RISK MANAGEMENT DISCLOSURES AND MARKET DISCIPLINE REPORT ‘2018

UCP ASSET MANAGEMENT LIMITED

April 20, 2019

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1. Introduction

1.1 Scope of Application

The present report is prepared by UCP Asset Management Limited (the "**Company**"), a Cyprus Investment Firm (the "**CIF**") authorized and regulated by the Cyprus Securities and Exchange Commission (the "**CySEC**") under the license number 288/15.

In accordance with Regulation (EU) No. 575/2013 (the "**Capital Requirements Regulation**", or the "**CRR**") , the Company is required to disclose information relating to its risk management, capital structure, capital adequacy, its risk exposures as well as the most important characteristics of the Company's corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants. The report sets out both quantitative and qualitative information required in accordance with Part 8 "Disclosures by Institutions" of the CRR.

The current regulatory framework comprises three pillars:

- **Pillar I** covers the minimum capital requirements. This involves by applying "formulaic" methods for calculating the risk weighted assets for credit risk, market risk and operational risk, the "regulatory capital".
- **Pillar II** covers the Supervisory Review and Evaluation Process (the "**SREP**"), which assesses the Internal Capital Adequacy Assessment Process (the "**ICAAP**") and provides for the monitoring and self-assessment of an institution's capital adequacy and internal processes. Under Pillar II firms submit information, in addition to that contained within Pillar I, to enable the regulator to assess the amount of capital that should be held. Typically this "extra" information would be concerned with:
  - risks not covered under Pillar 1
  - the way that risk is managed
  - the quality of the controls infrastructure
  - the way in which the calculated risk profile relates to the strategic and financial plans of the firm.
- **Pillar III** covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

The report is based on the Company's audited financial statements for the year ended 2018 and shall be reviewed by the Company's external auditors and published on the Company's website at http://www.ucpam.com/ on an annual basis.

Furthermore, the Board of Directors (the "**Board**") and the senior management have the overall responsibility for the internal control systems in the process of "Capital Adequacy Assessment" and they have established effective processes to ensure that the full spectrum of risks faced by the Company is properly identified, measured, monitored and controlled to minimize adverse outcomes.

The Company's business effectiveness is appeared and based on the guidelines of the risk management policies and procedures. The Board, Internal Audit, Risk Management Officer, Compliance and Anti-Money Laundering Officer, control and supervise the overall risk system so that all units charged with risk management perform their roles effectively on a continuous basis.

The Company is exposed to a variety of risks and in particular to credit risk, market risk and operational risk, an analysis is provided in the sections below.

1.2 Reporting Details

The Company's policy is to publish the disclosures required on an annual basis. The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval.

The Company does not have any subsidiaries that operate within or outside the European Economic Area and therefore the information presented in this report relates solely to the Company and the reporting currency is EUR.

1.3 Company Profile

The principal activity of the Company is the provision of financial services within the meaning and terms of the Investment Services and Activities and Regulated Markets Law of 2007, as amended (the "**Law**"). The Company offers investment management services for a selected group of professional clients. The Company's license details are the following:

UCP Asset Management Limited		
License Number: 288/15	**License Date:** 23/12/2015	**Registration Number**: 341830
Telephone: +357 24 694827	**Fax:** +357 24 694842	**Web site:** http://www.ucpam.com/
Address: Suite 201, 3, Afentrikas, CY-6018 Larnaca, Cyprus		
Investment Services		
▪ **Reception and transmission of orders in relation to one or more financial instruments** ▪ **Execution of orders on behalf of clients** ▪ **Portfolio management**		
Ancillary Services		
▪ **Safekeeping and administration of financial instruments, including custodianship and related services** ▪ **Foreign exchange services where these are connected to the provision of investment services**		
Cross Border Services to Member States		
▪ **United Kingdom**		
Provision of Services to Countries Outside EU (CIFs may provide their services to countries outside the EU provided that they comply with the regulatory regime of the third country)		
▪ **Belize, British Virgin Islands, Cayman Islands, Russia**		

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1.4 Disclosures Policy

The Company discloses information in relation to its capital requirements on an annual basis in compliance with applicable legislation, regulatory and accounting risk disclosure standards. The 2018 Pillar III disclosures report of the Company sets out both quantitative and qualitative information required in accordance with Part 8 'Disclosures by Institutions' of the CRR. Articles 431 to 455 of the CRR specify the Pillar III framework requirements.

The disclosures are published on the website of the Company https://ucpam.com/disclosure/ and the external auditors' audit opinion with regards to Pillar 3 Disclosures is submitted to CySEC the latest by May 31st of each year.

