



**RISK MANAGEMENT (PILLAR III) DISCLOSURES IN  
ACCORDANCE WITH PART EIGHT OF EUROPEAN  
REGULATION 575/2013 FOR THE YEAR ENDED 31  
DECEMBER 2017**

**MAY 2018**

ACCORDING TO ARTICLE 431 OF REGULATION (EU) No 575/2013 OF THE EUROPEAN  
PARLIAMENT AND OF THE COUNCIL OF 26 JUNE 2013 ON PRUDENTIAL  
REQUIREMENTS FOR CREDIT INSTITUTIONS AND INVESTMENT FIRMS AND AMENDING  
REGULATION (EU) NO 648/2012

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## 1. INTRODUCTION

### a. The Firm

**Atonline Limited** (hereafter “the Firm”) was incorporated in Cyprus on 22 June 2000 as a limited liability Firm. On 22 September 2009 it was granted a CIF license by Cyprus Securities & Exchange Commission (hereafter ‘CySEC’), according to which it is authorized to perform the following investment and ancillary services, in the financial instruments shown below:

Core Services	Ancillary Services	Financial Instruments
Reception and transmission of orders in relation to one or more financial instruments	Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services, such as cash/collateral management	(1) Transferable Securities
Execution of orders on behalf of clients	Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	(2) Money- market instruments
Dealing on own account	Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings	(3) Units in Collective Investment Undertakings
		(4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash
		(5) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities, that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event)
		(6) Options, futures, swaps and any other derivative contract relating to commodities that can be physically settled, provided that they are traded on a regulated market and/or an MTF
		(7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in paragraph 6 and not being for commercial purposes, which have the



**b. Declaration approved by the management body on the adequacy of risk management arrangements**

The management body of Atonline Limited considers that in general, the risk management arrangements that the Firm has put in place are adequate. In particular, it is management's belief that the risk management systems put in place are adequate with regard to the Firm's profile and strategy.

**c. Risk statement approved by the management body describing the Firm's overall risk profile associated with the business strategy**

The Firm has traditionally adopted a prudent and moderate risk profile that permeates the Firm's business strategy. As a matter of policy, Atonline Limited offers its services only to professional physical person and non-retail investors. The Firm's primary source of income is its broker/dealer operations. The Firm has the principal-to-principal business, whereby it transacts as principal with other counterparties, based on limits approved by the Risk Management Department. A flat-book approach is maintained for the client facilitation book, whereby, any securities bought or sold throughout the day are sold or bought accordingly either through the markets or to affiliated entities. As a result of this approach, risk is minimized since, as a general rule, no overnight positions are kept on client facilitation book.

The Firm keeps several proprietary books. The value of the Firm's proprietary book as at the end of 2017 stood at USD 2.633.596 gross in long and short positions. It is expected that throughout 2018 proprietary position will gradually increase to a target of USD 35-40M. The strategy and tactics of the proprietary book are outlined in portfolio opening form and determined by the Investment Committee, which is comprised of:

1. The Firm's Head of the Own Account Dealing Department. The Head of the Own Account Dealing Department is assisted in the formulation of the proposed strategy by the Head of the Research Department, who, even though is not a member of the Committee, provides the own account dealer with an opinion on the future performance of the markets and direction as to the most promising (or overpriced) investment opportunities.
2. The Head of the Risk Management Department, who is responsible for expressing an opinion on the proposed strategy and tactics with special recourse to the risks entailed in such strategies. Once agreement is reached on the strategy, the Head of the Risk Management Department is responsible for assigning and monitoring limits on positions.

3. The Head of Compliance who is responsible to identify on the spot any potential breaches of the underlying Laws and regulations that might result from the proposed strategy and align participants about any special regulatory obligations.
4. The General Manager, whose role is to fulfill the management body's prerogative and responsibility for the overall overview of the affairs of the Firm, since, Own Account Dealing activity could expose the Firm to considerable risks if not properly handled and controlled.

The Firm's brokerage business comprises of the execution of client orders and custody services<sup>1</sup>. The Firm also accords the possibility to those clients who have opted for the Firm's Electronic Trading Services to submit their orders electronically through the use of a trading platform. In addition, the Firm is also offering its Margin Trading Services, whereby clients that opt for it, are in a position to obtain from the Firm credit facilities for an amount that is commensurate with the value of assets that the said clients place as collateral with the Firm.

When it comes to corporate finance services<sup>2</sup>, the Firm is primarily active in the placing of financial instruments without a firm commitment basis, which is a considerably less risky activity compared to the underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis, and in addition, it ties considerably less capital in terms of the Firm's Capital Requirements obligations.

The fact that the Firm applies an extremely prudent and balanced strategy in relation to risks is epitomized by the high ratios attained for Capital Requirements purposes, namely, CET1 Capital ratio, T1 Capital ratio and Total capital ratio of 63,13%, which is above the minimum requirements of 4,5%, 6%, 8% and 9,25% (8% including the Capital Conservation Buffer applicable for 2017) respectively.

#### **d. Scope of Application**

In December 2010, the Basel Committee on Banking Supervision (BCBS) published the 1<sup>st</sup> version of a document titled "Basel III: A global regulatory framework for more resilient banks and banking systems". In June 2011, the said framework underwent certain revisions.

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<sup>1</sup> We shall use the expression "custody services" to refer to the ancillary service of "Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash / collateral management".

<sup>2</sup> The term "corporate finance services" shall be used to denote collectively the investment services of (a) Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis and (b) Placing of financial instruments without a firm commitment basis

This framework was designed to replace the Basel II framework, which, since publication in June 2004, had provided the basis for assessing the capital adequacy of supervised institutions by prudential regulators worldwide.

Compared with the Basel II, the revised framework sets out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement, measures to promote the build-up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards. In Mr. Nout Wellink's words, Chairman of the Basel Committee on Banking Supervision and President of the Netherlands Bank, the Basel III framework is "a landmark achievement that will help protect financial stability and promote sustainable economic growth. The higher levels of capital, combined with a global liquidity framework, will significantly reduce the probability and severity of banking crises in the future."

The requirements expressed in the Basel III framework have been incorporated into European and national regulations. In Cyprus, the Basel III framework was implemented through:

- Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms. The said directive transposes Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 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
- Directive DI144-2014-15 on the discretions of the Cyprus Securities and Exchange Commission arising from Regulation (EU) No 575/2013
- The introduction of several amendments to the Law Which Provides For The Provision of Investment Services, the Exercise of Investment Activities, the Operation of Regulated Markets and Other Related Matters (Law 144(I)/2007)
- The direct implementation of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

The disclosures made in the present document ensure compliance with those provisions of the Basel III framework that relate to Pillar 3. The following information is disclosed in accordance

with Part Eight of Regulation (EU) No 575/2013. It relates to the year ended 31 December 2017 and has been prepared on an individual (solo) basis.

Taking into account the parameters of article 433 of Regulation (EU) No 575/2013, namely:

- The scale of operations
  - The range of activities
  - presence in different countries,
  - involvement in different financial sectors, and
  - participation in international financial markets and payment, settlement and clearing systems,
- it has been decided that, even though certain of the above conditions do apply to Atonline Limited, it is not necessary to produce Pillar 3 Disclosures any more frequently than annually.

The Firm has opted to make this report available on its website at [www.atonint.com](http://www.atonint.com).

## **e. Fundamental Principles of the CRD4 framework**

The Basel III Accord has been implemented in the European Union through Directive 2013/36/EU and Regulation (EU) No 575/2013 (henceforth “CRD4 Framework”). The CRD4 framework consists of three “pillars”:

- ▶ Pillar 1 sets out the minimum capital requirements of firms to cover credit, market and operational risk.

The first Pillar sets out the minimum regulatory capital requirements that an investment firm is required to meet. The CRD4 framework introduces a more elaborate analysis of the capital of investment firms, and sets a graduated series of minimum capital adequacy ratios as follows:

- Common Equity Tier 1 (CET1) Capital ratio: 4,5%
- T1 Capital ratio: 6,0%
- Total capital ratio: 8,0%
- Minimum capital requirements: 8% adjusted to Capital Conservation Buffer (CCB) add-on



All dates are as of 1 <sup>st</sup> January	2017	2018	2019
Minimum CET1 ratio	4,5%	4,5%	4,5%
Capital Conservation Buffer	1,250%	1,875%	2,500%
<b>Minimum CET1 Ratio + CCB</b>	<b>5,750%</b>	<b>6,375%</b>	<b>7,000%</b>
Minimum Tier 1 capital	6,0%	6,0%	6,0%
Minimum Total Capital	8,0%	8,0%	8,0%
<b>Minimum Total Capital + CCB</b>	<b>9,25%</b>	<b>9,875%</b>	<b>10,500%</b>
Countercyclical Buffer	≤1,25%	≤1,875%	≤2,5%

Where:

- ✓ CET1 Capital consists of:
  - (a) capital instruments, provided that the conditions laid down in Article 28 or, where applicable, Article 29 Regulation (EU) No 575/2013 are met;
  - (a) share premium accounts related to the instruments referred to in point (a);
  - (b) retained earnings<sup>3</sup>;
  - (c) accumulated other comprehensive income<sup>3</sup>;
  - (d) other reserves<sup>3</sup>;
  - (e) funds for general banking risk<sup>3</sup>.
- and,
- ✓ Tier 1 (T1) Capital consists of the sum of the Common Equity Tier 1 capital and Additional Tier 1 capital (e.g. hybrid instruments) of the institution.
- ✓ Total Capital consists of the sum of the Tier 1 capital and Tier 2 capital of the institution. The Tier 2 capital is comprised mainly by capital securities (e.g. subordinated loan capital) that meet specific conditions as per the Article 63 of the European Regulation 575/2013.

