**152**	**152**
Total Credit Risk Capital Requirements	**12**	**12**

It is noted that 2018 was the first year of the commencement of operations for the Company. The Company's maximum exposure to Credit Risk for 2017 was 237,000EUR arising mainly out of deposits to credit institutions.

4.2. Operational Risk

Operational risk is a significant risk that the Company is exposed to. Operational risk refers to the risk of loss resulting from inadequate or failed processes, people or systems or from external events. Operational risk is closely associated with Reputational risk and may result in financial losses for the Company.

The Company recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance. For this reason, the Company has employed a comprehensive internal control governance framework with integrated risk management practices designed to identify, monitor and mitigate operational risk.

The Company implements operational risk mitigation strategies in order to minimize effectively its exposure to operational risk:

(a) Setting moral and ethical standards within the organisation by establishing a combined set of individual and corporate values, attitude, competencies and behaviour that determine the Company's commitment to operational risk management;
(b) Establishment of the code of conduct to identify acceptable business practices and prohibit conflicts of interest within the organisation;
(c) Provision of adequate training with the aim to increase operational risk awareness and culture within its organisation (i.e. to the management body, employees and any other relevant person);
(d) Establishment of an appropriate oversight structure to ensure the segregation of duties and power within the control functions of the Company i.e. the Board of Directors is responsible for reviewing and monitoring the decisions taken by the Senior Management;
(e) Development of appropriate reporting lines within the organisation to enhance the flow of information to the management body;
(f) Implementing a strong internal control system to ensure that operational losses do not cause a material impact to the Company and have a minimal impact on profitability and objectives;
(g) Improving productivity and efficiency within the organisation to improve customer service and protect shareholder value;

(h) Establishment of a Remuneration Policy which is in line with the Company's risk appetite in order to appropriately balance risk and reward; and

(i) Formulating a comprehensive business continuity and disaster recovery plan.

4.2.1. Quantitative information

For the calculation of operational risk in relation to the capital adequacy returns, the Company uses the Basic Indicator Approach (BIA). The following table shows the Total Risk Exposure amount for Operational Risk for 2018, which was calculated based on the Basic Indicator approach:

Operational Risk	**31/12/2018**
	EUR '000
Key components	
Year 1	524
Year 2	602
Year 3	692
Average (over the 3 years)	**606**
Risk weighted assets	**1,136**
Capital requirements	**91**

4.3. Market Risk

Market risk refers to the risk that the value of an investment will decrease due to the movement of risk factors in financial markets. Market risk is also referred to as 'systematic risk' and includes the following risks:

(a) Interest rate risk (real and nominal interest rates, credit spreads and basis spreads);

(b) Currency risk;

(c) Equity risk (including dividend risk);

(d) Commodity risk (including precious metals); and

(e) Other risks arising from changes in volatilities or correlations.

In 2017, the Company's exposure to Market risk was insignificant due to the Company being inoperative throughout the year (the Company has obtained its authorisation to act as a CIF in December 2017). Taking into consideration that the Company has made use of its authorisation to deal on own account and that it had commenced operations during 2018, the Company's exposure to Market risk has increased significantly as it is now actively operating in the financial markets.

In order to effectively manage its exposure to Market risk, the Company has developed appropriate policies and systems in line with the CRR Directive, to monitor its exposure to Market risk on a daily basis. In order to determine the Company's capital requirements in relation to Market risk, the Company uses the Standardised Approach, as per the requirements of the CRR Directive. The following table illustrates the Company's exposure to Market Risk for the year 2018:

Market Risk	**RWAs EUR '000**	**Capital requirements EUR '000**
Interest rate risk (general and specific)	3,022	242
Equity risk (general and specific)	-	-
Foreign exchange risk	17	0
- *Of which US*	17	0
Commodity risk	-	-
Options	-	-
Securitisation (specific risk)	-	-
Total	**3,022**	**242**

It is noted that as the Company commenced its operations in 2018, there is no comparative data with the previous reporting year.

5. PILLAR II RISKS

5.1. Liquidity Risk

Liquidity risk is the risk that the Company has insufficient financial resources to meet its current and prospective obligations, as they fall due, or can only secure these resources at excessive costs. Liquidity risk can arise from the Company’s inability to manage unplanned decreases or changes in funding sources and the failure to recognise or address changes in market conditions that affect the ability of the Company to liquidate assets quickly and with minimal loss in value.