The Regulation provides that the Company may omit one or more of the disclosures if it believes that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, this was not included in the document.

The Regulation also permits the Company to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The Directive defines proprietary as if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an investment firm's investments therein less valuable.

2. Corporate Governance

The Board has the overall responsibility for the Company and approves and oversees the implementation of the Company's strategic objectives, risk prevention strategy and internal governance. The Board ensures the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards, and oversees the process of disclosure and announcements. The Board is responsible for providing effective supervision of senior management, and monitors and periodically assess the effectiveness of the Company's governance arrangements and takes appropriate steps to address any deficiencies.

2.1 Board Risk Management Statement

The Board is responsible for reviewing the effectiveness of the Company's Risk Management arrangements and systems of financial and internal control. The Board seeks to ensure that there is an effective process in place to manage risk across all the operations. Risk Management is an integral part to all aspects of the Company's activities and is the responsibility of all staff.

It should be noted that the Company does not have a Risk Management Committee since the current size, nature, scale and complexity of its operations does not require such level of elaborate governance oversight to adequately monitor its operational effectiveness and its potential risks. However, all the Risk Management responsibilities are applied by the Board.

Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk culture emphasises appropriate behaviours, analysis and management of risk in all business processes. The Risk

Management Function ensures that relevant controls are put in place to evaluate the effectiveness and the practical implementation of measures to mitigate and manage risks.

Considering the Company's current nature, scale and complexity of operations, the Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

2.2 Board Recruitment

The Company does not have a written policy in relation to the selection and appointment of the members of the Board. Nevertheless, it is the Board's responsibility to identify, evaluate and select candidates who would be able to respond to the demands as member of the Board. The Company recognizes the benefits of having a diverse Board which includes and makes use of differences in the skills, experience, knowledge and background between members of the Board.

Recruitment of Board members combines an assessment of both technical capability and competency skills referenced against the Company's regulatory and operational framework. The individuals proposed for appointment to the Board should commit the necessary time and effort to fulfill their obligations. The proposed persons are vetted and obtain the approval of the CySEC prior to their appointment on the Board.

The members of the Board shall at all times be of sufficient good repute and possess characteristics such as integrity and honesty, the necessary professional qualifications, education, skills, knowledge and experience relevant to financial institutions in order to perform their duties as per the CySEC requirements.

2.3 Composition of Board of Directors

The Board consists of two Executive, two Independent Non-Executive and three Non-Executive members. The table below provides the number of directorships held by members of the Board in all organizations.

Name	Position within UCP Asset Management Limited	Executive Directorships	Non-executive Directorships
Dr Andreas Karapatakis	Independent Non-Executive Chairman		2
Socrates Socratous	Independent Non-Executive Director		2
Anton Kabachinskiy	Chief Executive Officer- Executive Director	1	1
Evgeny Matveev	Deputy CEO- Executive Director	1	1
Aleksandr Mishuris	Non-Executive Director	1	1
Ilya Shcherbovich	Non-Executive Director		2
Victoria Cunningham	Non-Executive Director		3

2.4 Board of Director's Risk Management Declaration

The Board recognizes that it is the Board's duty to supervise the Company's operations and that it is responsible for reviewing the effectiveness of the Company's risk management policies, measures and controls, which are designed to manage risks.

The Board considers that it has in place adequate systems and controls with regards to the Company's risk profile and strategy and appropriate mechanisms in order to avoid, mitigate or minimise loss.

2.5 Investment Committee

The purpose of the Investment Committee is to establish and oversee the best possible practice for the investment services provided by the Company.

The Investment Committee tasks are:

- To establish the discretionary investment manager selection process and review the same as necessary from time to time in order to ensure its integrity;
- To monitor the performance of the approved discretionary investment managers;
- Following appropriate research, provide to the discretionary investment managers and the investment advisors guidelines on investment products and financial instruments for the clients;
- To establish procedures for assessing the investment risk tolerance for clients; and
- To decide the fees to be charged to the clients for the services on each account.

The scope of the Investment Committee's activities cover the folowing:

- examination of macroeconomic environment;
- assessment and recommendations on appointment and termination of the employment of investment managers and monitoring their performance;
- provision of financial and investment recommendations;
- development of investment strategies to meet annual objectives;
- review of the monthly statements of account and investment performance;
- review of compliance with investment mandates on a regular basis;
- review of performance and portfolio risk profiles;
- review of compliance with the investment mandates on a regular basis;
- review of the domestic and global economic and, as appropriate, political background and giving consideration to the implications of the financial markets;
- review of the current asset profile for each investment, with reference to the current and expected liability positions and other parameters as applicable;
- review and advise on any actuarial advice; and
- investigation and provision of advice on any other proposal or topic referred to it.

