



MAGIC
COMPASS™

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DISCLOSURE & MARKET DISCIPLINE REPORT - 2016

April 2017

Disclosure

The Disclosure and Market Discipline Report for the year 2016 has been prepared by MAGIC COMPASS LTD as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive DI144-2014-14 issued by the Cyprus Securities and Exchange Commission.

MAGIC COMPASS LTD 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 our competitive position.

MAGIC COMPASS LTD is regulated by the Cyprus Securities and Exchange Commission under License number 299/16.

CONTACT US:

| | |
|------------------|---|
| Address | 1 Iacovou Tombazi, Vashiotis Business Centre, 2 nd Floor, 3107 Limassol, Cyprus |
| Telephone | +357 25023880, +357 25030366 |
| Fax | +357 25590300 |
| Website | http://www.magiccompass.com |
| Email | compliance@magiccompass.com |

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

The Board of Directors approves in full the adequacy of Risk Management arrangements of the institution providing assurance that the risk management systems in place are adequate with regards to the institutions profile and strategy.

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Abbreviations

| | |
|-----------|--|
| AT1 | Additional Tier 1 |
| Basel II | BIS previously enforced global regulatory framework |
| Basel III | BIS current enforced global regulatory framework |
| BIS | Bank for International Settlements |
| Board | Board of Directors |
| CET 1 | Common Equity Tier 1 Capital |
| CIF | Cyprus Investment Firm |
| CRD | Capital Requirements Directive – Directive 2013/36/EU |
| CRM | Credit Risk Mitigation |
| CRR | Capital Requirements Regulation – Regulation (EU) No. 575/2013 |
| CySEC | Cyprus Securities & Exchange Commission |
| EC | European Commission |
| ECAI | External Credit Assessment Institution |
| EU | European Union |
| ICAAP | Internal Capital Adequacy Assessment Process |
| RAF | Risk Appetite Framework |
| RAS | Risk Appetite Statement |
| T1 | Tier 1 Capital |
| T2 | Tier 2 Capital |
| UBO | Ultimate Beneficial Owner |

1. INTRODUCTION

1.1. Pillar III Regulatory Framework and Scope of Application

The present report is prepared by MAGIC COMPASS LTD (hereinafter, the “Company”) a Cyprus Investment Firm (CIF) authorized and regulated by the Cyprus Securities and Exchange Commission (hereinafter, “CySEC”) under the license number 299/16 and operates in harmonisation with the Markets in Financial Instruments Directive (MiFID).

In accordance with Regulation (EU) No. 575/2013 (hereinafter, the “Capital Requirements Regulation” or “CRR”), which was introduced in late 2014, 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 Capital Requirements Regulation introduced significant changes in the prudential regulatory regime applicable to banks and investment firms including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018. The current regulatory framework comprises three pillars:

- **Pillar I** covers the calculation of risk weighted assets for credit risk, market risk and operational risk.
- **Pillar II** covers the Supervisory Review and Evaluation Process (SREP), which assesses the Internal Capital Adequacy Assessment Process (hereinafter, the “ICAAP”) and provides for the monitoring and self-assessment of an institution’s capital adequacy and internal processes.
- **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 2016 Pillar III Disclosures report sets out both quantitative and qualitative information required in accordance with Articles 431 to 455 of Part 8 of the CRR, which set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure report is audited by the Company’s external auditors and published on the Company’s website at www.magiccompass.com on an annual basis.

Furthermore, the Board of Directors 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 of Directors, Internal Audit, Risk Manager, 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.

As with all Investment Firms, the Company is exposed to a variety of risks and in particular to credit risk, market risk and operational risk. More information can be found in the sections below.

1.2. Investment Firm

Table 1 Corporate Information

| | |
|--|-------------------|
| Company name | MAGIC COMPASS LTD |
| CIF Authorization date | 12/04/2016 |
| CIF License number | 299/16 |
| Company Registration Number | HE 341562 |
| Investment Services | |
| <ul style="list-style-type: none"> • Reception and transmission of orders in relation to one or more financial instruments • Execution of Orders on behalf of Clients • Portfolio Management | |
| Ancillary Services | |
| <ul style="list-style-type: none"> • Safekeeping and administration of financial instruments, including custodianship and related services • Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction • Foreign exchange services where these are connected to the provision of investment services • Investment research and financial analysis or other forms | |

1.3. Regulatory (Prudential) Supervision

The laws and regulations, published by the Cyprus Securities and Exchange Commission, that govern the operations of Cyprus Investment Firms and set out the obligations and requirements that shall be met in the aspect of capital adequacy and market discipline, are comprised by the following:

- Law 144(I)/2007: Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereinafter, the “Law”)
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation

- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV
- Directive DI144-2014-14: For the prudential supervision of Investment Firms;
- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013.