The Company has established adequate policies and practices to assess, monitor and manage its liquidity needs on an on-going basis to ensure that adequate liquidity is maintained not only during normal conditions but also during stressed conditions i.e. respond to liquidity drainage in the market and repay all their obligations to clients at all times.

5.2. Business Risk

Business risk refers to the possibility that the Company will have lower than anticipated profits or experience a loss rather than making a profit. Business risk is closely associated with the Company’s performance and the capital requirement of the Company during deterioration in business or economic conditions. The Company will require additional capital at times when market conditions are unfavourable. For this reason, the Company projects its financial position forward, taking into consideration its business strategy, expected growth, assessment of the changes in economic and business cycles, as well as competition and lower than expected performance.

5.3. Legal and Regulatory/Compliance Risk

Legal and Regulatory/Compliance Risk refers to the risk that the Company faces as a result of breaches or non-compliance with legislation, regulations and practices. It is noted that this risk may trigger the effects of Reputational Risk (see paragraph 5.4) and Strategic Risks (see paragraph 5.5). The Company considers that the risk of money laundering and terrorist financing falls within the Legal and Regulatory/Compliance Risk and should be assessed accordingly.

The probability of such risks occurring is low as the Company has established and maintains detailed internal policies and procedures which are implemented and reviewed by the Company's Internal Auditors and any suggestions are implemented by the management; these procedures include procedures for the prevention of money laundering and terrorist financing. It is noted that the Internal Auditors evaluate and test the effectiveness of the Company's control framework on an annual basis.

5.4. Reputational Risk

Reputational Risk refers to the risk of the adverse perception of the image of the Company either by its clients or prospective clients, counterparties, other investors and regulators. Reputational Risk may arise as a result of poor customer service or from administrative fines imposed by the Commission which create a negative feeling towards the Company from the rest of the market. It is noted that Reputational Risk is closely associated with other risks which may potentially harm the reputation of the Company.

The Company pays particular attention to the management of Reputational Risk by adhering to applicable laws and regulations, thereby avoiding regulatory sanctions and by following the Company's ethical standards in relation to the treatment of its clients, counterparties and employees.

5.5. Strategic Risk

Strategic Risk is closely associated with the Company's strategy objectives i.e. the Company's long-term plan of action designed to allow the Company to achieve its goals and aspirations. Strategic Risk occurs as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

In order for the Company to mitigate the possibility of Strategic Risk it assesses the impact of its strategic objectives i.e. the Company considers targets which are achievable based on its capabilities and opportunities in the market while at the same time setting a time frame for achieving its goals. The Company considers that the possibility of strategic risk occurring is moderate since it has appropriate operating systems, communication channels and appropriate managerial capacities.

6. CAPITAL MANAGEMENT

6.1. SREP

The Supervisory Review and Evaluation Process (SREP) comprises the processes and measures applied by the Commission to ensure that the Company (and all other CIFs) have sufficient capital to support all material risks to which it is exposed. The SREP process is divided into five stages which involve:

(a) Planning - the Commission’s internal planning of the SREP for each CIF and the request for submission of the ICAAP report.

(b) Review and assessment of ICAAP submission – the Commission undertakes a desk-based review of the ICAAP, the process followed by the Company in the preparation and any additional documentation supporting ICAAP. This stage may involve on-site assessment of the implementation of the ICAAP.

(c) Review of additional information – involves the outcome of the on-going supervision and other inspections or visits that have taken place and that are relevant to the ICAAP.

(d) Supervisory measures for risk mitigation – the Commission sets the capital resource requirements for Pillar II and imposes any necessary supervisory measures for mitigating risks.

(e) SREP validation – the Commission's internal validation process of the results of the SREP.

The outcome of the SREP should define the level of capital that the Company should hold, in order to cover the full spectrum of the risks it faces. The Board of Directors is responsible for monitoring the level of capital resources held against the capital requirements set a the SREP and ensure that the Company has sufficient capital to cover the requirements set.

6.2. ICAAP

The ICAAP comprises of all the procedures and measures adopted by the Company, with the purpose of ensuring the appropriate identification and measurement of risks, the appropriate level of internal capital in relation to the Company's risk profile, as well as the application and further development of suitable risk management and internal control systems. As part of its reporting obligations, the Company is required to submit to the Commission the ICAAP report explaining how the Company has implemented and embedded the ICAAP process within its business, describing its risk profile and the extend of risk appetite that the Company is prepared to accept as well as the capital that it considers as adequate to be held against all the risks that the Company is exposed to.