The members of the Investments Committee consist of the CEO and, the Deputy CEO and the Compliance & Risk Management Officer.

2.6 Remuneration Policy

The Company's Remuneration Policy is determined by the Board as there is no separate Remuneration Committee due to the nature, size, scale and complexity of the operations of the

Company. 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. The Remuneration Policy is consistent and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Company.

The remuneration of the Company's employees is based on fixed salaries with no performance related pay. Employees 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. Furthermore the Company does not have any shared-based compensation or any other variable component schemes. The Board is responsible for any salary increases, bonuses or any other form of remuneration.

The table below presents the annual remuneration for 2018, of the Senior Management and members of the Board whose actions have a material impact on the risk profile of the Company:

	Number of Persons	**Total Remuneration**
Non-Executive Directors	**5**	**€ 20,000**
Senior Management/Executive Directors	**2**	**€115,841**
Total Remuneration		**€135,841**

3. Risk Management Framework

The Company's Risk Management Framework aims to establish, implement and maintain adequate policies and procedures designed to manage any type of risks relating to the Company's activities. The current Risk Management Framework sets the process applied in the activities of and across the Company, designed to identify potential events that may affect its business, to manage risks to be within its risk appetite, and to provide reasonable assurance regarding the achievement of its mission and its objectives.

To ensure effective Risk Management the Company has adopted the "three lines of defense" model of governance with clearly defined roles and responsibilities.

First line of defence (functions that own and manage risks):
Operational management naturally serves as the first line of defence because controls are designed into processes under the guidance of operational management. There are adequate managerial and supervisory controls in place to ensure compliance with law and regulations. Operational managers own and manage risks and the procedures is overseen by Senior Management in terms of application and implementation of procedures set-out at the planning stage and as these appear in the Company's operation and anti-money laundering manuals.

Second line of defence (functions that oversee risks):
The risk management, compliance and legal functions are used to monitor the first line-of-defence controls. These functions, although independent from the first line of defence, help build or improve the first line-of-defence controls. Independence is in place, safeguarding that the risk environment is free from any pressure to produce income.

Some of the main functions of the second line of defence include, among others:

- Monitoring of financial risks and financial reporting issues.
- A Compliance Function that monitors risks associated to the non-compliance of laws and regulations.
- A Risk Management Function that manages the effective establishment of risk-monitoring practises with also providing assistance to mid-managers towards defining any risk exposure resulting from the application and management of policies and procedures.

Third line of defence (functions that provide independent assurance):
The Internal Audit Function is separate and independent from the other functions of the Company. The Internal Auditor examines, evaluates and reports on the adequacy and effectiveness of the Company's systems, operations including the risk management process, ensuring compliance with any issued recommendations based on the result of audit work carried out.

3.1 Risk Management Function

The Risk Management Function adapts control and monitoring procedures for the Company's business units. The Risk Management Function operates under the leadership of the Risk Management Officer who reports directly to the Senior Management and the Board.

The Risk Management Officer is responsible for the determination, evaluation and efficient management of the risks inherent in the provision of investment services in accordance with the

provisions of the Law and Directives issued by the CySEC, as well as the internal regulations and policies approved by the Board.

The Risk Management Officer identifies, evaluates and efficiently manages financial risks in close co-operation with each department. The Board overviews and approves the risk appetite of the Company.

Overall the Risk Management Officer's responsibilities are:

a) To establish and implement adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems and also set the level of the Company's risk apetite;
b) To adopt effective arrangements, processes and mechanisms to manage the risks relating to the Company's activities, processes and systems, in light of that level of Company's risk apetite;
c) To play a leading role in defining and embedding the Company's risk culture;
d) To provide training across the Company;
e) To monitor the following:
   i. the adequacy and effectiveness of the Company's risk management policies and procedures;
   ii. the level of compliance by the Company and its relevant persons with the arrangements, processes and mechanisms adopted in accordance with point (b);
   iii. the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons of the Company to comply with such arrangements, processes and mechanisms or follow such policies and procedures;
f) To work with other oversight funcions such as compliance and audit to provide comprehensive, robust and efficient assurance framework; and
g) To provide reports and advice to Senior Management at least annually on any matters arising in relation to the above and report whether the appropriate remedial measures have been taken to address deficiencies.

3.2 Other Control and Monitoring Procedures

Compliance Function

The Compliance Officer has the responsibility for ensuring that structures and procedures are in place to ensure compliance with laws and regulations, which relate to carrying out business transactions, internal policies and procedures as well as fostering standards of behaviour to protect and enhance the reputation of the Company. It reports primarily to the Board and directly to the CEO and to the Deputy CEO of the Company.