2. RISK MANAGEMENT

2.1. Definition of Risk Management

Risk Management is the process of identification, analysis and evaluation of uncertainty in investment decision-making. As a result, it is treated accordingly: either accepted or mitigated.

Risk management occurs anytime a Client analyses and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction) given their investment objectives and risk tolerance.

Risks should be continuously monitored and reviewed. In addition to that, outcomes and results should be properly reported while new objectives should be set.

Characteristics of a productive risk management process:

- A culture of risks adjusted in the organization. It embraces a series of values, attitudes and ways of acting towards risks, including taking decisions on change management and strategic, business planning [SEP]
- Complete approach to all risks: There are risks, which directly affect the Company, and risks that indirectly affect the Company. It is very important to report all kinds of risks and to assume and understand the interrelations between them. The overall calculation should be simplified without affecting the difference of nature, degree of evolution and real possibilities of management and control of each type of risk, adjusting the organization, processes, reports and tools to the features of each one. [SEP]
- An organizational and control model, which is assigned to all risk types. [SEP]
- Common management instruments among the different departments, without negatively affecting the regulations and requirements of supervisors and the degree of development of each department. [SEP] Lastly, it is very important that all risk assessment results should be communicated to all relevant departments with the appropriate consultation given. [SEP]

RISK MANAGEMENT PROCESS

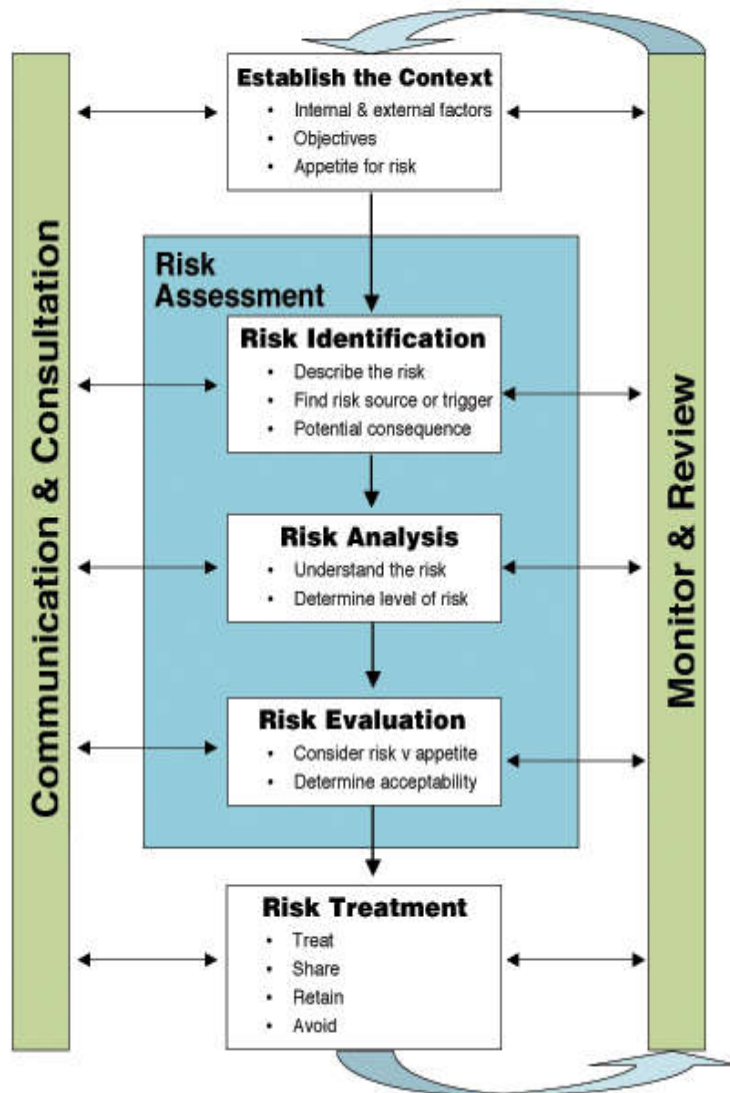


Figure 1: Risk Management Process

2.2 Risk Management Policy and Objectives

The Company's Risk Management Policy was formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general.

It sets out the procedures and mechanisms regarding risks and it describes the roles and responsibilities of the Risk Manager. In addition to that, it identifies the main reporting procedures and outlines the process followed by the Senior Management in order to evaluate the effectiveness of the Company's internal control procedures.

The Risk Manager ensures that all different types of risks taken by the Company are monitored and reported to the Senior Management and the Board of Directors (hereinafter, the "Board"). Moreover,

the Risk Manager is responsible for making recommendations and indicating whether the appropriate remedial measures have been taken in the event of any deficiencies identified, as aforementioned.