The CRD4 framework introduces the concept of capital buffers, whereby institutions, apart from being in a position to meet the minimum capital adequacy ratios outlined here above, they also have to set aside a certain amount of CET1 capital to meet their 'combined buffer requirement', that includes the capital conservation buffer extended by the following buffers, as applicable:

- (a) an institution-specific countercyclical capital buffer;
- (b) a G-SII buffer;
- (c) an O-SII buffer;
- (d) a systemic risk buffer;

<sup>3</sup> The items referred to in points (c) to (f) shall be recognised as Common Equity Tier 1 only where they are available to the institution for unrestricted and immediate use to cover risks or losses as soon as these occur.

Based on the above, as at 31 December 2017, the Firm was subject to a minimum Pillar I capital adequacy ratio of 8%, plus (a) a capital conservation buffer of 1,25% as per the transitional application provisions for buffers and (b) a systemic risk buffer of 1% for its exposures to Estonia, if any, in response to the decision of the Cyprus Macroprudential Authority for the capital buffers (i.e. the Central Bank of Cyprus – “CBC”) to adopt, via reciprocity, a macroprudential measure adopted by the relevant Estonian authority. It should be noted that the Firm as at 31/12/2017 had no exposure to Estonia, thus no systemic risk buffer was required.

The Firm was exempted from applying the institution-specific countercyclical capital buffer following a decision of the CBC to exempt small and medium-sized CIFs from this requirement. As a result, as at 31 December 2017, the Firm was subject to an overall minimum requirement of 9,25% (for Pillar I plus buffers).

- ▶ Pillar 2 sets the principles, criteria and processes required for assessing the Firm’s capital adequacy and risk management systems. Pillar 2, consists of two processes:
- the Internal Capital Adequacy Assessment Process (ICAAP)
  - the Supervisory Review Evaluation Process (SREP)

The second Pillar emphasizes the importance of the supervisory review process and the provision of adequate capital to meet all inherent risks in an investment firm. Investment firms are required to have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed. These strategies and processes are required to be subject to regular internal review in order to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the investment firm concerned.

According to Pillar 2, financial institutions are expected to perform their own assessment of capital adequacy, based on the risks that they face in their activities, including additional risk types such as interest rate risk on the banking book and liquidity risk. Pillar 2 also lays out the interaction between the investment firms’ own assessments and the dedicated supervision of the regulators.

- Pillar 3 specifies a set of disclosure requirements which enable market participants to assess information on firms' risks, capital and risk management procedures. Pillar 3 focuses on transparency, the disclosure of information and market discipline. Appropriate public disclosure is required by investment firms in order to strengthen market discipline and stimulate investment firms to improve their market strategy, risk control and internal management organization.

## 2. GOVERNANCE ARRANGEMENTS

### a. Number of directorships held by members of the management body

The members of the management body of Atonline Ltd hold the following directorships, over and above being directors of Atonline Ltd. It shall be noted that directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below. Furthermore, executive or non-executive directorships held within the same group, are considered as a single directorship.

Name of Director	Capacity		Number of executive directorships	Number of non-executive directorships
	Executive	Non-executive		
Arsen Agabekyan	<input checked="" type="checkbox"/>		-	-
Marina Ohrimenco	<input checked="" type="checkbox"/>		-	-
Melina Pyrgou		<input checked="" type="checkbox"/>	1	3
Christina Mavronicola		<input checked="" type="checkbox"/>	1	-
Chrysostomos Kridiotis		<input checked="" type="checkbox"/>	-	-

## **b. Information about the Firm’s Recruitment Policy and the actual knowledge and expertise of the Firm’s Directors**

Article 18A(2) of Law 144(I)/2007 stipulates that “a CIF, that is significant in terms of its size, internal organization and the nature, scope and complexity of its activities, must establish a nomination committee composed of members of the board of directors who do not perform any executive function in the institution concerned”.

On July 28, 2015, the Cyprus Securities and Exchange Commission issued Circular C081 whereby it specified the criteria for qualifying as a “significant CIF” to be:

<b>Criteria</b>	<b>Thresholds (€)</b>
Total assets	> 43m
Annual fees /commission income/ turnover	> 50m
Clients’ money	> 60m
Clients’ assets	> 2b

### **Nomination Committee**

Based on the above criteria, Atonline Limited classifies as a “significant CIF” and as a result, a nomination committee has been established, comprised by the Firm’s non-executive Directors.

The nomination committee is entrusted with the following responsibilities:

- (a) To identify and recommend, for the approval of the board of directors or for approval of the general meeting, candidates to fill vacancies in the board of directors, evaluate the balance of knowledge, skills, diversity and experience of the board of directors and prepare a description of the roles and capabilities for a particular appointment, and assess the time commitment expected;
- (b) To decide on a target for the representation of the underrepresented gender in the board of directors and prepare a policy on how to increase the number of the underrepresented gender in the board of directors in order to meet that target. The target, policy and their implementation shall be made public in accordance with Article 435 paragraph 2, point c) of Regulation EU no. 575/2013; The last reference refers to the Pillar III Disclosures report that is prepared on an annual basis and is posted on the Firm’s Website.
- (c) To assess periodically, and at least annually, the structure, size, composition and performance of the board of directors and make recommendations to the board of directors with regard to any changes;

- (d) To assess periodically, and at least annually the knowledge, skills and experience of members of the board of directors individually, and of the board of directors collectively, and report to the board of directors accordingly;
- (e) To periodically review the policy of the board of directors for selection and appointment of senior management and make recommendations to the board of directors;
- (f) in performing its duties, take into consideration, to the extent possible and on an ongoing basis, the need to ensure that the board of directors' decision making is not dominated by any one individual or a small group of individuals in a manner that is detrimental to the interests of the CIF as a whole;
- (g) to be able to use any forms of resources that it considers to be appropriate, including external advisors, and shall receive appropriate funding to that effect.

The Nomination Committee did not meet in 2017.

The overarching principle of the Firm's recruitment policy derives from Article 12 of Law 144(I)/2007 (the Investment Services and Activities and Regulated Markets Law of 2007) which sets the requirement for members of the board of directors, at all times, to:

- ✓ be of sufficiently good repute and
- ✓ possess sufficient knowledge, skills and experience to perform their duties.

The said article also states that the overall composition of the board of directors shall reflect an adequately broad range of experiences.

In addition, and corollary to the above principles, it is stipulated that, the Firm's arrangements must comply with the following principles:

- (a) the board of directors must have the overall responsibility for the CIF and approve and oversee the implementation of the CIF's strategic objectives, risk strategy and internal governance;
- (b) the board of directors must ensure the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards;
- (c) the board of directors must oversee the process of disclosure and communications;
- (d) the board of directors must be responsible for providing effective oversight of senior management;

- (e) the chairman of the board of directors of the CIF must not exercise simultaneously the functions of a chief executive officer within the same CIF, unless justified by the CIF and authorized by the Commission.

Based on the above considerations, the following principles policy has been adopted in relation to the composition of the Board of Directors:

1. The Board of Directors must be comprised of an odd number of directors. This measure is included in order to ensure that no voting process will end-up in a tie.
2. The number of non-executive directors shall exceed the number of executive directors. This principle is introduced in order to ensure that:
  - (a) In case of disagreement between the executive and non-executive directors, the non-executive directors will have the possibility to define the final outcome of the vote.
  - (b) The board of directors, being comprised by a majority of non-executive directors, can provide effective oversight of senior management, thus satisfying the provisions Article 18A(1)(d) of Law 144(I)/2007.
  - (c) the board of directors' decision making is not dominated by any one individual or small group of individuals (in this case, the executive directors) in a manner that is detrimental to the interests of the CIF as a whole.
3. The Firm's "four-eye" persons, that is the two persons that undertake the management of the Firm, as per the provisions of section 12(3) of Law 144(I)/2007 must be executive members of the Board of Directors. The rationale for this principle is to entrench the authority and at the same time the responsibility of the said persons for the proper operation of the Firm. In addition, the said persons, by being responsible for the overall operation of the Firm, are in the best condition to know in detail all matters that affect the Firm and inform the Board of Directors by setting the agenda for board meetings.

The inclusion of the four-eye persons in the Board of Directors also ensures that the board of directors possesses adequate collective knowledge, skills and experience to be able to understand the CIF's activities, including the main risks, satisfying the provisions of Sub-Paragraph 4 of Article 12 of Law 144(I)/2007.

This principle, in conjunction with principle (2) hereabove, implies that as a minimum, the Board of Directors should be comprised of five (5) persons, two executive and three non-executive directors.