Anti-Money Laundering Function (the "MLRO")

The Anti-Money Laundering Function is outsourced and is administratively independent from any other units of the Company and reports directly to the Board and the CEO and to the Deputy CEO of the Company. The MLRO has the responsibility for developing policies and procedures designed to deter and detect money laundering and terrorist financing and implementing the AML program.

Internal Audit Function

The Internal Audit Function is outsourced and is administratively independent from any other units of the Company and reports directly to the Board and the CEO and to the Deputy CEO of the Company. It is responsible for conducting independent appraisals of the Company's activities, functions and operations to ensure that an adequate framework of internal controls has been established and is operating effectively.

Accounting Department

The Accounting Department is responsible for the management accounts which are feeding into the capital adequacy requirements monitoring and the preparation and timely submission of the relevant reports to the CySEC. Furthermore, the Accounting Department is responsible for monitoring the Company's exposure to credit and market risks. It is also responsible for the safekeeping of clients' funds.

Operations Department

The Operations Department is responsible to maintain proper and accurate records for clients and to safe keep those clients' assets. It is responsible to support the execution and the follow up of the operational matters of the Company related to the provision of services to clients.

3.3 Risk Appetite

Risk Appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk Appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Risk Appetite is formally reviewed annually and is monitored on an ongoing basis for adherence.

The Board approves and defines the level of risk that the Company is prepared to accept to achieve its strategic objectives and is translated into specific risk measures that are tracked, monitored and reported to the Board.

The Board approves the Company's business plans, budget, ICAAP and also monitors the Company's risk profile and capital adequacy position. An effective Risk Appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the Board and management confidence to avoid risks that are not in line with the strategic objectives.

The current Risk Management Framework sets the process applied in the activities of and across the Company, designed to identify potential events that may affect its business, to manage risks to be within its Risk Appetite, and to provide reasonable assurance regarding the achievement of its mission and its objectives.

4. Pillar I Risk Management

Pillar I sets minimum capital requirements comprising of base capital resources requirements; credit and market risk capital requirements; and the fixed overhead requirement. The methods for measuring the capital requirement under Pillar I, are:

- The Standardised Approach to calculate the minimum capital requirement credit risk and market risk.
- The Basic Indicator Approach to calculate the operational risk capital requirements.

4.1 Capital Management

Under the EU Directive No. 575/2013, own funds consists of Tier 1 capital and Tier 2 with Tier 1 capital consisting of the sum of common equity Tier 1 (CET1) capital and additional Tier 1 capital. Tier 1 capital is the core capital including equity capital and disclosed reserves. A detailed breakdown of the Company's Total Eligible Own Funds, as at 31 December 2018, is presented in the table below:

Own Funds Table	2018
Original Own Funds (Tier 1)	€000
Share Capital (consisting of 500,000 ordinary shares of €1 each)	500
Share Premium	1,417
Reserves	-1,683
Less: Intangible Assets	-1
(-) Additional deductions of CET1 Capital due to Article 3 CRR	-68
Total Tier 1	165
Total additional own funds (Tier 2)	0
Total Own Funds	165

4.2 Capital Requirements

The Company calculates the capital adequacy ratio on a quarterly basis and monitors its direction in order to ensure its compliance with externally imposed Capital Requirements. The total Capital Requirements as at 31 December 2018 are shown in the table below:

Total Capital Requirements as at 31.12.2018	€ 000
Total Capital (Own Funds)	165
Capital Requirements/Risk Weighted Assets	
Credit, Counterparty Credit and Dilution Risks and Free Deliveries Capital Requirement	2
Settlement/Delivery Risk	0
Position, Foreign Exchange and Commodities Capital Requirement	1
Operational Risk Capital Requirements	0
Additional risk exposure amount due to fixed overheads	117
Total Risks	120
(Deficit)/surplus Capital Against Total Risks	165
Total Capital Adequacy Ratio	11.02%

The Capital Adequacy Ratio of the Company has decreased from last year, from 19.04% to 11.02%, which is higher than the minimum Regulatory Capital Requirement of 8%.

By the beginning of 2019, the Company has proceeded with the increase of the share capital in order to increase the Capital Adequacy Ratio. The Company intends, for 2019, to ensure that it complies with the imposed capital requirements of Section 67 of the Law with respect to its own funds and that the Company maintains healthy capital ratios in order to support its business and maximize shareholders'value and optimise its debt and equity balance.

4.3 Return on Assets

The Return on Assets is an indicator of how profitable a company is relative to its assets. It gives an idea as to how efficient management is, at using its assets to generate earnings. It is calculated as net profit divided by average total assets.