The Senior Management bears the responsibility to monitor the adequacy and effectiveness of risk management policies and procedures that are in place, the level of compliance by the Company, and its relevant persons, with the policies and procedures adopted as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

The Company's Board receives on a regular basis written reports, which contain a description of the implementation and effectiveness of the overall control environment for investment services and activities, ancillary services and other business, and a review of the risks that have been identified, analysed, planned as well as remedies undertaken or to be undertaken.

Processes are continuously being reviewed with the intent of further strengthening through the implementation of guidance provided by both the industry and new regulatory requirements. In addition, the entire risk management policy universe has been re-designed to define an updated comprehensive and coherent framework for risk management, linked to the Company's risk appetite.

2.3 Risk Appetite Framework (RAF)

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. Such risks include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk.

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 risk appetite of the Company, expresses its strategy through desirable and undesirable risk exposures. It is the aggregate level and types of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan. Thus, Risk Appetite and Strategic Plan occur and evolve in parallel. The Risk Appetite enables the organisation to demonstrate that the achievement of its strategic goals has not been the result of fortuitous circumstances.

Furthermore, the Risk Capacity/Tolerance is the maximum amount of risk, which the Company is technically able to assume before breaching one or more of its capital base, liquidity, reputational and regulatory constraints.

The risk capacity represents the upper limit beyond which a breach is likely to result in failure.

Taking into consideration the Company's size, services offered, complexity and operations, the risks that are considered significant and / or material for the Company are credit risk, market risk, operational risk, liquidity risk and large exposures.

In regards to the above, setting the corporate risk appetite without taking into account the risk capacity of the entity may have serious consequences. Risk capacity may be easy to quantify in terms of capital or required funding but it is more challenging to consider the point at which the Company's reputation is beyond repair.

The Board and Senior Management understand how the risk capacity impacts on the business and have taken the necessary steps to be in constant awareness, mitigating any potential threads.

The Company is considering the time and requirements to initiate the establishment of Risk Appetite Framework.

2.4 Risk Culture

The Board has a critical role in strengthening risk governance, including setting the 'tone at the top', reviewing strategy, and approving the Risk Appetite Statement. It is the Board that is ultimately responsible and accountable for risk governance.

A robust risk culture is a substantial determinant of whether the Company will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that the Company wishes to build is reflected in its policies and procedures and these are closely aligned to its Risk Appetite. Risk culture is manifested in the day-to-day decisions that indicate how risk is identified, understood, discussed, and acted upon.

The Company has focused primarily on the implementation of a firm-wide effective and pervasive risk culture. This is achieved through the following:

- Embedding the risk culture at all levels of the organisation with clear ownership and accountability of tasks.
- Conducting firm-wide risk assessments.
- Implementing formal risk education presentations.
- Changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions.
- Changes in key personnel.
- Training.

2.5 Stress Testing

Stress testing is a key risk management tool used by the Company to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment

conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- Understanding the risk profile of the Company,
- The evaluation of the Company's capital adequacy in absorbing potential losses under stressed conditions: This takes place in the context of the Company's ICAAP,
- The evaluation of the Company's strategy: Senior management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows senior management to determine whether the Company's exposures correspond to its risk appetite,
- The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

The ultimate responsibility and ownership of the Company's stress testing policy rests with the Board. If the stress testing scenarios reveal vulnerability to a given set of risks, management should make recommendations to the Board for remedial measures or actions. These may vary depending on the circumstances and include one or more of the following:

- Review the overall business strategy, risk appetite, capital and liquidity planning,
- Review limits,
- Reduce underlying risk positions through risk mitigation strategies,
- Consider an increase in capital,
- Enhance contingency planning.

2.6 Internal Capital Adequacy Assessment

Further to the requirements of Pillar I, a more detailed approach on managing risks is achieved through the preparation of the Pillar II requirements and more precisely the internal capital adequacy assessment process (ICAAP) report which follows the requirements under Regulation (EU) No. 575/2013 and relevant guidelines issued by CySEC.

The ICAAP report is a key tool for both the Company and the regulator as it approaches the risk assessment from a holistic perspective enabling the Company to assess and match risks as much as possible, reducing its residual risk and enabling more precise future growth planning.

The Company, taking into consideration the requirements of the Law, will proceed with the preparation of its ICAAP Report during 2017.

3. REGULATORY PILLAR I RISK MANAGEMENT

3.1 Credit Risk Management

Definition

Credit Risk is the risk of loss that the Company would incur if the company fails to perform its contractual credit obligations. 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.

Risk identification, Measurement, Control and Reporting

Credit Risk arises when failures by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets in hand, at the balance sheet date. The Company's credit risk mainly arises:

- By the Company's deposits in Financial institutions,
- By assets mainly held under debtors or prepayments.

The Company follows mitigation strategies to minimize the possibility of occurrence of this risk, such as:

- All Client funds are held in segregated accounts, separated from Company's funds,
- The Company maintains regular credit review of counterparties, identifying the key risks faced and reports them to the Board, which then determines the Company's risk appetite and ensures that an appropriate amount of capital is maintained.