4. As a response to the provision that the overall composition of the board of directors shall reflect an adequately broad range of experiences, as a principle, the following disciplines shall preferably be represented on the Board, either through its executive or non-executive directors:
- (a) Accounting
  - (b) Compliance

The representation of the disciplines stated in (a) and (b) hereabove ensures that the board possesses the requisite knowledge to ensure the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards, as per the provisions of Article 18A(1)(b) of Law 144(I)/2007. It also ensures that the Board possesses the requisite knowledge to handle the responsibilities assigned to the same in relation to the Firm's anti-money laundering program.

- (c) Risk Management: Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms, in conjunction with Regulation (EU) No 575/2013 enhances by a very large proportion the obligations of the Board of Directors in relation to the treatment of the risks that a firm is or might be exposed to. To this end, and in order to address the draconian obligations that are assigned to the Board in relation to risk management matters, it is imperative that the risk management discipline is represented on the Board.
- (d) Legal: The knowledge that exists within the Firm is more likely to be limited to the legal framework that defines the operation of Investment Firms. This implies that there is ample possibility that some of the proposed strategies may breach legislation that is not related to the legislation that defines the operation of investment firms.

In addition, directors with a legal background will be in a position to express an educated opinion on matters where litigation against the Firm might be threatened.

If, for any reasons, it is not possible that all of the above disciplines are represented in the board, care of the four-eye persons, it should be ensured that persons from the said disciplines are frequently present at board meetings, albeit without carrying a vote, or in other ways and manners, advise the board of directors on matters involving their respective disciplines.

5. The majority of directors must be permanently residing in Cyprus. This measure is intended to strengthen the permanent establishment of the Firm in Cyprus, and satisfy the provisions of Law 144(I)/2007 in relation to the head office of investment firms.
6. The composition of the Board of directors shall be in line with the Firm's policy on diversity of the management body.

When it comes to the actual knowledge and expertise of the Firm's Directors, the following applies:

Name of Director	Capacity		Knowledge and Expertise
	Executive	Non-executive	
Arsen Agabekyan	<input checked="" type="checkbox"/>		Finance, Custody, Brokerage, Operations
Marina Ohrimenco	<input checked="" type="checkbox"/>		Accounting
Melina Pyrgou		<input checked="" type="checkbox"/>	Legal
Christina Mavronicola		<input checked="" type="checkbox"/>	Legal
Chrysostomos Kridiotis		<input checked="" type="checkbox"/>	Risk Management

### **c. Policy on diversity with regard to selection of members of the management body**

The Firm has adopted the following principles in relation to diversity matters:

1. At all times, the Firm shall give precedence to substance over any other consideration, including the need for diversity. This shall not mean that we shall not make any effort or not pay any attention to the principles of diversity, nevertheless, this will not be done at the expense of substance.
2. In respect of age, the articles and memorandum of association of the Firm do not set an age limit for directors. As part of the recruitment and diversity policy, we shall set the maximum age of directors to be seventy (70) years of age.
3. In relation to gender, due to the fact that, as part of the recruitment policy principles, we have committed to an odd number of directors, the two genders cannot, by definition be equally represented on the Board. As a target though, we shall aim for the almost equal representation of the two genders, where the under-represented gender will not be represented by more than one (1) person less than the over-represented gender. This principle, is of course, subject to the provision that substance gets a precedence.



5. In relation to geographical provenance, it has already been established that the majority of directors shall reside permanently in Cyprus.
6. In relation to educational and professional background, we have already established that the following disciplines shall be represented in the Board of Directors:
  - (a) Accounting
  - (b) Finance
  - (c) Risk Management and
  - (d) Legal.

It has already been established that if it is not possible that all of the above disciplines are represented on the board, it should be ensured that persons from the said disciplines are frequently present at board meetings, albeit without carrying a vote, or in other ways and manners, advise the board of directors on matters involving their respective disciplines.

7. In relation to the representation of employees to the board of directors, to some extent this is achieved by the fact that the executive directors are full time employees of the Firm. Nevertheless, if the actual aim of this measure was to ensure that apart from senior managers lower ranking employees are also represented, we believe that the headcount of the Firm is too small for such a measure to be of any practical significance.

#### **d. Risk Committee**

The requirement for the establishment of a Risk Committee applies for firms that are significant in terms of their size, internal organization and the nature, scope and complexity of their activities. Since Atonline Limited meets the said qualification, a Risk Committee has been established, comprised of the Firm's non-executive directors.

The duties of the Risk Committee are defined to be the following:

1. The Risk Committee:
  - advise the board of directors on the CIF's overall current and future risk appetite and strategy and
  - assist the board of directors in overseeing the implementation of that strategy by senior management.
  - The board of directors retain overall responsibility for risks.

2. The Risk Committee reviews whether prices of liabilities and assets offered to clients take fully into account the CIF's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the Risk Committee presents a remedy plan to the board of directors.
3. The Firm's Board of Directors ensures the Risk Committee have adequate access to information on the risk situation of the Firm and, if necessary and appropriate, to the risk management function and to external expert advice.
4. The board of directors and the Risk Committee must determine:
  - the nature,
  - the amount,
  - the format, and
  - the frequency of the information on risk which it is to receive.
5. In order to assist in the establishment of sound remuneration policies and practices, the Risk Committee without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings
6. In addition, and as part of the internal workings of the Firm, the Risk Committee can, by derogation, authorize the inclusion in the list of marginable securities (for long positions) securities that under normal circumstances would not be included due to the fact that they do not satisfy the liquidity criteria.

The Risk Committee convened once during 2017.

### **e. Information flow on risk to the management body**

Paragraph 9(3) of Directive DI144-2007-01 of 2012 of the Cyprus Securities and Exchange Commission for the Authorization and Operating Conditions of the Cyprus Investment Firms sets the requirement that the Board of Directors receives on a regular basis and at least on an annual basis, written reports on risk management matters.

In addition to the above mentioned report, the risk management department reports to the Board on the following matters:

1. At least once per year, care of the Risk Management Department, a review is performed of the Firm's Business Continuity / Disaster Recovery plan (herewith "BCDRP"), and the outcome of the review is reported to the Board of Directors. If the review process signifies

that the BCDRP is in need of revision, all necessary amendments are introduced and the revised document is presented to the Board for approval.

2. At least once per year, several facets of the BCDRP are tested, and the outcome of the test is reported to the Board of Directors. If the test reveals any weaknesses, remedial action is undertaken.
3. At the beginning of each calendar year, and in good time before the deadline for the submission of the Suitability report (end of April), care of the Head of the Risk Management Department, a full review of the arrangements with third party:
  - Banks
  - Custodians
  - Brokers

is performed and the outcome of this review is presented to the Board of Directors.

4. Investment Firms have an obligation to have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed.

These strategies and processes shall be subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the investment firm concerned. This process is referred to as the Internal Capital Adequacy Assessment Process or ICAAP for short.

The ICAAP process culminates in the production of a report that is presented to the Board of Directors for approval. The said report is also subjected to review by the Firm's internal auditors.

5. Article 104 of Regulation (EU) No 575/2013 requires institutions to have in place clearly defined policies and procedures for determining which position to include in the trading book for the purposes of calculating their capital requirements and the definition of trading book, taking into account the institution's risk management capabilities and practices. The institution shall fully document its compliance with these policies and procedures and shall subject them to periodic internal audit.

The said policies and procedures are described in the "Trading Book Policy Statement" document that is approved by the Board of Directors. The said document is subjected to the

onus of the internal audit process, and the findings of the review are included in the internal audit report that is presented to the Board of Directors for approval.

Over and above this obligation, and in order to enforce the necessary discipline in attending to risk management matters, the following principles have been adopted:

- (a) All new products, services and activities that are expected to bear incremental risks must be approved by the board of directors prior to their launch
- (b) During the last board meeting for each year, the Board of Directors shall receive a memorandum prepared by the Risk Management Department and / or the General Manager analyzing the view of management on the challenges expected to be faced by the Firm in the forthcoming year, the effect on the risks faced by the Firm should the said projections materialize and the course of action available to the Firm.
- (c) In order to enforce the discipline in devoting sufficient time to the consideration of risk issues, the agenda of each and every Board meeting necessarily includes a section titled “Risk Management Matters”. As a minimum, the agenda includes the following matters:
  - i. Update of limits (new limits, removal of limits, changes of existing limits)
  - ii. Breaches of limits occurring in the period of time ensuing between the last Board meeting and the one in concern
  - iii. Review of material operational losses (if any)
  - iv. Client Complaints and / or threats of litigation
  - v. Review of problem case reports
  - vi. The latest available Capital Requirements ratio and any related matters

Over and above the information on risk that is presented to the Board by the Risk Management Department, other departments also present to the Board information that is risk related. Specifically:

1. At least once per year, the Board of Directors receives written reports on compliance and internal audit matters, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.
2. Within two months from the end of each calendar year, the Board of Directors receives and approves the annual anti-money laundering report that is prepared by the Firm’s anti-money laundering compliance officer.
3. The Board of Directors receives and reviews the minutes of the Investment Committee. The Investment Committee met once within 2017. The Risk Management Department is

represented and consults the Investment Committee by preparing limits for the various books.