The Return on Assets in 2018 has decreased to (-183%), compared to 2017 which was (-113%) due to lower profitability.

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5. Risk Statement Analysis

5.1 Credit and Counterparty Risk

Credit Risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and contract assets.

Credit Risk is managed on a group basis. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

The Company follows the Standardized Approach under Pillar I for calculating its Credit Risk Capital Requirements, as specified in CRR. It categorizes the assets in respect to their exposure class and uses the Credit Step methodology to determine its respective Risk Weights.

The mitigation strategies which the Company follows in order to minimize the possibility of occurrence of this risk are:

- Credit risk related to trade receivables is managed based on established policies, procedures and controls relating to customer credit risk management.
    - Credit limits are established for all customers based on internal ratings.
    - Credit quality of the customer is assessed and outstanding customer receivables are regularly monitored.
    - The Company does not hold collateral as security.
- The Company diversifies its exposure across different counterparties.
- The Company does not maintain any borrowing.
- The Company has not granted any credit limits to clients for trading purposes.
- In order to manage this risk the Company monitors counterparty creditworthiness with limits expressed in terms of value and term to maturity.
- The Company has not provided any loans to other entities.
- The Company follows the Standardised Approach for credit risk and it has no significant concentration of credit risk.
- There are no debtor balances as all management, performance and other custody fees are repaid within the prescribed limit agreed in the Investment Service Agreements.
- The Company's strategy is to limit the level of credit exposure to any debtor and therefore ensures that the services are provided to customers with a high credit quality and funds are held with financial institutions of high creditworthiness and the Company effort is to limit the amount of credit exposure to any financial institution.
- A diversification policy is applied and funds are split to banking institutions to spread the risk.

Trade receivables and cash and cash equivalents are subject to the expected credit loss model. The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables (including those with a significant financing component, lease contracts and contract assets). To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared Credit Risk characteristics and

the days past due. The Company defines default as a situation when the debtor is more than 90 days past due on its contractual payments. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 180 days past due.

The maximum exposure to Credit Risk at the reporting date was:

	2018	2017
	€	€
Trade and Other Receivables	**9,350**	**7,826**
Prepayments	**15,622**	**10,952**
Cash at bank	**21,145**	**186,066**
Total	**46,117**	**204,844**

The Company's Credit Risk Weighted Assets and Capital Requirements broken down by exposure class were as follows:

Credit risk exposures, RWA and capital requirements by asset class		
Exposure classes	**Exposure Amount (€ '000)**	**Exposure Amount- Average for the year 31/12/2018 (€ '000)**
Institutions	**21**	**132**
Corporates	**-**	**-**
Retail	**25**	**34**
Other items	**0**	**0**
Total	**46**	**166**

The geographical distribution of the exposure classes of the Company are as follows:

Exposure Class	Cyprus (€ '000)	Other (€ '000)	Total (€ '000)
Institutions	19	2	21
Corporates	-	-	-
Retail	9	16	25
Other items	0	0	0
Total	28	18	46

The distribution of the exposures by industry or counterparty type, broken down by asset class, are as follows:

Credit Risk exposures by industry			
Exposure Class	Financial/Banking (€ '000)	Other (€ '000)	Total (€ '000)
Institutions	21	0	21
Corporates	-	-	-
Retail	-	25	25
Total	21	25	46

The Company's residual maturity breakdown of all the exposures, broken down by exposure classes, is as follows:

Residual maturity of credit exposures			
Exposure Class	Residual Maturity ≤ 3 months (€ '000)	Residual Maturity > 3 months (€ '000)	Total (€ '000)
Institutions	21	-	21
Corporates	-	-	-
Retail	25	-	25
Total	46	-	46

The Company has selected to use Fitch Ratings as the External Credit Assessment Institution ("ECAI").

Exposure Class	Fitch (€ '000)	Unrated or N/A (€ '000)	Total (€ '000)
Institutions	21	-	21
Corporates	-	-	-
Retail	-	25	25
Total	21	25	46

5.2 Market Risk

Market Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and that such changes will affect the Company's income or the value of its holdings of financial instruments.

Considering the current size, nature, scale and complexity of the Company's operations, the said risk is deemed very low and any adverse movement in market prices is not expected to materially impact the Company's financials. It will however, be regularly monitored and if deemed necessary corrective actions will be taken to minimize the effect.