In order to maintain its Credit risk to the minimum, the Company is using EU credit institutions for safekeeping of funds and always ensures that the banks it cooperates with have high ratings based on top credit rating agencies (Moody's, S&P or Fitch), it frequently monitors their compliance with the EU regulatory framework and diversifies the funds over several credit institutions thus mitigating the risk exposure efficiently.

Further to the above, the Company has policies to diversify credit risk and to limit the amount of credit exposure to any counterparty in compliance with the requirements of the Regulation (EU) No. 575/2013.

Credit Risk Analysis

The tables below indicate the Company's Credit Risk exposure under Pillar I, as at the end of 2016 (Information has been based on the Audited Financial Statements as at 31/12/2016).

a. Total Exposure / Credit Risk Capital Requirements

Table 2: Credit Risk Requirements

| Credit Risk Capital Requirements | 31/12/2016 USD '000 |
|-----------------------------------|------------------------|
| Risk Weighted Assets | |
| Institutions | 596 |
| Corporates | 20 |
| Other Items | 32 |
| Retail | - |
| Public Sector Entities | - |
| Total risk weighted assets | 648 |

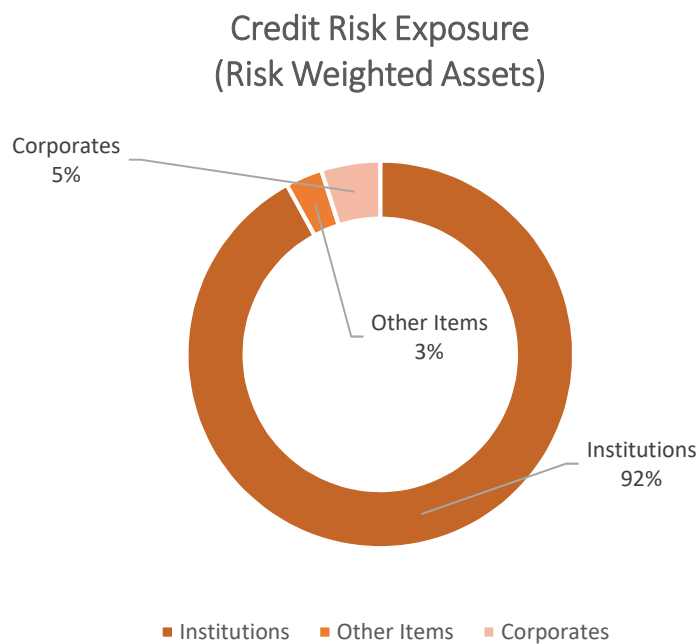


Figure 2: Credit Risk Exposures

b. Industry Exposure

Table 3: Credit Risk by Industry

| Credit Risk Capital Requirements by Industry | 31/12/2016 USD '000 |
|--|------------------------|
| Risk Weighted Assets | |
| Financial | 596 |
| Other/Non-financial | 52 |
| Total risk weighted assets | 648 |

c. Residual Maturity

Table 4: Credit Risk by Residual Maturity

| Credit Risk Capital Requirements by Maturity | 31/12/2016 USD '000 |
|--|------------------------|
| Risk Weighted Assets | |
| Below 3 Months | 596 |
| Above 3 Months | - |
| Non-Applicable | 52 |
| Total risk weighted assets | 648 |

d. Country Spread

Table 5: Credit Risk by Country

| Credit Risk Capital Requirements by Maturity | 31/12/2016 USD '000 |
|--|------------------------|
| Risk Weighted Assets | |
| Cyprus | 589 |
| United Kingdom | 7 |
| Total risk weighted assets | 596 |

3.2 Market Risk Management

Definition

Market Risk is the risk of losses when the value of investments may decline over a given period as a result of economic changes or events that impact a large portion of the market.

In the context of Pillar I, market risk can be divided in the following categories:

- **Position Risk:** It refers to the probability of loss associated with a particular trading (long or short) position due to price changes.

- **Interest rate risk:** The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- **Commodities Risk:** It refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. These commodities may be oil, metals, gas, electricity etc.
- **Foreign Exchange Risk:** It is a financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the company. The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange limits, such as through the establishment of maximum value of exposure to a currency pair as well as through the utilization of sensitivity analysis.

Risk identification, Measurement, Control and Reporting

The Company's market risk mainly arises from foreign exchange fluctuations which affect the Company's deposits in foreign currencies as well as from positions held during forex trading.

In line with the above, the Company has policies to minimize its market risk exposures which are in accordance with the CRR. In particular, it follows mitigation strategies in order to minimize the possibility of occurrence of this risk, such as:

- Active hedging strategy
- Stop Loss - Limits on trading
- Margin Calls

Furthermore, the Company follows CRR's Standardised Approach when it comes to calculating its capital requirements.