The risk committee also has a role to play since it is entrusted with the task of advising the board of directors on the CIF's overall current and future risk appetite and strategy and assisting the board of directors in overseeing the implementation of that strategy by senior management. In addition, the risk committee reviews whether prices of liabilities and assets offered to clients take fully into account the CIF's business model and risk strategy and reports its findings to the Board of Directors. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the risk committee shall present a remedy plan to the board of directors.

### **3. RISK MANAGEMENT FRAMEWORK OF THE FIRM**

#### **a. Fundamentals on Risk-Management Framework of the Firm**

Risk is defined as a negative deviation from the expected values of metrics which are of significant importance to a Firm. Risk management therefore constitutes an integral part of business framework of the Firm.

The Firm allocates resources towards the management of its risks with the purpose of increasing the efficiency of its operations and its capital utilization, reducing financial losses, maximizing income, maintaining stability and enhancing growth.

The Risk management framework is continually adapted and enhanced as the Firm's business mix and the market environment change.

The major risks faced by the Firm are those related to market risk, credit risk (mainly counterparty credit risk), liquidity risk and operational risk.

#### **b. Risk Governance**

The Board of Directors has overall responsibility for the establishment and oversight of the Firm's risk management framework.

The Board of Directors determines business strategy and risk appetite along with designing and implementing a risk management framework that recognizes the risks that the business faces. In this respect, the Board is also assisted and advised by the Risk Committee, which advises the board on the Firm's overall current and future risk appetite and strategy. The Board also determines how those risks may be mitigated and assesses, on an ongoing basis, the arrangements to manage those risks.

The Board of Directors defines the risk policies and regularly reviews their appropriateness. This ensures that risks are effectively managed and that suitable processes are in place.

The Firm has developed a Risk Management framework, and risk profile is controlled and monitored regularly.

The fundamentals of the Firm risk management policy include definition and analysis of risks, risk minimization and management as well as establishment of limits and their strict observance. The Risk Management unit monitors the market condition of all products and services associated with financial risks.

The Risk Management Department participates and plays a critical role in the Firm's Investment Committee. This is a multi-faceted committee empowered with the task of defining the strategy and tactics of the Firm's Own Book, which encapsulates the Proprietary (Prop) and facilitation books.

Risk Management is responsible for the practical implementation of effective procedures aimed at identification, assessment, and management of all financial and non-financial risks of the Firm. Risk Management conducts routine market assessment of all kinds of the Firm risks and submits complete and comprehensive reports to business units, the Firm management and the Board of Directors.

There are several levels of risk reporting:

- ▀ reports for business unit to inform on current utilization of limits
- ▀ global capital-at-risk calculation is presented to management and gives a strategic view on the current risk-profile of the Firm

Risk management conducts regular assessments of all types of risks related to the Firm and it regularly monitors the market condition of all Firm products and services associated with

financial risks and pays close attention to products and services that are more prone to generating risks.

Risk Management takes initiatives for enhancing risk awareness throughout the Firm. These include organizing meetings with employees from various departments with the purpose of explaining the types of risks associated with certain operations and the ways they can be identified, evaluated and treated.

Furthermore, the Risk-management department has compiled a map of all financial and non-financial risks that affect the Firm (including regulatory, reputational and operational risks), which is updated if the need arises through frequent communication with other Firm departments. Drawing on this map, it determines the key risks of the Firm, the risk management strategy and the probability of risk occurrence.

For the purpose of controlling, monitoring, and minimizing the volume of risks affecting the Firm, the Risk Management has introduced a set of measures for managing the overall exposure to risk.

Compliance with regulatory requirements is monitored on a continuous basis through the application of the following measures and controls:

- ✔ Control over compliance with license requirements
- ✔ Internal registration of executed transactions in accordance with rules stipulated in regulatory statutes
- ✔ Control over the timely release of financial statements and audit checks
- ✔ Imposition of Anti-Money Laundering measures and anti-terrorist financing initiatives
- ✔ Control over business processes automation
- ✔ Control over introduction of new services and new types of business activities

Finally, the Internal Audit (which is outsourced) regularly monitors the quality of the business processes applied to manage and control risks and makes suggestions whenever failures or deficiencies are observed, in order to improve the quality of these business processes and support the Risk Management & Compliance Units in better managing the risks to which the Firm is exposed.

### c. Risk Monitoring and Control

The Firm manages risks through various control mechanisms and its approach to risk management is to be both prudent and evolutionary.

The risk control framework comprises both qualitative elements, including policies and authorities, and quantitative components, including limits.

The various risks are actively monitored and the Firm strives to mitigate those risks in order to ensure that risks are within the Firm risk appetite.

## 4. APPROACHES ADOPTED FOR PRUDENTIAL CAPITAL REQUIREMENTS CALCULATION

The CRR takes into account the diversity of investment firms and provides different approaches to the calculation of minimum capital requirements. The different approaches provide a flexible structure in which investment firms, subject to supervision, adopt approaches that most suitably fit their level of sophistication and risk profile.

The approaches adopted by the Firm are the following:

**Table:** Approaches adopted for CRR calculation

Credit Risk	Credit risk mitigation	Market Risk	Operational Risk
<input checked="" type="checkbox"/> Standardised Approach	Financial collateral simple method	<input checked="" type="checkbox"/> Standardised Approach	<input checked="" type="checkbox"/> Basic Indicator Approach (BIA)
Foundation Internal Rating (FIRB)	<input checked="" type="checkbox"/> Financial collateral comprehensive method	Internal Models Approach (IMA)	Traditional Standardised Approach (TSA)
Advanced Internal Rating Based Approach (AIRB)	Internal Models Method (IMM)		Advanced Measurement Approach (AMA)

## 5. CAPITAL BASE

The capital base of the Firm as at 31 December 2017 consists of Common Equity Tier 1 (CET1) capital. CET1 is comprised by share capital, share premium, retained earnings and audited income from year 2017. From CET1, the Firm deducts its intangible assets and investor's compensation fund.



The Firm's capital base is presented in the table below:

**Table:** Composition of the capital base of Atonline Limited

Own Funds	Year ended 31/12/2017
	USD ('000)
<b>Common Equity Tier 1 Capital</b>	
Share capital	19
Share premium	44.319
Reserves (Retained earnings)	26.055
Income from current year (audited)	2.695
<b>Total CET1 (before deductions)</b>	<b>73.088</b>
<b>CET1 Deductions:</b>	
Intangible assets	(18)
Investor compensation fund	(131)
<b>Total Tier 1 Capital (Original Own Funds)</b>	<b>72.939</b>
<b>Tier 2 Capital</b>	
Available for sale financial assets	-
<b>Total Tier 2 capital</b>	<b>-</b>
<b>Total own funds</b>	<b>72.939</b>

The Firm's authorized share capital is comprised of ten thousand (10.000) Ordinary shares of €1,71 each with issued capital of 8.000 shares.

Intangible assets are comprised of the carrying amounts of computer software and licenses, as follows:

- a. Computer software: USD 387
- b. Licenses: USD 17.403

Common Equity Tier 1 capital, Tier 1 capital and Minimum CAD ratio stood at 63,13%, which exceeds the statutory minimum capital ratios of 4,5%, 6% and 9,25% respectively.

## 6. CAPITAL REQUIREMENTS

The Firm follows the Standardized Approach for the measurement of its Pillar 1 capital requirements for Credit and Market Risk and the Basic Indicator Approach for Operational Risk.

The capital requirement calculated for each category of risk as at 31 December 2017 is shown in the table below:

**Table:** Capital Requirement by Risk Category

Year ended 31/12/2017		
Risk Category	Regulatory Capital Requirement USD ('000)	RWA USD ('000)
<b>Credit Risk</b>	<b>6.234</b>	<b>77.921</b>
<b>CVA Risk</b>	<b>1.486</b>	<b>18.576</b>
<b>Market Risk</b>	<b>818</b>	<b>10.224</b>
of which Foreign Exchange risk	585	7.307
of which Interest rate risk	21	263
of which Equity risk	212	2.654
of which Commodity risk	-	-
<b>Large exposure in the Trading Book</b>	<b>-</b>	<b>-</b>
<b>Operational Risk</b>	<b>705</b>	<b>8.816</b>
<b>TOTAL</b>	<b>9.243</b>	<b>115.537</b>

The capital adequacy ratio is calculated according to the following formula:

$$\text{Capital Adequacy Ratio} = \frac{\text{Regulatory Capital}}{\text{Risk Weighted Assets (RWA)}}$$

The capital adequacy ratio as at 31/12/2017 was 63.13%.

## 7. CREDIT RISK

### a. Credit risk management

Credit risk is the risk of financial losses resulting from the impossibility of a counterparty or any other liable person to execute its obligations towards the Firm, or from the default of the issuer of a security.

The basic methods of managing the credit risks include the system of limits and restrictions, the monitoring system, utilization of systems of internal ratings, and methods of risk mitigation.

The Firm manages its exposure to counterparty credit risk through the use of limits which restrict its exposure to individual counterparties and issuers. Furthermore the Firm utilizes a system of internal ratings which are attributed to counterparties and issuers based on information that determines their ability to respond to financial obligations.

The system of limits and restrictions allows to significantly reduce the level of credit risks arising from counterparty transactions and transactions with debt securities by way of limiting the volumes of risk and trades allocated for a particular counterparty and issuer.