- The Company continues to have low level of market risk since it does not deal on its own account.
- The Company is exposed to equity securities price risk because of investments held by the Company and classified on the statement of financial position either as fair value through other comprehensive income or at fair value through profit or loss.
- The Company is not exposed to commodity price risk.
- Customer orders do not run any immediate risk on the transactions not being cleared or settled properly. The Company only cooperates with established and well known custodians and brokers and it maintains strong policies and procedures on the receipt and transmission of orders.
- The Company is not exposed to risk arising from unsettled transactions and other transactions where counterparty risk arises. The internal capital is adequate for material market risks that are not subject to an own funds requirement.
- With regards to clients' portfolios, the Investment Committee shall oversee and provide input on the mitigation of market risk through proper diversification and implementation of robust parameters that client portfolios adhere to, mostly including the aforementioned assets.

5.3 Operational Risk

Operational risk is one of the most significant risks CIFs are exposed to. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of failure of policies and processes to evaluate and manage the exposure to operational risk and to cover low-frequency high-impact events. This definition includes legal risk (including fines, penalties and punitive damage resulting from regulatory actions, as well as private settlements) but excludes strategic and reputational risk.

In determining the exposure of the Company, additional factors are considered, including:

- the tolerance of errors or losses;
- historical costs arising from operational risks occurring;
- business continuity procedures functioning and suitable as risk mitigants;
- clients, products and business practices;
- damage to physical assets;
- business disruption and systems failure;
- execution, delivery, and process management;
- that adequate capital has been ascertained to address any operational risk losses;
- the impact of the loss of key individuals on the ability to operate normally;

- consequences of not complying with conduct of business risk requirements;
- internal or external fraud; and
- consequences of an operational risk occurring.

The Company has not incurred any costs arising from operational risks. The Company has in place sufficient written policies, procedures and internal manuals whose implementation assists on the evaluation and monitoring of the Company's operational exposure(s) to different types of operatonal risks. Some of the controls, policies and procedures that Company follows are:

- The Company has sought external professional advice and together with management's assistance and cooperation, it has put in place a comprehensive Business Continuity Plan (BCP) covering disaster recovery and continuation of operations should any unexpected event occurs.
- The Company has in place an adequate BCP and in the case of an interruption to its systems, will be able to ensure the preservation of essential data and functions, and the maintenance of investment services and activities.
- The Company makes sure that own funds will never fall below the 8% thus properly covering a number of operational risks, through increasing own funds.
- At the beginning of 2019, the capital adequacy position was further strengthened by the additional allotment of 40,000 shares of nominal value of EUR1 per share @ EUR 12 per share (i.e. at a premium of EUR 11 per share), with the total eligible own funds reaching the amount of €568,793.
- The Company is constantly receiving legal advice from both local and foreign legal advisors on almost every aspect of the Investment Services sector.
- The Company has in place internal audit procedures whereby it places value to the function and comments/recommendations of the Internal Auditor.
- The external audit engagements will be also expanded to be covering assurance on a quarterly basis rather than once a year.
- The Company is conducting regular checks and reconciliations towards safeguarding and segregating clients' assets.
- The Company is applying a four-eye principle throughout all activities and operations, eliminating in this way any bias, the threat of self-review, any conflict of interest, etc.

5.4 Liquidity Risk

Liquidity Risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity Risk can arise from the Company's inability to manage unplanned decreases or changes in funding sources; failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss.

To minimize its exposure to liquidity risk, the Company monitors its liquidity needs on an on going basis. The Company also ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as national disasters. Currently the Company is not subject to any material liquidity risks as it implements the below mitigation strategies:

- The Company maintains the ability to respond to liquidity drainage in the market and has the ability to repay all its obligations to clients at all times.
- The Company does not maintain any loans payable or credit facilities.

- The shareholders of the Company are committed to provide support if this is needed at any time in the future.
- To mitigate the Company clients' portfolios liquidity risk, the Company seeks to enter into high liquidity investments while spreading the expected investment maturities.
- The Company has procedures with the object of minimising such losses by maintaining sufficient liquidity for anticipated needs taking account of the risks it faces.
- The Company keeps adequate cash deposits with banking institutions, thus eliminating the risk of running out of cash and does not have any pledged and unencumbered assets.

5.5 Foreign Exchange Risk

Foreign Exchange Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign Exchange Risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to Foreign Exchange Risk arising from various currency exposures primarily with respect to the US Dollar and Russian Rubbles relating primarily to its operating activities. The Company's Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

To minimize its exposure to the said risk, the Company implements the below strategies:

- The Company converts US Dollars to Euro on a frequent basis to take advantage of an average rate of conversion which will allow for upside to materialise and for the downside to mitigate.
- Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro, which is the Company's functional and presentation currency.
- Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

5.6 Capital Risk Management

Capital includes equity shares and share premium and convertible preference shares. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, in order to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company's overall objectives, policies and processes remain unchanged from last year.