Foreign Exchange Risk Analysis

Table 6: Position risk on Foreign Exchange

| Foreign Exchange Capital Requirements | 31/12/2016 USD '000 |
|---------------------------------------|------------------------|
| Currency | |
| EUR | 464 |
| USD* | 143 |
| Total risk weighted assets | 464 |

As per the table above, the Company shows that it has foreign exchange risk only in EUR Dollar, as USD* is the reporting currency hence does not carry any risk.

3.3 Operational Risk Management

Definition

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external factors. Operational Risk includes legal risk but excludes strategic and reputational risk.

The following list presents some event types, included in Operational Risk, with some examples for each category:

- **Internal Fraud** – misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees,
- **External Fraud** – theft of information, hacking damage, third – party theft and forgery,
- **Compliance** – Brand impairment, Complaint handling, third country regulator retaliation, E-commerce global taxation matters,
- **Clients, Products & Business Practice** – market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.

Risk identification, Measurement, Control and Reporting

In order to control the exposure to operational risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses),
- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance.

To that effect, the management of operational risk is geared towards:

- Maintaining a strong internal control governance framework,
- Managing operational risk exposures through a consistent set of processes that drive risk identification, assessment, control and monitoring.

The Company implements the below Operational Risk Mitigation Strategies in order to minimize its Operational Risk Exposure:

- The development of operational risk awareness and culture,
- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities,
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives,

- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value,
- Established a “four-eyes” structure and Board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management and a Risk Management Committee. The Board further reviews any decisions made by the Management while monitoring their activities,
- Detection methods are in place to detect fraudulent activities,
- Comprehensive business contingency and disaster recovery plan.

The Senior Management employs specialized tools and methodologies to identify, assess, mitigate and monitor operational risk. These specialized tools and methodologies assist operational risk management to address any control gaps. To this effect, the following are implemented:

- Incident collection
- Key Risk Indicators
- Business Continuity Management
- Training and awareness

For the calculation of Operational Risk, in relation to the capital adequacy returns, the Company uses the Fixed Overhead approach. Based on the relevant calculations, the figures calculated show that the Company’s Risk Weighted Assets (RWA) for operational risk, as at 31st December 2016, was USD 203.

4. REFERENCE TO ADDITIONAL SIGNIFICANT RISKS

4.1 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. In periods of abnormal fluctuations in market conditions or financial crisis, liquidity risk can expose the Company to a shortfall of liquidity and limit its access to the capital markets resulting to damages. Liquidity shortages expose the Company to the risk of not having enough cash to fulfil its duties against creditors/debtors that can eventually cause regulatory sanctions and loss of business/reputation.

Mitigation Strategies

To minimize its exposure to liquidity risk, the Company implements the below Liquidity Risk Mitigation Strategies:

- Regular analysis & reporting to the Board on the funding needs of the Company.
- Monitoring of the Company's exposures and diversification to avoid rise of concentration risk as per the internal policies.
- Cash Management

Liquidity Analysis

Table 7: Liquidity analysis

| Available Liquidity | 31/12/2016 USD '000 |
|---------------------|------------------------|
| Cash at hand | 0 |
| Cash at bank | 601 |

4.2 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 terrorism financing.

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:

- 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,
- The adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing risk,
- 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),

- d. Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a Business Relationship or an Occasional Transaction,
- e. Monitoring and reviewing the business relationship or an occasional transaction with Clients and potential Clients of high risk countries,
- f. Ensuring that the Company's personnel receive the appropriate training and assistance

The Company has reviewed its policies, procedures and controls with respect to money laundering and terrorist financing to ensure compliance with the applicable legislation.

The Company is in the process of incorporating any new information issued / available in this respect.

5. CORPORATE GOVERNANCE

5.1 Board Recruitment

One of the Board's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the Board.

The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the Board and must be able to commit the necessary time and effort to fulfil their responsibilities.

Factors considered in the review of potential candidates include:

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subject,
- Knowledge of and experience with financial institutions (“fit-and-proper”),
- Integrity, honesty and the ability to generate public confidence,
- Knowledge of financial matters including understanding financial statements and financial ratios,
- Demonstrated sound business judgment,
- Risk management experience.

In line with the recent changes in the regulatory reporting framework (CRR), the Company is in the process of establishing a dedicated recruitment policy in relation to the Board.

5.2 Diversity of the Board of Directors

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how we do business and imperative to commercial success. The Company recognizes the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practises in the Corporate Governance Code of many EU countries.

The Company recognizes the benefits of having a diverse Board which includes and makes use of differences in the skills, experience, background, race and gender between directors.

A balance of these differences will be considered when determining the optimum composition of the Board.

In line with the recent changes in the regulatory reporting framework (CRR), the Company is in the process of establishing a dedicated diversity policy in relation to the Board.