The system of internal ratings is used for the purpose of deciding whether the Firm will cooperate with a specific counterparty and for determining the amount of exposure that the Firm wishes to maintain towards that counterparty/issuer. It is an important element of risk management process, and for that it is integrated in the decision-making process and in the limit setting procedure.

In addition, the Firm monitors its credit risk exposures by carrying out routine evaluations of its counterparties' creditworthiness and by examining the quality and liquidity of the collateral provided by them.

The assessment of counterparties' and issuers creditworthiness is based on the analysis of their financial statements and other non-financial indicators, while it also includes constant monitoring of all the available information relating to each specific counterparty.

On the basis of applications of employees of business units for allocation of limits for counterparties and issuers, the Risk Manager conducts a complex financial analysis of the counterparty or issuer to define an optimal amount of the limit.

In order to assess counterparties and issuers, the Firm uses all available information that may affect execution of the obligations by the counterparty as well as the materials obtained directly from the counterparty and other sources.

The sources of information for analyzing operations of the counterparty and issuer are their constitutive documents, financial reports, any addition information, and other sources determined by the Firm. The Firm provides for the receipt of information that is necessary and

sufficient for establishing a professional judgment regarding the degree of reliability and financial position of the counterparty.

The limit set represents the amount of exposure that the Firm is comfortable with in all open positions with a particular counterparty. This involves individual risk limits and trade amount limits being approved for each counterparty.

Moreover, the Firm maps internal ratings to ratings of international rating agencies in order to evaluate the probability of a counterparty's bankruptcy.

Additionally, the legal aspect of the possibility of doing business with the counterparty is examined. The limit set represents the amount of exposure that the Firm is comfortable to create with a particular counterparty.

The Firm also mitigates its counterparty credit risk exposure by performing transactions on a Delivery versus Payment basis, or by requesting pre-payments or pre-deliveries from its counterparties. Furthermore, the Firm has policies in place to ensure that the ageing profile of its receivables is monitored on a continuous basis.

## **b. Exposure to credit risk**

For calculating its regulatory capital requirement for credit risk the Firm adopts the Standardized Approach. The table below provides information on the Firm's credit risk exposure, risk weighted assets ("RWA") and capital requirement as at 31 December 2017, broken down by exposure class:

**Table:** Exposure amount, RWA and Capital Requirements by exposure class

Exposure Class	Average exposure over period USD ('000)	Year ended 31/12/2017		
		Original Exposure USD ('000)	RWA USD ('000)	Capital Requirement USD ('000)
Institutions	151.704	243.649	23.726	1.898
Corporates	462.304	476.536	52.922	4.234
Other items	697	1.273	1.273	102
Public sector Entities	17	-	-	-
<b>Total</b>	<b>614.722</b>	<b>721.458</b>	<b>77.921</b>	<b>6.234</b>

As seen in the table below, the Firm spreads its credit risk exposure to a number of EU and non-EU countries, with the most significant exposures being noted in Cyprus and Russia:

**Table:** Geographic distribution of exposures

Country	Original Exposure Amount for year ended 31/12/2017			
	USD ('000)			
	Institution	Corporate	Other	Total
Cyprus	71.565	299.107	1.273	<b>371.945</b>
Germany	58.691	-	-	<b>58.691</b>
United Kingdom	68.782	5.530	-	<b>74.312</b>
Austria	33.209	-	-	<b>33.209</b>
Netherlands	3.542	2	-	<b>3.544</b>
Russia	-	153.429	-	<b>153.429</b>
BRITISH VIRGIN ISLANDS	-	1.327	-	<b>1.327</b>
Ireland	-	5.139	-	<b>5.139</b>
Bermuda	-	10.225	-	<b>10.225</b>
CAYMAN ISLANDS	-	1.773	-	<b>1.773</b>
Belgium	6.286	-	-	<b>6.286</b>
Other	1.574	4	-	<b>1.578</b>
<b>Total</b>	<b>243.649</b>	<b>476.536</b>	<b>1.273</b>	<b>721.458</b>

As for industry breakdown the great majority of credit risk exposures is attributable to companies of the financial services industry.

**Table:** Breakdown of exposures by industry

Exposure Class	Original Exposure for year ended 31/12/2017		
	USD ('000)		
	Financial/ Banking services	Other	Total
Institution	243.649	-	<b>243.649</b>
Corporate	476.281	255	<b>476.536</b>
Other	-	1.273	<b>1.273</b>
<b>Total</b>	<b>719.930</b>	<b>1.528</b>	<b>721.458</b>

The residual maturity of the majority of the Firm's credit risk exposures is less than 3 months, as presented in the following table:

**Table:** Breakdown of exposures by residual maturity

Exposure Class	Original Exposure for year ended 31/12/2017 USD ('000)		
	Residual Maturity ≤ 3 months	Residual Maturity > 3 months or no Maturity	Total
Institution	243.649	-	<b>243.649</b>
Corporate	476.536	-	<b>476.536</b>
Other	-	1.273	<b>1.273</b>
<b>Total</b>	<b>720.185</b>	<b>1.273</b>	<b>721.458</b>

With respect to derivatives, the Firm calculates its exposure to counterparty credit risk by employing the Mark-to-Market method for its FX derivatives, while for its repo and reverse repo deals it makes use of the financial collateral comprehensive method for credit risk mitigation, as analyzed below. The following table provides details on the Firm's exposures that are subject to the Mark-to-Market method.

**Table:** Results of the Mark-to-Market calculations for Counterparty Credit Risk

Exposure type	Amounts in USD ('000), for year ended 31/12/2017				
	Positive fair value	Negative fair value	PFCE%	Notional amount	Final Exposure
FX Derivatives	361	(151)	1%	169.407	2.055
TRS	-	-	6%	1.000	60
<b>Total</b>	<b>361</b>	<b>(151)</b>	<b>-----</b>	<b>170.407</b>	<b>2.115</b>

The Firm uses Fitch, Standard & Poor's and Moody's ratings to determine the risk weights of its counterparties, based on the Credit Quality Step matching principles established by the Capital Requirements Directive.

The association of the external rating of each nominated ECAI with the credit quality steps is in line with the standard association prescribed by CRD as follows:

**Table:** Standardised approach: Long Term mapping

Credit quality step	Fitch	Moody's	S&Ps
Credit quality step 1	AAA to AA-	Aaa to Aa3	AAA to AA-
Credit quality step 2	A+ to A-	A1 to A3	A+ to A-
Credit quality step 3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
Credit quality step 4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
Credit quality step 5	B+ to B-	B1 to B3	B+ to B-
Credit quality step 6	CCC+ and below	Caa1 and below	CCC+ and below

**Table:** The exposure values before and after credit risk mitigation associated with each credit quality step prescribed

Credit quality step	Exposure value pre credit risk mitigation USD ('000)	Net effect of credit risk mitigation (FCCM) USD ('000)	Exposure value after credit risk mitigation USD ('000)
Credit quality step 1	57.080	29.438	27.642
Credit quality step 2	19.579	1.156	18.423
Credit quality step 3	57.359	36.549	20.810
Credit quality step 4	36.589	36.496	94
Credit quality step 5	19.590	13.755	5.836
Credit quality step 6	71	-	741
No Rating	531.190	459.020	72.168
<b>Total</b>	<b>721.458</b>	<b>576.414</b>	<b>145.044</b>

### Wrong-way risk

Wrong way risk occurs when an exposure to a counterparty is adversely correlated with the credit quality of that counterparty, i.e. changes in market rates having an adverse impact on the probability of default (PD) of a counterparty.

This risk is not currently measured as it is not anticipated to be material to the business of the Firm.

### c. Credit risk mitigation

The Firm calculates its exposure to counterparty credit risk by employing the Mark-to-Market method. For its repo and reverse repo deals the Firm makes use of the financial collateral comprehensive method for credit risk mitigation.

The majority of repurchase operations are taking place at Russia's largest MICEX Stock Exchange, so they bear minimum counterparty and legal risks. In the OTC repo market the Firm deals with the most reliable, well known, highly reputable and solid counterparties, which have been approved by the Firm.

The Firm continuously assesses the realizable value of the collateral, as well as the liquidation period with respect to the market liquidity. The Firm monitors VaR and stress values for the securities used in the repurchase transactions to estimate the risk amount for a deal.

Periodically the Firm performs the stress tests on making the allowance for possible decrease in market liquidity.

Due to a) the high quality of the collateral securities used, b) the continuous control and monitoring over the risks associated with the collateral, and c) the very short time horizon for the repurchase transactions, the risk associated with the covered part of the exposure is reduced to minimum.

#### **d. Definition for accounting purposes of “past due” and “impaired”**

##### **Definition of past due exposures**

Assets qualify as past due when a counterparty has failed to make a payment when contractually due. CySEC has set the number of days past due up to a figure of 90.

##### **Impairment of financial assets**

The Firm assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for- sale financial assets the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the profit or loss.

For financial assets measured at amortized cost, the Firm considers evidence of impairment for these assets at both an individual and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In respect of available for sale equity securities, impairment losses are measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. Impairment losses previously recognized



in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

### **Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

As at the reference date, there were no impaired or past due exposures.