5.7 Concentration Risk

A risk concentration is any single exposure or group of similar exposures (e.g. to the same borrower or counterparty, geographic area, industry or other risk factors) with the potential to produce losses

large enough (relative to Company's capital, assets, earnings) to threaten the Company's ability to maintain its core operations or a material change in the Company's risk profile. For most CIFs concentration risk is significant and is most likely the result of large exposures to a limited number of counterparties, a large transaction or a single product.

To minimize its exposure to risk concentration, the Company implements the below strategies:

- The Company applies a diversified investment policy to client portfolios, which reduces the concentration of risk on the performance of any one fund or asset class. Investment performance is monitored as part of the Company's investment risk management process.
- Bank deposits are spread to different credit institutions which mitigates against a key dependency on any banking institution.
- The Company has entered into various agreements with reputable credit institutions, custodians and brokers on further spreading the minimising the concentration risk.

5.8 Residual risk

Residual Risk, also referred to as net risk, is the firm's exposure after having taken mitigating controls into account. It occurs as a result of low performance or failure of credit risk mitigation measures such as ineffective documentation, or delay, or inability to realise payment from a client in a timely manner. To manage its exposure to residual risk, the Company implements the below strategies:

- The Company identifies, analyses the concentration of residual risk and takes measures to limit if below the level of acceptable risk.
- Sequence of payments of management, performance, custody and other fees is strictly monitored and documented in the Investment Service Agreements.

5.9 Securitisation Risk

It is represented by the effect of a securitisation arrangement failing, or of the values and risks transferred not emerging as expected on the financial position of the Company. When assessing securitisation exposure, the Company should ensure that it fully understands the credit quality and risk characteristics of the underlying exposures in structured credit transactions, including any risk concentrations. The Company and client portfolios are not involved in securitization transactions.

5.10 Settlement Risk

This is the risk that one party fails to deliver the asset or cash value at the time of settlement of a trade. This is of particular importance when transferring funds on behalf of clients.

To manage its exposure to the said risk, the Company implements the below strategies:

- The Company cooperates only with reputable brokers and custodians, bind to safe and efficient payment system based on internationally accepted standards and practices.
- The agreements with brokers and custodians include relevant provisions on failed delivery of securities and/or failed payment by counterparty to any such transactions. In this respect, the Company maintains and submits all relevant and involved documentation so that to avoid any settlement risk.
- Making sure that clients have enough funds in their client accounts.
- The Company applies periodic review and evaluation of brokers and custodians.

5.11 Strategic Risk

This occurs as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company. Business strategies are agreed by the Board after a review of the business environment and consideration of key risks.

5.12 Investment Performance Risk

Investment Performance depends on the portfolio management team and the team's investment strategies. If the investment strategies do not perform as expected, if opportunities to implement those strategies do not arise, or if the team does not implement its investment strategies successfully, an investment portfolio may underperform or suffer significant losses.

To manage its exposure to the said risk, the Company implements the below strategies:

- The Investment Committee reviews the investment risks of each of the Company clients' portfolios.
- The Company adheres to clearly-defined investment processes which seek to meet investment targets within stated risk parameters.
- Individual portfolio performance, valuations and risk profiles are monitored by Portfolio Managers and management on a regular basis, as well as by the Investment Committee allowing issues to be identified and mitigated.
- Recognizing that products will not always perform according to expectations, the Company enters into a diversified set of investments which reduces the concentration of risk on the performance of any one investment.
- Investment performance is monitored as part of the Company's investment risk management process.

5.13 Risk of Excessive Leverage

Leverage refers to the debt portion of capital and is usually expressed as total debt divided by owners' equity. Some amount of leverage can increase the profitability of a company by providing funds for profitable investments.

According to the "Basel III leverage ratio framework and disclosure requirements" by the Basel Committee on Banking Supervision (the "**BCBS**"), an underlying cause of the Great Financial Crisis was the build-up of excessive on- and off-balance sheet leverage in the banking system. In many cases, banks built up excessive leverage while maintaining seemingly strong risk-based capital ratios. The ensuing deleveraging process at the height of the crisis created a vicious circle of losses and reduced availability of credit in the real economy

The BCBS introduced a leverage ratio in Basel III to reduce the risk of such periods of deleveraging in the future and the damage they inflict on the broader financial system and economy. The leverage ratio is also intended to reinforce the risk-based capital requirements with a simple, non-risk-based "backstop". The Leverage Ratio defined as as the capital measure divided by the exposure measure, expressed as a percentage and the minimum requirement is set at 3%.