6.3. Stress testing

Stress testing forms an integral part of the ICAAP process and the risk management framework of the Company. The purpose of stress testing is to assess all material risks of the Company in a comprehensive, integrated and forward-looking manner including but not limited to the impact of all market, economic, institutional or political risk factors which may have a substantial impact on the prudent and solvent operation of the Company.

When applying stress test scenarios, the Company does not take into consideration only its current position but also any future strategic developments as they are reflected in the budget and capital planning performed. In applying the stress test methodology, the Company may use one or more of the following techniques:

1. Sensitivity analysis – a less complex methodology which illustrates how the Company's position would change, in case a single relevant risk factor is modified, but all other circumstances remain unchanged
2. Scenario analysis – assumes the simultaneous change of several risk factors and quantify their combined impact on the Company's position, suitable taking into consideration the secondary and delayed effects (i.e. hypothetical and historic scenarios)
3. Reverse Stress Test – use of stress tests that require the Company to assess scenarios and circumstances that would render its business unviable, thereby identifying potential business vulnerabilities. Reverse stress testing starts from an outcome of business failure and identifies circumstances where this might occur.

After the assessment of the impact of the stress testing scenarios, the Company can determine the management actions and the responsible persons/department for their implementation, in order to evaluate their effectiveness. The Company could then re-apply the stress scenario to observe the net impact.

6.4. Capital Requirements

The Company's primary objective is to ensure that it complies with the capital requirements imposed by the CRR Directive and the Commission respectively. In order to achieve this, the Company is required to monitor its capital base on a quarterly basis to maintain a strong capital adequacy ratio to support its business and maximize shareholder's value.

In accordance with the CRR Directive, an institution's own funds must in no case fall below the level of initial capital i.e. the initial capital that the Company is required to maintain as per its authorisation is set by the Commission at 730,000 EUR, and the institution must at all times satisfy the following own funds requirements:

CET1 Capital ratio	4.5%
T1 Capital ratio	6.0%
Total Capital ratio	8.0%

The following table illustrates the Company's Regulatory own funds and capital adequacy ratio as of 31/12/2018:

REGULATORY OWN FUNDS AND CAPITAL ADEQUACY RATIO	
YEAR	**2018**
	EUR '000
TOTAL OWN FUNDS	**2,055**
RISK WEIGHTED EXPOSURES	
Risk Weighted exposure amounts for credit, counterparty credit and dilution risk and free deliveries	152
Total Risk Exposure Amount for Settlement/Delivery	0
Total Risk Exposure Amount for Position, Foreign Exchange and Commodities risks	3, 022
Total Risk Exposure Amount for Operational Risk	1,136
Additional Risk Exposure Amount due to Fixed Overheads	0
Total Risk Exposure Amount for Credit Valuation Adjustment	0

Total Risk Exposure Amount related to Large Exposures in the Trading Book	0
Other risk exposure amounts	0
TOTAL RISK EXPOSURE AMOUNT	**4, 311**
CET1 Capital ratio	**47.68%**
T1 Capital ratio	**47.68%**
TOTAL CAPITAL RATIO	**47.68%**
Leverage Ratio	**51.16%**

As of 31/12/2018, the Company's total risk exposure amount was 4, 311, 000 EUR resulting in a total capital ratio of 47.68%, which is considerably higher than the minimum required of 8%. In addition, the Company's total eligible capital is well above the minimum threshold set by the Commission (2, 055, 000 EUR). It is noted that the Company maintains only Tier 1 Capital as eligible own funds.

6.5. Regulatory Capital

In accordance with the provisions of the CRR Directive, the Company's own funds for prudential purposes do not differ from the financial accounting breakdown of equity therefore there is no need to provide further reconciliation on the amounts presented in the table below:

Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	31/12/2018 EUR '000	31/12/2017 EUR '000
Paid up capital instruments	2	2
Share premium	1,249	1,249
Retained Earnings	866	(8)
Accumulated other comprehensive income	-	-
Other reserves	-	-

Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,117	1,243
Common Equity Tier 1 (CET 1) capital: regulatory adjustments		
Goodwill and other intangible assets (net of tax liabilities) (negative amount)	(2)	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Art. 38 (3) are met) (negative amount)	-	-
Direct, indirect and synthetic holdings of CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
Additional deductions of CET1 capital due to Ar. 3 CRR	(60)	(60)
Total Regulatory adjustments to Common Equity Tier 1 (CET1) capital	**(62)**	**(60)**
Common Equity Tier 1 (CET1) capital	**2,055**	**1,183**
Additional Tier 1 capital	**-**	**-**
Tier 1 capital	**2,055**	**1,183**
Tier 2 capital	**-**	**-**
Total capital	**2,055**	**1,183**
Total risk weighted assets	**4,311**	**1,662**
Capital ratios		
CET1 capital ratio	**47.68%**	**71.19%**
Tier 1 capital ratio	**47.68%**	**71.19%**
Total capital ratio	**47.68%**	**71.19%**

6.6. Transitional own funds disclosure

As per the requirements of Article 429(3) of the CRR Directive and in order to meet the requirements for disclosure of additional items on own funds, the Company is required to publish the transitional own funds disclosures as per the table below:

Common Equity Tier 1 (CET1) capital: instruments and reserves		
	Transitional Definition	**Full-phased in Definition**
Capital instruments and the related share premium accounts	EUR ‘000	EUR ‘000
Paid up capital instruments	2	2
Share premium	1,249	1,249
Retained Earnings	866	866
Accumulated other comprehensive income	-	-
Other reserves	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,117	2,117
Common Equity Tier 1 (CET 1) capital: regulatory adjustments		
Goodwill and other intangible assets (net of tax liabilities) (negative amount)	(2)	(2)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Art. 38 (3) are met) (negative amount)	-	-
Direct, indirect and synthetic holdings of CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
Additional deductions of CET1 capital due to Ar. 3 CRR	(60)	(60)
Total Regulatory adjustments to Common Equity Tier 1 (CET1) capital	**(62)**	**(60)**
Common Equity Tier 1 (CET1) capital	**2,055**	**2,055**
Additional Tier 1 capital	**-**	**-**
Tier 1 capital	**2,055**	**2,055**
Tier 2 capital	**-**	**-**
Total capital	**2,055**	**2,055**
Total risk weighted assets	**4,311**	**4,311**
Capital ratios		
CET1 capital ratio	**47.68%**	**47.68%**

Tier 1 capital ratio	**47.68%**	**47.68%**
Total capital ratio	**47.68%**	**47.68%**

6.7. Leverage Ratio

In accordance with Article 451 of the CRR Directive, the Company is required to disclose the following information regarding its leverage ratio. The below tables illustrate that the Company's leverage ratio is significantly higher than the minimum level of 3% as set in the Basel Committee's recommendations:

Leverage Ratio common disclosure	CRR Leverage Ratio exposures
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets)	4,018
Derivative exposures	-
Securities Financing Transaction exposures	-
Other off-balance sheet exposures	
Exempted exposures in accordance with Art. 429(7) and (14) of Regulation (EU) No 575/2013 (on and off-balance sheet)	-
Asset amount deducted – Tier 1 capital	(62)
Tier 1 capital	**2,055**
Total Leverage ratio exposures	**4.018**
Leverage ratio	**51.16%**

Split-up of on balance sheet exposures	CRR leverage ratio exposures
Trading book exposures	3,547
Banking book exposures, of which	471
- Covered bonds	-
- Exposures treated as sovereigns	-
- Exposures to regional governments, MBD, international organisations and PSE not treated as sovereigns	-
- Institutions	398

- Secured by mortgages and immovable properties	-
- Retail exposures	-
- Corporate (Non-financial)	26
- Exposures in default	-
- Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	47
Total on balance sheet exposures	**471**

7. REMUNERATION POLICIES AND PRACTICES

7.1. Decision-making process

In forming its Remuneration Policy, the Board of Directors takes into account the size, nature, scale and complexity of the Company's business and operations. When establishing and applying the Remuneration Policy, inclusive of salaries and discretionary pension benefits, for categories of staff including senior management, risk takers, staff engaged in control functions and any other employee receiving total remuneration, whose professional activities have a material impact on the Company's risk profile, the Company applies the following principles:

(a) The Remuneration Policy is consistent with and promotes sound and effective risk management without encouraging risk-taking that exceeds the level of tolerated risk of the Company;