## **e. Specific and general credit risk adjustments**

### **General Principles**

As a general rule, the Firm is required to include in the calculation of general and specific risk adjustments all amounts by which the Firm's Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognized as such in the profit or loss account, irrespective of whether they result from:

- impairments
- value adjustments or
- provisions for off-balance sheet items

Eligibility of items for inclusion in the General Credit Risk Adjustment Category is subject to the fulfillment of both of the following criteria:

- ✓ They are freely and fully available, as regards to timing and amount, to meet credit risk losses that have not yet materialized;
- ✓ They reflect credit risk losses for a group of exposures for which the Firm has currently no evidence that a loss event has occurred.

Any other items not satisfying the above conditions are classified as Specific Credit Risk Adjustments.

As a minimum, the General Credit Risk Adjustment Category includes the following losses:

- losses recognized to cover higher average portfolio loss experience over the last years although there is currently no evidence of loss events supporting these loss level observed in the past;
- losses for which the institution is not aware of a credit deterioration for a group of exposures but where some degree of non-payment is statistically probable based on past experience.

As a minimum, the Specific Credit Risk Adjustment Category includes the following losses:

- losses recognized in the profit or loss account for instruments measured at fair value that represent credit risk impairment under the applicable accounting framework;
- losses as a result of current or past events affecting a significant individual exposure or exposures that are not individually significant which are individually or collectively assessed; losses for which historical experience, adjusted on the basis of current observable data, indicates that the loss has occurred but the institution is not yet aware which individual exposure has suffered these losses.

### **Charges for specific and general credit risk adjustments during the reporting period**

During the reporting period in concern, there have been no impairments, value adjustments or provisions for off-balance sheet items and in general any condition that would necessitate the use of any General or Specific Credit Risk adjustments.

## **8. MARKET RISK**

### **a. Market risk management**

Market risk is the possibility of loss caused by adverse market conditions, such as movements in the levels and prices of financial instruments. Market risk includes equity, interest rate, currency and commodity risk.

Market risk can be defined as the risk to earnings and capital arising from adverse movements of prices of assets in the trading book.

For internal purposes market risk is controlled by means of Value-at-risk methodology. VaR is a function of the market value of a position, the volatility of the particular security / currency held, and the liquidity of the market for that security/currency. To simplify the monitoring of Value at risk, the Firm groups together securities with similar characteristics. Securities are classified into groups based on predefined criteria, resulting in a number of different security risk groups. The criteria applied are reviewed by the Risk Management on a regular basis and are altered in accordance with the current market situation.

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Firm to cash flow interest rate risk. Borrowings issued at fixed rates expose the Firm to fair value interest rate risk. The Firm's management monitors the interest rate fluctuations on a continuous basis and acts accordingly. Furthermore, the Firm manages its exposure to market risk arising from uncertainties about future prices of financial instruments through the diversification of its investment portfolio.

The Firm continuously monitors its foreign currency position and evaluates its exposure to foreign currencies by employing Value at Risk (VaR) methods. For the Firm, these methods are important both for the proper assessment of the risks that may arise from the conversion of one currency into another, but also for the optimal calculation of the amount of capital required to set aside.

## **b. Exposure to market risk**

**Table:** Market Risk Capital Requirement breakdown

Market Risk	Year ended 31/12/2017
	Minimum Capital Requirement USD ('000)
Equities in Trading Book	212
Debt instruments	21
Position in Commodities	-
Total Positions in Non-reporting Currencies and Gold	585
<b>Total</b>	<b>818</b>

As seen from the above table at 31 December 2017, the Firm did not have any open positions in commodities. It was therefore only exposed to foreign exchange (currency) risk, interest rate risk and price fluctuations of position in Trading Book. All of these are exposed to general and specific market risk. Foreign exchange risk is defined as the occurrence of losses caused by negative fluctuations of the exchange rate of one currency in relation to the other, and arises from the Firm's positions in currencies other than its reporting currency (US Dollar). The Debt instruments exposure arises from open repurchase transactions with maturity of over three years.

The Firm calculates its capital requirement with respect to foreign exchange risk using the Standardized Approach. As at 31 December 2017, the market risk minimum capital requirements due to foreign exchange risk (open foreign currency positions) was USD 585 thousand.

Interest rate risk can be defined as the possibility of a reduction in the value of an investment, resulting from a change in the interest rates. As at 31 December 2017, the Firm was exposed to interest rate risk through its repo and reverse repo contracts, which it books in the Trading Book. Nevertheless, due to the very short-term maturity of these positions, the interest rate risk is negligible, the minimum capital requirements on its repo and reverse repo contracts with maturity over 1 month is USD 21 thousand.

The Firm's exposure to own equity positions in the Trading book as at 31 December 2017 had minimum capital requirement of USD 212 thousands, Trading Book portfolio consists of highly liquid equities and debt securities, purchased with trading intent, as can be seen from the Table below, the exposures is divided between two countries, being Cyprus and United States.

**Table:** Geographic breakdown of Market Risk exposure in equities on Trading Book

<b>Country</b>	<b>Long USD ('000)</b>	<b>Short USD ('000)</b>	<b>Capital Requirements USD ('000)</b>
Cypus	1.000	(1.000)	160
United States	307	(327)	52
<b>Total</b>	<b>1.307</b>	<b>(1.327)</b>	<b>212</b>

## **9. LIQUIDITY RISK**

There are two different types of liquidity risk for which are considered by the Firm as a part of its internal risk-management process:

- ▶ Market liquidity risk; (controlled by means of calculation of liquidity-adjusted VAR)
- ▶ Balance-sheet liquidity risk

Market liquidity risk relates to potential losses arising from the impossibility to buy or sell the required or desired amount of an asset within a very short period of time.

Balance-sheet liquidity risk arises from the potential shortage of cash and/or other highly liquid assets that the Firm may experience when it fulfills its obligations to its counterparties.

The Firm's assets and liabilities are categorized on the basis of their term of repayment. Drawing on a retrospective data and on the existing market situation, the Firm makes projections with regards to the balance-sheet movements of its asset and liability accounts. The Firm then uses these projections to plan the movements in its assets, minimize its balance-sheet liquidity risks and improve the quality of their management. These projections also inform the process followed by the Firm in choosing highly reliable counterparties for its transactions and high quality securities for its investments. In addition, the Firm mitigates its liquidity risk by maintaining sufficient cash and other highly liquid assets and by having available an adequate amount of committed credit facilities.

## **10. OPERATIONAL RISK**

Operational risk is the risk of loss arising from inadequate or failed internal procedures, human behaviour and systems or from external events.

The operational risk framework adopts a bottom up approach to identifying operational risks within each business area and considers the impact and probability of the risk occurring. Consideration is then given to the controls in place to mitigate the risks. A strategic risk profile then takes a top down assessment of risks which culminates in the creation of a risk map showing the current assessment of operational risks within the Firm.

Operational risks are inherent in all business activities covering a wide spectrum of issues and therefore can never be completely eliminated. However, the Firm continues to strengthen its risk

management framework and continuously seeks to understand the business' exposure to risks arising from failures in internal controls, operational processes or the systems that support them.

Operational risks are controlled through formalized business processes which are in line with the Firm's strategic goals. All business processes undergo regular quality controls to ensure that the system's bottlenecks and weaknesses are identified and eliminated.

The Firm maintains contingency facilities to support operations and ensure business continuity. These facilities are regularly and frequently tested.

The Firm calculates its operational risk using the Basic Indicator Approach ("BIA"), which is based on the three-year average of its net income. Under the BIA, capital is held to safeguard the Firm against operational risk at a rate of 15%. The breakdown of the components that are included in the calculation of operational risk is provided in the table below:

**Table:** Capital Requirement for Operational Risk

Operational Risk	Year ended 31/12/2017	
	RWA USD ('000)	Minimum Capital Requirement USD ('000)
Basic Indicator Approach (BIA)	8.816	705

## 11. LEVERAGE RATIO

The prudential requirements introduced under the Basel II framework did not take account of banks' leverage ratios. Consequently, the Basel III reforms introduced a leverage ratio, with the aim of containing the build-up of leverage within the banking system. The CRD IV framework requires leverage ratio reporting from January 2014 onwards, with a testing phase until 2018.

The leverage ratio is set at a 3% limit during the testing phase. In order to manage the risk of excessive leverage, the Firm follows the Basel III framework and adopted the recommended 3% regulatory limit as its targeted threshold. This limit is in effect and is subject to revision at the end of the transitional period, which runs until 1 January 2018. As per our observation, The Firm is fulfilling regulatory obligations in relation to leverage ratio calculations.

The Firm monitors its leverage ratio at least on a quarterly basis. Below, we present the table of calculated values of leverage ratio during 2017.

**Table:** Leverage ratio during 2017

Leverage Ratio	Quarter ending			
	31.03.2017	30.06.2017	30.09.2017	31.12.2017
	27,42%	24,70%	24,84%	44,24%

The regulatory leverage ratio of the Firm over the course of the financial year of 2017 ranged between 24,70% to 44,24%. Effective capital management of The Firm managed to maintain leverage ratio steadily above minimum requirements throughout the year. Fluctuations in the ratio throughout the year emanate from fluctuations in exposure measure while specifically for the December 31st reference date, the increase in Own Funds also contributed to a higher ratio.