5.3 Risk Management Committee

The Company, due to its large and complex organisational structure, its license and investment services as well as broad range of products and countries which serves has established a Risk Management Committee to better handle the risks that arise from its operations.

The Risk Management Committee is a committee appointed by the Board to review the Company's system of risk management. The Risk Management Committee is formed with the purpose of ensuring the efficient management of the risks inherent in the provision of the investment services to Clients as well as the risks underlying the operation of the Company.

The Risk Management Committee, which reports directly to the Board, consists of 3 participants and during 2016 held one (1) meeting.

The role of the Risk Management Committee is essential to:

- a. Ensure the efficient management of the risks inherent in the provision of the investment services to Clients,
- b. Monitor the risks underlying the operation of the Company,
- c. Be responsible for monitoring and controlling the Risk,
- d. Meet regularly in the offices of the Company, or via conference call.

The Risk Management Committee is dedicated primarily to managing the credit, market and operational risks of the Company, resulting from the its operations, and as part of its responsibilities it has to set out, approve and regularly update the policies, arrangements and procedures, which form the risk strategy, as well as to monitor all risks on an ongoing basis. The Risk Management Committee provides the Board with status updates and recommendations on risk management policies and guidelines.

The primary function of the Risk Management Committee shall be to monitor the Risk Manager in the performance of her duties. Towards this direction, the Company shall adopt and maintain diversity risk management policies, which identify the risks relating to the Company's activities, processes and systems and set the risk tolerance levels of the Company. The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of such risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

5.4 Reporting and Control

In line with the requirements set out in Law and subsequent Directives, the Company has been able to maintain a good information flow to the management body, as it can be seen below:

Table 8: Reporting Requirements for 2016

| Report Name | Report Description | Owner | Recipient | Frequency | Due Date |
|---|---|---------------------------|--------------------------|-----------|--|
| Annual Compliance Report | To inform the Senior Management & the Board of the Company regarding the Performance of Compliance function during the year | Compliance Officer | Board, CySEC | Annual | 30/04/2017 |
| Annual Internal Audit Report | To inform the Senior Management & the Board of the Company regarding the Internal Auditor during the year | Internal Auditor | Board, CySEC | Annual | 30/04/2017 |
| Annual Risk Management Report | Represents the work & activities undertaken by the Risk Manager during the year | Risk Manager | Board, CySEC | Annual | 30/04/2017 |
| 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 | Board, CySEC, Public | Annual | 30/04/2017 |
| Financial Reporting | It is a formal record of the financial activities of the CIF | External Auditor | Board, CySEC | Annual | 30/04/2017 |
| Capital Adequacy Reporting | A measure of the CIF's capital. It is expressed as a | Risk Manager / Accounting | Senior Management, CySEC | Quarterly | 11/05/2016 11/08/2016 11/11/2016 |

percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world

11/02/2017

5.5 Other Directorships held by the members of the Board

In 2016, the members of the Board of Directors of the Company given their industry experience have been taking seats in other Company boards. In line with this, the following table indicates the number of positions that each member holds:

Table 9: Other Directorships

| Name | Position in the CIF | Directorships - Executive | Directorships - Non Executive |
|--------------------|------------------------------------|---------------------------|-------------------------------|
| Wei Zhang | Executive Director | 1 | 0 |
| Thomas Papantoniou | Executive Director | 1 | 0 |
| George Skordis | Independent Non-Executive Director | 0 | 2 |
| George Sardos | Independent Non-Executive Director | 0 | 2 |

The above table provides the number of directorships held by each member of the management body of the Company at the same time in other CIFs. Directorships in non-CIF entities are not included in this table.

6. REGULATORY CAPITAL

In 2016, the Company has been able to maintain a good business environment and develop in line with its strategic planning. The Company's key resources that comprise its prudential regulatory capital (Own Funds) have been stable throughout the year.

In line with CRR, 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 composition below.

Table 10: Capital Structure under CRR

| Capital Structure | 31 December 2016 USD '000 |
|-------------------------------------|------------------------------|
| Share Capital | 134 |
| Share Premium | 795 |
| Reserves | (479) |
| Deductions (Intangible Assets, ICF) | (130) |
| Total Common Equity Tier 1 | 320 |
| Additional Tier 1 Capital | - |
| Total Tier 1 Capital | 320 |
| Tier 2 (Loan) | - |
| Total Own Funds | 320 |

The Company's linear capital structure, as it can be observed above, has not been disrupted by the changes in the new EU regulatory framework, therefore there was no need to use any failsafe transitional provision and furthermore its current structure enables constant resource monitoring, reducing any liquidity risk.