(b) The Remuneration Policy is in line with the business strategy, objectives, values and long-term interests of the Company and incorporates measures to avoid conflicts of interest;

(c) The Board of Directors is responsible for periodically reviewing the general principles of the Remuneration Policy and overseeing its implementation;

(d) The Compliance Function conducts an independent internal review, at least on an annual basis, of the implementation of the Remuneration Policy;

(e) Staff engaged in control functions are independent from the business units they oversee, have appropriate authority and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control;
(f) The Board of Directors oversees the remuneration of senior officers in the Risk Management and Compliance Functions;
(g) The Remuneration Policy makes a clear distinction between the criteria for setting basic fixed remuneration and variable remuneration;
(h) Basic fixed remuneration primarily reflects the relevant professional experience and organisational responsibility as set out in the employee's job description;
(i) Variable remuneration reflects a sustainable and risk adjusted performance as well as performance in excess of that required to fulfil the employee's job description;
(j) Fixed and variable remuneration are appropriately balanced, and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable components;
(k) Guaranteed variable remuneration is not consistent with sound risk management or the pay-for-performance principle and shall not be part of prospective remuneration plans.

In line with the recent changes in the regulatory reporting framework, the Company is in the process of establishing a Remuneration Policy to set out the remuneration system to be adopted by the Company.

7.2. Remuneration of Staff

The table below shows the remuneration received by the Directors' and the staff employed by the Company until 31st of December 2018:

Remuneration Figures for 2018	EUR ('000)
Directors' Remuneration	96.6
Remuneration of staff whose professional activities have a material impact on the Company's risk profile	38,8
Total	**96.6**

8. PUBLICATION OF DISCLOSURES

8.1. Publication of Report and External Auditor's verification

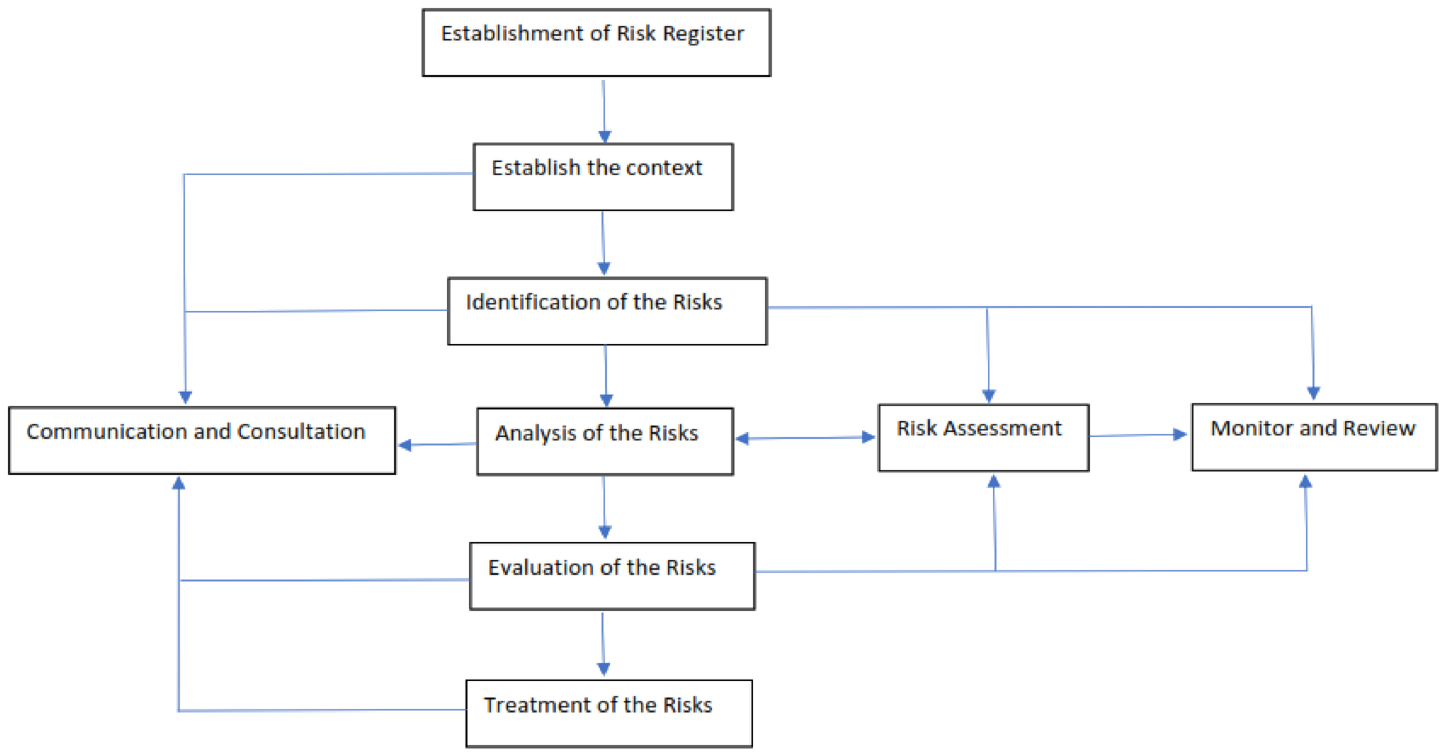
The Disclosure and Market Discipline Report for the year 2018 has been prepared by the Company as per the requirements of the CRR Directive and the Directive DI144-2014-14 issued by the Commission.