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Moreover, the following apply:

- The Company does not have any loans or credit margins to finance its assets or operations.
- The Company is able to withstand a range of different stress events with respect to the risk of excessive leverage.
- Clients' portfolios are not leveraged.
- The Company maintains adequate equity, represented by a ratio of a capital adequacy of 11.02% as opposed to the required by the CySEC 8%.
- The Company's Leverage Ratio in 2018 has decreased at 11.13% compared to 2017 which was 12.54%.

5.14 Interest Rate Risk

Interest Rate Risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

To manage its exposure to the said risk, the Company implements the below strategies:

- The Company's income and cash flows are substantially independent of changes in the market interest rates.
- The Company has no significant interest bearing financial assets or liabilities.
- The Company is exposed to interest rate risk in relation to its non-current borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowing issued at fixed rates expose the Company to fair value interest rate risk.
- The Company clients' portfolios also carry interest rate risk which is monitored and mitigated through a number of techniques such as gradual investment of funds, short investment duration, selection of floating rate notes, etc.
- The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

5.15 Legal and Compliance Risk

Legal and Compliance Risk may arise as a result of not fully complying with laws and regulations. Compliance Risk is the prospective risk to earnings or capital that could result from violations and breaches of, or non-confirmance with, laws and regulations, written policies and proceduresor ethical standards which may have an effect on the revenue/income and on the capital of the Company. Legal and compliance risk may lead to diminised reputation, reduced Company value, limited business opportunities, reduced potential expansion, and an inability to enforce contracts.

For that reason, the Company is aiming into maintaining a fully updated compliance culture, since it also considers compliance as one of its corner stones and a foundation on building a risk averse (to maximum possible) operational environment. Compliance Risk is governed through the relevant internal policies and procedures, which are also communicated to all employees.

Legal Risk is the possibility that a contractual agreement with a service provider, credit institution or counterparty may turn to be legally non-enforeable. Part of the legal risk relates to regulatory and litigation risk, which pertains mostly to the possibility of non-compliance with applicable legislation which in turn may change/amended during the enforcement and applicability of a legally binding contractual agreement.

The Legal and Compliance Risk for the Company is relatively low due to the internal policies and procedures established and implements by the Compliance Function and reviewed by the Internal Auditor. The Company's manuals, further, guide compliance with applicable legislative and compliance applicable requirements which are reviewed and updated on a regular basis.

The Company is also providing in-house trainings to complement the seminars that the employees have attended due to their registration in the Register of Certified Persons of the CySEC. The Senior Management has established the conduct of regular meetings with all staff assessing in this way any training needs.

Extensive description of the Compliance Function activities towards minimising Legal and Compliance Risk has been provided in the Annual Compliance Report.

To summarize the above, the exposure to Legal and Compliance Risks is limited to a significant extent due to the supervision applied by the Compliance Function and the internal monitoring controls which are put in place by the Company.

5.16 Reputational Risk

Reputational risk is the adverse perception of the image of the CIF by customers, counterparties, investors or regulators. It may arise from providing poor customer service or from fines imposed by the CySEC that create a negative feeling towards the CIF from the market.

Various policies and practices to mitigate reputational risk have been established. These include, transparent communication, accurate reporting, continuous Company culture and values assessment, internal audit and regulatory compliance review, and risk management practices. The Company's Senior Management and Board, are knowledgeable and experienced persons, and recognized individuals abiding to high integrity and ethical standards.

The Company has policies and procedures in place when dealing with possible client complaints in order to provide the best possible assistance and service under such circumstances.

5.17 Money Laundering and Terrorist Financing Risk

Money laundering and terrorist financing risk mainly refers to the risk where the Company may be used as a vehicle to launder money and/or assist/involved in financing terrorism. The Company has in place and is updating as applicable, certain policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks. Among others, these policies, procedures and controls include the following:

i. 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 risks faced by the Company,
ii. the adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing risk,
iii. Clients are evaluated before the commencement of the business relationship with the Company through the information they provide via the questionnaires they fill and / or any other information that is obtained through screening or from third party sources. Based on the information gathered it is decided whether to accept the client or not.

iv. 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),
v. 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,
vi. The clients' accounts are regularly monitored in order to identify any suspicious transactions. The Company considers that the risk of its clients being involved in money laundering or in terrorist funding is minimal.
vii. Ensuring that the Company's personnel receive the appropriate training and assistance.

The Company is frequently reviewing its policies, procedures and controls with respect to money laundering and terrorist financing to ensure compliance with the applicable legislation and incorporated, as applicable, any new information issued/available in this respect.