The Firm's leverage ratio as at the 31<sup>st</sup> of December 2017 was 44,24%.

The table below provides a reconciliation of accounting assets and leverage ratio exposures:

**Table:** Reconciliation of accounting assets and leverage ratio exposures

Summary reconciliation of accounting assets and leverage ratio exposures		Applicable Amounts
		USD ('000)
1	Total assets as per published financial statements	<b>397.155</b>
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	(1.754)
5	Adjustments for securities financing transactions "SFTs"	(71.710)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(158.804)
8	<b>Total leverage ratio exposure</b>	<b>164.886</b>

The table below provides a breakdown of the exposure by exposure type:

**Table:** Leverage ratio exposures for 31/12/2017

<b>CRR leverage ratio exposures</b>		
<b>On-balance sheet exposures (excluding derivatives and SFTs) ('000)</b>		<b>USD</b>
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	91.210
2	(Asset amounts deducted in determining Tier 1 capital)	(149)
3	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>91.061</b>
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	361
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	1.754
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>2.115</b>
<b>Securities financing transaction exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	71.710
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>71.710</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	-
18	(Adjustments for conversion to credit equivalent amounts)	-
19	<b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>	<b>-</b>
<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)</b>		



EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
<b>Capital and total exposures</b>		
<b>20</b>	<b>Tier 1 capital</b>	<b>72.939</b>
<b>21</b>	<b>Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>	<b>164.886</b>
<b>Leverage ratio</b>		
<b>22</b>	<b>Leverage ratio</b>	<b>44,24%</b>
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>		
EU-23	Choice on transitional arrangements for the definition of the capital measure	-
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

The following table provides a breakdown of total balance sheet exposures (excluding derivatives, STFs and exempted exposures) by asset class:

**Table:** Analysis of leverage ratio on-balance sheet exposures

<b>Split-up of balance sheet exposures (excluding derivatives, SFTs and exempted exposures)</b>		<b>CRR leverage ratio exposures USD ('000)</b>
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	<b>91.061</b>
EU-2	Trading book exposures	1.307
EU-3	Banking book exposures, of which:	89.754
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	-
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
EU-7	Institutions	33.319
EU-8	Secures by mortgages of immovable properties	-
EU-9	Retail exposures	-
EU-10	Corporate	55.162
EU-11	Exposures in default	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1.273

## **12. OTHER RISKS**

### **Reputational Risk:**

The risk that profit or capital may deteriorate due to a negative perception of the Firm's image by customers, market players, shareholders, investors or the regulator.

The maintenance of the Firm's strong reputation is key to its continued profitability and is the responsibility of the Board, management and staff. In particular the efficiency, reliability and effectiveness of the day to day operations of the Group are paramount to its reputation.

### **Concentration Risk:**

The definition refers to the risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures (e.g. to a single collateral issuer).

Concentration risk is controlled and mitigated via limiting system adopted by the Firm which ensures that single-name concentrations are reduced to minimum.

### **Compliance Risk:**

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Firm.

## **13. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)**

The Firm has prepared an Internal Capital Adequacy Assessment Process (ICAAP) submission, which is an internal assessment of capital requirements. The Internal Capital Adequacy Assessment shows that the Firm has balanced risk-profile, maintains enough capital to absorb potential future losses and has capital cushion for further business expansion.

In performing its ICAAP, the Firm has adopted the "Pillar I Plus" approach.

The ICAAP is determined using the following steps:

- Identification / risk assessment
- Measures to reduce / mitigate risk
- Estimation of the requirements for extra capital (or not).

At the same time for purposes of determining Pillar II capital requirements, the Firm performs stress tests in its three-year budgets.

## **14. DISCLOSURES REGARDING THE REMUNERATION POLICY AND PRACTICES OF THE FIRM**

- a. Information concerning the decision-making process used for determining the remuneration policy, including if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders.**

### **Establishment of the Remuneration Committee (herewith “Committee”)**

Atonline Limited’s management body, the Board of Directors, is responsible for the adoption, periodic review and implementation of the Remuneration Policy. The Board of Directors, approved, at the meeting that took place on 25 December 2012, the Remuneration Policy that was prepared by Management based on the relevant provisions of Directive DI144-2014-14 For The Prudential Supervision Of Investment Firms and of European Regulation No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (herewith “Remuneration Rules”). The Remuneration Policy has ever since been amended on several occasions. On the 16<sup>th</sup> of December, 2016 the Board of Directors approved the latest version of the Remuneration Rules that were amended to facilitate the recently revised Remuneration Rules.

Atonline Limited has opted for the establishment of a Remuneration Committee, the ultimate role of which is to prepare the decisions regarding remuneration, including those which have implications for the risk and risk management of the Firm and to table the said decisions or proposals before the Board of Directors for final deliberation.

In more detail, the mandate of the Remuneration Committee includes the following responsibilities:

1. setting the general principles of the Remuneration Policy and making proposals to the Board of Directors as to the actual remuneration of the persons that are subject to the Remuneration Policy;
2. directly overseeing the remuneration of the senior officers in the risk management and compliance functions;
3. when preparing decisions and proposals to be addressed to the Board of Directors, the remuneration committee shall take into account the long-term interests of shareholders, investors and other stakeholders in the investment firm.

#### **Composition of the Committee**

- The Remuneration Committee is comprised of the non-executive members of the Board of Directors and has as advisors the Heads of Risk Management and Compliance. In compliance with the provisions of paragraph 22(2) of Directive DI144-2014-14, the remuneration committee is chaired at each meeting by a non-executive member of the Board of Directors. During 2017 the Remuneration Committee met once.

The Remuneration Committee is advised by the following persons:

- The four-eye persons: The said persons shall present to the Committee, should the conditions allow, proposals for amendments to the salaries of members of staff or proposals for the award of bonuses.
- The Head of Compliance: The Head of Compliance is advising the Committee on remuneration matters, in order to ensure that any developments in the regulatory field are duly monitored and that the Remuneration Policy, as amended from time to time, duly reflects and complies with the provisions of the applicable legal framework.
- The Head of the Risk Management Department: Paragraph 20(2)(a) of Directive DI144-2014-14 states that the remuneration policy must be consistent with and promote sound and effective risk management and that it shall not encourage risk-taking that exceeds the level of tolerated risk of the investment firm. In addition, paragraph 21(c) of Directive DI144-2014-14 stipulates that the total variable remuneration shall not limit the ability of the investment firm to strengthen its capital base. In order to ensure that the above risk management considerations are duly reflected in the workings, decisions and proposals of the

Remuneration Committee, the Head of the Risk Management Department advises the Committee on such matters. Notwithstanding any other matters necessitating the issue of an opinion by the Head of the Risk Management Department, the Head of the Risk Management Department, in compliance with the provisions of paragraph 2(k) of Directive DI144-2014-14, has to issue an opinion as to whether the methodology and the value of proposed bonus payments cater for current and future risks.

In addition, should the restrictions to the payment of variable remuneration pertain and the Firm still wishes to pay variable remuneration, then the Head of the Risk Management Department is responsible for the calculation of the Maximum Distributable Amount (MDA), according to the methodology described in the Remuneration Rules.

### **Voting rights**

Each member of the Remuneration Committee carries one voting right. Through its composition, it is ensured that any decisions or proposals of the Remuneration Committee are determined by the non-executive members of the Board of Directors.

### **b. Information on link between pay and performance**

All members of staff are subject to semi-annual and annual performance appraisal, in connection with the setting and adjustment of remuneration, in respect of both the fixed component (salary) and the variable component of remuneration (bonus payment).

The total amount of remuneration of each employee is based on a combination of the assessment of the performance of:

- ▶ the individual and;
- ▶ of the business unit concerned and;
- ▶ of the overall results of the investment firm;

and when assessing individual performance, financial and non-financial criteria are taken into account.

In addition, the assessment of the performance of each employee is set in a multi-year framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of remuneration is spread over

a period which takes account of the underlying business cycle of the investment firm and its business risks. The Firm has opted for a three-year framework, based on the rationalisation that on average, in recent years, a full economic cycle spans over a period of three years.

In order to ensure the integrity and impartiality of persons employed in the Risk Management or the Compliance departments, the fixed component of the total remuneration is set at a sufficiently high amount. Also, in relation to the actual proportion of variable remuneration to total remuneration, the ratio of variable remuneration to total remuneration is pegged at a lower level than the one for persons employed in profit centers, partly to compensate for the need to offer to persons employed in control functions comparatively higher salaries and on the other hand to ensure that such persons do not have an incentive to allow or tolerate excessive risk taking behavior by risk takers.

In addition, for the same reason, the remuneration and / or any bonus paid to such persons are determined independently of the profitability of the departments supervised by the Department.

**C. The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria**

**Important design characteristics**

The remuneration system, through the composition of the Remuneration Committee and the voting rights assigned to each member of the Committee ensures that the non-executive Directors of the Firm have the decisive role in determining decisions involving remuneration.