In accordance with the applicable regulatory framework, the Report should form an integral part of the Company's Financial Statements where the Financial Statements are published or on the Company's website, where the Financial Statements are not published. The Report is required to be verified by the Company's External Auditors and the Company is responsible for submitting the verification report to the Commission. In this respect, the Report has been published on the Company's website and the relevant Externa' Auditor's verification report has been submitted to the Commission within the specified deadlines.

8.2. Disclosure waiver

The Company states that any information that was not included in this report was either not applicable on the Company's business and activities or such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine the Company's competitive position

Appendix A


Establishment of Risk Register
Establish the context
Identification of the Risks
Communication and Consultation
Analysis of the Risks
Risk Assessment
Monitor and Review
Evaluation of the Risks
Treatment of the Risks

Appendix B

CRR Ref	Description	Compliance Reference
Scope of disclosure requirements		
431(1)	Requirement to publish Pillar III disclosures	1.2
431(2)	Disclosure of operational risk information	4.2
431(3)	Requirement for a policy to cover the frequency of disclosures, assessment of appropriateness and comprehensiveness of disclosures	1.3
431(4)	Explanation of ratings decisions to SMEs upon request	N/A
Frequency of disclosures		
433	Disclosures must be published at least on annual basis in conjunction with the date of publication of financial statements	1.3
Means of disclosures		
434(1)	To include disclosures in one appropriate medium, or provide clear cross-reference to other media	1.2
434(2)	Equivalent disclosures made under other requirements (i.e. accounting) can be used to satisfy Pillar III if appropriate	1.2
Risk Management objectives and policies		
435(1)(a)	Disclosure requirements with respect to strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation/hedging policies	3.1 – 3.4
435(1)(b)		2.4
435(1) (c)		
435(1)(d)		
435(1) (e)	Declaration approved by the BOD on adequacy of risk management arrangements	3.5
435(1) (f)	Concise risk statement approved by the BOD	3.6

435(2)	Information on an annual basis on governance arrangements	2
435(2) (a)	Number of directorships held by members of the BOD	2.5
435(2) (b)	Recruitment policy of BOD members, their experience and expertise	2.2
435(2) (c)	Policy on diversity of BOD members, its objectives and results against targets	2.3
435(2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year	2.6
435(2) (e)	Description of information flow in risk to the BOD	2.4
Scope of application		
436(a)	Name of institution	1.2
436(b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	N/A
436(b)(i)	Fully consolidated;	N/A
436(b)(ii)	Proportionally consolidated;	N/A
436(b)(iii)	Deducted from own funds	N/A
436(b)(iv)	Neither consolidated nor deducted.	N/A
436(c)	Impediments to transfer of funds between parent and subsidiaries	N/A
436(d)	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any)	N/A
436(e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries/entities	N/A
Own funds		
437(1)	Requirements regarding capital resources table	6.4, 6.5 and 6.6
437(1)(a)		6.4, 6.5 and 6.6
437(1)(b)		6.4, 6.5 and 6.6
437(1)(c)		6.4, 6.5 and 6.6