7. CAPITAL REQUIREMENTS UNDER PILLAR I

The primary objective of the Company with respect to its capital management is to ensure that it complies with the capital requirements regulation imposed by the European Union and regulated by CySEC. Under this framework, the Company needs to monitor its capital base, as mentioned in previous chapter, and maintain a strong capital adequacy ratio to be able to promote itself as a healthy Company, fully compliant with the legislation, to support its business and maximize shareholders' value. In this respect, the capital requirements should not be a restriction of business but rather as proactive risk management imposed to help both the Company and its Client base.

The fundamental pillar of the capital adequacy framework, Pillar I, is based on the fact that the Company must have own funds which are at all times more than or equal to the sum of its capital requirements.

In line with CRR, Pillar I sets out the minimum regulatory capital requirements of firms to cover credit, market and operational risk. The minimum total capital adequacy ratio an investment firm is required to maintain is set at 8%. Moreover, with the introduction of Basel III/CRR, the minimum capital adequacy ratio has been further defined and fragmented providing more rigorous monitoring of core equity ratio which is set at 4.5% in contrast with the total ratio at 8% and within a period of 2-3 years the transitional introduction of capital buffers (as per the chart below) will provide more capital requirements and also enhanced security.

The Board as well as the Risk Manager monitor the reporting requirements and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company.

The Company manages its capital structure and adjusts it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

The Company's Own Funds, Capital Requirements and Capital Adequacy Ratio as at 31st of December 2016, are presented below:

Table 11: Capital Requirements

| Capital Requirements - Pillar 1 | 31 December 2016 USD '000 |
|---------------------------------------|------------------------------|
| Core Equity Tier 1 (CET 1) | 320 |
| Additional Tier 1 Capital (AT 1) | - |
| Total Tier 1 Capital | 320 |
| Tier 2 | - |
| Total Own Funds | 320 |
| Risk Weighted Assets | |
| Credit Risk | 647 |
| Market Risk | 464 |
| Additional Fixed Overhead Requirement | 0 |
| Total Risk Exposure Amount | 1.111 |
| CET1 Capital Ratio | 28.84% |
| T1 Capital Ratio | 28.84% |
| Total Capital Ratio | 28.84% |

8. CREDIT ASSESSMENT UNDER THE STANDARDISED APPROACH

For calculating the capital requirements of the Company mainly under the credit risk requirement, for the exposure classes listed below, the external credit ratings from Moody's Analytics have been applied.

- Exposures to central governments or central banks.
- Exposures to institutions.
- Exposures to corporates.

The general ECAI association with each credit quality step complies with the standard association published by CySEC as follows:

Table 12: ECAI association with CQS

| Credit Quality Step | Moody's Rating | Institution Risk Weight (Below 3 months) | Institution Risk Weight (Above 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 ECAIs 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 ECAIs are applied in the following priority:

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

The ECAIs are not considered where exceptions or discretions, as per the CRR, apply.

9. REMUNERATION POLICY AND PRACTICES

Further to the application of enhanced corporate governance arrangements in relation with the Board, the Company's remuneration system has also been enhanced in respect to its disclosure to promote further transparency.

Remuneration refers to payments or compensations received for services or employment.

Based on the above, the Remuneration policy includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment and shall be appropriate to the Company's size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the Directive DI144-2014-14.

During 2016, the Company's remuneration system is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management and members of the Board of Directors; the said practices are established to ensure that the rewards for the 'executive management' provide the right incentives to achieve the key business aims.

The total remuneration of staff consists of fixed and variable components. Fixed and variable components 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 remuneration components, including the possibility to pay no variable remuneration component.

Table 13: Remuneration Figures for 2016

| Aggregate quantitative information on Remuneration broken down by | | | | | |
|--|--------------|--------|----------|----------|--------|
| (EUR) | No. of staff | Fixed | Variable | Non-cash | Total |
| Senior Management and staff whose actions have a material impact on the risk profile of the Institution | 4 | 80.807 | - | - | 80.807 |

10. LEVERAGE

According to Article 429 of the CRR, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposure measure and is expressed as a percentage.

The leverage ratio of the Company is calculated using the fully phased in definition of Tier 1 capital and the monitoring by the regulator will end in 2017, when a minimum ratio will be established. Currently, a 3% minimum limit is being in place for monitoring purposes.

As at 31st of December 2016, the leverage ratio of the Company was equal to 49% using a fully phased-in definition of Tier 1 Capital, as per the table below:

Table 14: Leverage Ratio Analysis

| Leverage Ratio | 31 December 2016 USD '000 |
|---|------------------------------|
| Exposure Values (Risk Weighted Exposures = EUR 647) | 653 |
| Tier 1 Capital (No transitional provisions – Fully phased-in definition) | 320 |
| Leverage Ratio | 49% |