437(1)(d)(i)		6.4, 6.5 and 6.6
437(1)(d)(ii)		6.4, 6.5 and 6.6
437(1)(d)(iii)		6.4, 6.5 and 6.6
437(1)(e)		6.4, 6.5 and 6.6
437(1)(f)		6.4, 6.5 and 6.6
437(2)	EBA implementation standards for points (a), (b), (d) and (e) above	N/A
Capital Requirements		
438(a)	Summary of institution's approach to assessing adequacy of capital levels	6
438(b)	Result of ICAAP on demand from competent authority	6.2
438(c)	Capital requirement amounts for credit risk for each standardised approach exposure class (8% risk-weighted exposure)	4.1
438(d)	Capital requirements amounts for credit risk for each internal rating-based approach exposure class	N/A
438(d)(i)		
438(d)(ii)		
438(d)(iii)		
438(d)(iv)		
438(e)	Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits	4.3
438(f)	Capital requirements for operational risk, separately for the basic indicator approach, the standardised approach, and the advanced measurement approaches as applicable	4.2
Exposure to Counterparty Credit Risk (CCR)		
439(a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures	N/A
439(b)	Discussion of policies for securing collateral and establishing reserves	N/A
439(c)	Discussion of policies as regards wrong-way exposures	N/A

439(d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade	N/A
439(e)	Derivation of net derivative credit exposure	N/A
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	N/A
439(g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	N/A
439(h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type	N/A
439(i)	Estimation of alpha, if applicable	N/A
Credit risk adjustments		
442(a)	Definitions for accounting purposes of 'past due' and 'impaired'	N/A
442(b)	Approaches for calculating credit risk adjustments	N/A
442(c)	Exposures post-value adjustments (before applying credit risk mitigation and after applying credit conversion factors) by different types of exposures	4.1.2
442(d) **442(e)**	Exposures post-value adjustments (before applying credit risk mitigation and after applying credit conversion factors) by significant areas and material exposure classes	N/A
442(f)	Exposures post-value adjustments by residual maturity and by material exposure class	N/A
442(g) **442(g)(i)** **442(g)(ii)** **442(g)(iii)**	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type	N/A
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography	N/A
442(i) **442(i)(i)**	Reconciliation of changes in specific and general credit risk adjustments	N/A

442(i)(ii)		
442(i)(iii)		
442(i)(iv)		
442(i)(v)		
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately	N/A
Unencumbered assets		
443	Disclosures on unencumbered assets	N/A
Use of ECAI's		
444(a)	Names of the nominated ECAIs used in the calculation of standardised approach RWAs, and reasons for any changes	4.1.1
444(b)	Exposure classes associated with each ECAI	4.1.1
444(c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book	4.1.1
444(d)	Mapping of external rating to credit quality steps	4.1.1
444(e)	Exposure values pre- and post-credit risk mitigation, by credit quality step	4.1.1
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	4.3
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered	4.2
Exposures in equities not included in the trading book		
447(a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used	N/A

447(b)	Recorded at fair value and actual prices of exchange traded equity where it is materially different from fair value	N/A
447(c)	Types, nature and amounts of the relevant classes of equity exposures	N/A
447(d)	Cumulative realised gains and losses on sales in the period	N/A
447(e)	Total unlearised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital	N/A
Exposure to interest rate risk in positions not included in the trading book		
448(a)	Nature of interest rate risk and key assumptions in measurement models	N/A
448(b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency	N/A
Remuneration disclosures		
450	Remuneration Policy	7
Leverage		
451(1)(a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements and derecognised fiduciary items	6.7
451(1)(b)		6.7
451(1)(c)		6.7
451(1)(d)	Description of risk management process to mitigate excessive leverage and factors that had an impact on leverage ratio during the year	N/A
451(1)(e)		N/A
451(2)	EBA shall develop implementation standards for points above	N/A
Use of credit risk mitigation techniques		
453(a)	Policies and processes, and an indication of the extent to which the CIF makes use of on and off-balance sheet netting	N/A
453(b)	Policies and processes for collateral valuation and management	N/A
453(c)	Description of types of collateral used by the CIF	N/A
453(d)	Types of guarantor and credit derivative counterparty and their creditworthiness	N/A

453(e)	Information about market or credit risk concentrations within the credit mitigation taken	N/A
453(f)	For exposures under either the standardised or foundation IRB approach, disclosure of the exposure value covered by eligible collateral	N/A
453(g)	For exposures under either the standardised or foundation IRB approach, disclosure of the exposure value covered by guarantees or credit derivatives	N/A
Use of advanced measurement approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms for the purposes of mitigating operational risk	N/A