Appendix - Specific References to CRR

| CRR Ref | High Level Summary | Compliance Reference |
|--|--|---------------------------------|
| Scope of disclosure requirements | | |
| 431(1) | Requirement to publish Pillar III disclosures. | Point 1.1 |
| 431(2) | Disclosure of operational risk information. | Point 3.3 |
| 431(3) | Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness. | To be established within 2017 |
| 431(4) | Explanation of ratings decisions to SMEs upon request. | N/A |
| Frequency of disclosure | | |
| 433 | Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements. | Point 1.1 |
| Means of disclosures | | |
| 434(1) | To include disclosures in one appropriate medium, or provide clear cross-references to other media. | Point 1.1 |
| 434(2) | Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate. | Point 1.1 |
| Risk management objectives and policies | | |
| 435(1) (a) | Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation/hedging policies | Point 2 and 3.1 |
| 435(1) (b) | | Point 2 and 3.1 |
| 435(1) (c) | | Point 2 and 3.1 |
| 435(1) (d) | | Point 2 and 3.1 |
| 435(1) (e) | Declaration approved by the Board on adequacy of risk management arrangements | Beginning of the report |
| 435(1) (f) | Concise risk statement approved by the Board | Point 2.3 Completing in 2016 |
| 435(2) | Information, once a year at a minimum, on governance arrangements. | Point 5.4 |
| 435(2) (a) | Number of directorships held by members of the Board. | Point 5.5 |
| 435(2) (b) | Recruitment policy of Board members, their | Point 5.1 |

| | | |
|------------|---|--|
| | experience and expertise. | (To be established in 2016) |
| 435(2) (c) | Policy on diversity of Board members, its objectives and results against targets. | Point 5.2 (To be established in 2016) |
| 435(2) (d) | Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year. | Point 5.3 |
| 435(2) (e) | Description of information flow on risk to the Board. | Point 5.4 |

Scope of application

| | | |
|---------------|---|-----------|
| 436(a) | Name of institution. | Point 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 | Points 6 & 7 |
| 437 (1) | | Points 6 & 7 |
| 437 (1) (a) | | Points 6 & 7 |
| 437 (1) (b) | | Points 6 & 7 |
| 437 (1) (c) | | Points 6 & 7 |
| 437 (1) (d) (i) | | Points 6 & 7 |
| 437 (1) (d) (ii) | | Points 6 & 7 |
| 437 (1) (d) (iii) | | Points 6 & 7 |
| 437 (1) (e) | | Points 6 & 7 |
| 437 (1) (f) | | Points 6 & 7 |
| 437(2) | EBA shall develop 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. | Included in individual risk assessments |
| 438(b) | Result of ICAAP on demand from competent authority. | Point 2.6 |
| 438(c) | Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure). | Point 3.1 |
| 438(d) | Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class. | N/A |
| 438(d) (i) | | N/A |
| 438(d) (ii) | | N/A |
| 438(d) (iii) | | N/A |
| 438(d) (iv) | | N/A |
| 438(e) | Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits. | N/A |
| 438(f) | Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable. | Point 3.3 |

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 | N/A |

| | | |
|--------------------------------|---|---------|
| | transactions for own credit, intermediation, bought and sold, by product type. | |
| 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. | N/A |
| 442(d) | Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by significant geographic areas and material exposure classes. | N/A |
| 442(e) | Exposures post value adjustments by residual maturity and by material exposure class. | N/A |
| 442(f) | 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(g) | | N/A |
| 442(g) (i) | | N/A |
| 442(g) (ii) | | N/A |
| 442(g) (iii) | | |
| 442(h) | Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography. | N/A |
| 442(i) | | N/A |
| 442(i) (i) | | N/A |
| 442(i) (ii) | | N/A |
| 442(i) (iii) | | N/A |
| 442(i) (iv) | | N/A |
| 442(i) (v) | | N/A |
| 442 | 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 ECAs used in the | Point 8 |

| | | |
|--------|--|---------|
| | calculation of Standardised approach RWAs, and reasons for any changes. | |
| 444(b) | Exposure classes associated with each ECAI. | Point 8 |
| 444(c) | Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book; | Point 8 |
| 444(d) | Mapping of external rating to credit quality steps. | Point 8 |
| 444(e) | Exposure values pre- and post-credit risk mitigation, by credit quality step. | Point 8 |

Exposure to market risk

| | | |
|-----|---|-----------|
| 445 | Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk. | Point 3.2 |
|-----|---|-----------|

Operational Risk

| | | |
|-----|---|-----------|
| 446 | Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered. | Point 3.3 |
|-----|---|-----------|

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 unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital. | N/A |

Exposure to interest rate risk on 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 | Point 9 |
| Leverage | | |
| 451(1) (a) | Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items. | Point 10 |
| 451(1) (b) | | N/A |
| 451(1) (c) | | N/A |
| 451(1) (d) | Description of the risk management process to mitigate excessive leverage and factors that had an impact on the 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 covered by guarantees or credit derivatives. | N/A |

Use of the Advanced Measurement Approaches to operational risk

| | | |
|-----|---|-----|
| 454 | Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk. | N/A |
|-----|---|-----|