Performance measurement takes into account non-financial criteria which include, but are not limited to, the following:

1. the number and value of fines imposed by regulatory / exchange authorities as a result of the actions / inactions of the appraisee
2. the number and value of operational losses caused by the actions / inactions of the appraisee
3. the number of justified client complaints involving the appraisee
4. the punctuality / proficiency of the appraisee in respect of working hours

In order to ensure that the remuneration policy achieves on the one hand its objectives of promoting steady and continuous performance, while at the same time, it restricts undesired short-termism, and in order to avert the possibility that the measures adopted as part of the

remuneration policy act as a counterincentive to performance, the more stringent provisions of the remuneration policy are subject to proportionality thresholds (herewith “Proportionality Conditions”).

Specifically, the provisions of the Remuneration Rules that relate to:

- guaranteed variable remuneration (signup bonus payments)
- retained shares or other instruments
- deferral
- performance adjustment

Apply in cases where the following proportionality thresholds are met or surpassed:

- The variable remuneration is more than thirty three percent (33%) of total remuneration, and
- Total remuneration is more than six hundred thousand Euro (€600.000)

### **Deferral Policy**

The Firm has adopted the following policy in respect of the deferral of the payment of variable remuneration (bonus payments):

- The deferred portion of the variable remuneration is set to forty percent (40%), and shall be subject to annual review.
- An increased deferral ratio of sixty (60%) shall apply for amounts of variable remuneration where the total remuneration is at least 1.5 times the amount established in the Proportionality Conditions. The amount or methodology for determining “particularly high amounts” shall be subject to annual review.
- The deferral period is set to three (3) years, on the ground that on average, a full economic cycle lasts for three years. The deferral period shall be subject to annual review.
- If the cumulative value of the deferred variable remuneration is such that it warrants the creation of provisions to cater for such liabilities, care of the Head of the Risk Management Department and the COO / CFO, a decision shall be reached on the matter, taking into account the Performance Adjustment provisions.
- If an employee leaves the Firm before the due time for the payment of the deferred part of the bonus, the Firm shall pay to the said employee the adjusted value, as the case might be subject to the Performance Adjustment provisions, of the deferred cash bonus payment in proportion to the time that has elapsed between the approval of the bonus divided by the

deferral period. The number of notes and convertibles the said employee is entitled to shall be adjusted accordingly, and the said notes and convertibles will render payable at the time of departure of the said employee.

- ▶ The provisions of paragraph 5 here above shall also apply in cases where the employee is made redundant.
- ▶ In cases where an employee is fired, the treatment will depend on the reasons the said employee was fired and whether the deferred part of the bonus will be forgone, as per the Performance Adjustment provisions. If the payment of the deferred part of the bonus will not be totally forgone, the adjustment of paragraph 5 here above shall apply to the adjusted value of the deferred bonus.

### **Risk Adjustment**

The Firm's Remuneration Policy provides that, if, in the period of time that ensues between the approval of a bonus payment and the announcement of the said bonus payment to the beneficiary and

- the point of time the payment of the non-deferred part of the bonus is due or
- the payment of the deferred part of the bonus is due

the financial condition of the Firm deteriorates to such an extent that the Firm does not meet its minimum Capital Adequacy Ratio, then, the deferred and non-deferred pools of cash and non-cash bonus pools will be adjusted according to certain specific methodologies described in detail in the Firm's Remuneration Policy.

The Remuneration Policy also provides that if, following the payment by the Firm of either the non-deferred or the deferred part of the bonus, it occurs that due to the actions or inactions and / or negligence and / or breach of the applicable rules, laws and regulations and / or the internal regulations, the Firm has incurred a substantial financial loss or a fine of a substantial value has been imposed on the Firm, the Firm shall examine the possibility of claiming all or part of the bonus that has already been paid to the said person for the year when the said events occurred and forgo the payment of any declared and approved bonuses which are deferred and have not been paid yet.



**d. Information on the ratios between fixed and variable remuneration**

Paragraph 21(g) of DI144-2014-14 sets specific restrictions in relation to the ratio between variable and fixed component of remuneration. In particular, the said paragraph stipulates that:

- (i) the variable component shall not exceed 100% of the fixed component of the total remuneration for each individual.
- (ii) Shareholders of the CIF may approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided the overall level of the variable component shall not exceed 200% of the fixed component of the total remuneration for each individual.

Over and above the restrictions mandated by the applicable framework, which are fully incorporated in the Firm's Remuneration Policy, the Firm opts for a reasonable balance between the fixed and variable component of total remuneration. If there is going to be a variable component, when it comes to profit centers, it is desirable that the variable part of the total remuneration (bonus), if any, is set at a sufficiently high level, in order to ensure that the persons employed by such departments are sufficiently incentivized. At the same time, it is advisable that the bonus component is not set excessively high, to ensure that excessive risk taking behavior is not rewarded.

In respect of persons employed in control departments like compliance, risk management and where applicable, internal audit, it is advisable that the fixed component of the total remuneration (salary) is set at a sufficiently high amount, to ensure the impartiality and integrity of the said persons. In relation to the actual proportion of variable remuneration to total remuneration, it is advisable that the ratio of variable remuneration to total remuneration is pegged at a lower level than the one for persons employed in profit centers, partly to compensate for the need to offer to persons employed in control functions comparatively higher salaries and on the other hand to ensure that such persons do not have an incentive to allow or tolerate excessive risk taking behavior by risk takers.

Based on these principles, the following ground rules are applied:

1. The salaries of persons employed in control functions shall be set at a sufficiently high level to ensure their impartiality. The variable component of total remuneration, if any, shall, as a general rule, not exceed 20% of the annual salary of the year on which the determination of the variable remuneration was based.

2. For persons employed in profit centers, the fixed remuneration component shall be set at a sufficient level to ensure that such persons can attain a reasonable standard of living in case no bonus payment will be made. In the case of such persons, the variable component of total remuneration can exceed, where appropriate the indicative level proposed for persons in control functions, but is shall not, as a general rule, exceed the percentage level of 33% of total remuneration set as Proportionality Condition.
3. The proposed ceiling for variable remuneration proposed in point 1 here above, shall, as a general rule, apply for all other persons that are employed in support functions.
4. As a general rule, the variable remuneration of any person shall not exceed 100% of the fixed component, or any other ceiling set by the Remuneration Rules from time to time. In the unlikely event that, in exceptional and extraordinary circumstances, it is desirable that the said threshold is exceeded, care of the General Manager and the Head of Compliance, the provisions of paragraph 21(g) of Directive DI144-2014-14 must be upheld in full.

The thresholds stated here above are intended to be only guiding principles for the determination of the fixed and the variable components of variable remuneration, and shall be subject to annual review. In duly justified cases, the thresholds may be exceeded.

In determining the fixed component of the remuneration, it is necessary to collect information, or at least to have an indication, about the salaries that peer firms are paying for equivalent positions.

**e. Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;**

The performance criteria on which the variable component of remuneration is based differ according to whether the department that employs a particular employee is a profit center or a cost center.

In the case of employees employed in departments that are profit centers, the Key Performance Indicators (“KPI”s) are associated with the profitability of the department and the contribution of the appraise in the achievement of the results of the department. As stated under section c here above, even in the case of employees employed in profit centers, quantitative metrics of performance are supplemented with qualitative metrics of performance.

In the case of employees employed in cost centers (the definition of cost center also includes personnel employed in control functions, like compliance and risk management), the Key

Performance Indicators are associated with the quality of the performance of the actual task at hand and the contribution of each employee in the attainment of the department's outcome or progress.

**The main parameters and rationale for any variable component scheme and any other non-cash benefits;**

Atonline Limited has historically opted for the payment of performance based variable remuneration to some employees (bonus payment) and the Firm intends on continuing this practice, in accordance with the strict rules promulgated in the Remuneration Policy.

The rationale for incorporating a variable component as part of the total remuneration is associated with the desire of the Firm to attract personnel of the highest caliber. Since it is common practice for the financial services sector to pay bonuses to those employees who have excelled in the performance of the duties assigned to them, the Firm would find itself at a competitive disadvantage in attracting high caliber employees if it did not follow the industry standard.

In addition, in order to attract high caliber employees, in the absence of a variable component scheme, the Firm might have to pay high fixed salaries, irrespective of the level of the actual performance of its employees, thus creating an unsustainable level of overheads and a system that would not provide any incentive for top performance and excellence.

In order to ensure that the bonus entitlement concept is rationalized, the following controls have been introduced:

1. The Firm shall not declare any bonuses for any particular year when the Firm has incurred a financial loss. If exemplary situations pertain (for example, due to the efforts of one employee, the losses have been minimized), the person who proposes or initiates the payment of the bonus must duly justify this proposal in a memorandum addressed to the Remuneration Committee. The Remuneration Committee shall deliberate on such matters and the Board of Directors has the prerogative of taking the final decision.
2. The size of the total pool of bonuses should be such that the payment of the said bonuses should not force the Firm's Capital Adequacy Ratio to decrease below the minimum Capital Adequacy Ratio (currently set at 8%) plus a margin of 5%.

3. As a general rule, the Firm shall not create an obligation to pay variable remuneration or discretionary pension benefits, nor pay variable remuneration if the Firm does not meet the combined buffer requirement.

**f. Aggregate quantitative information on remuneration for those categories of staff whose professional activities have a material impact on its risk profile, broken down by business area:**

**(i) The amounts of remuneration for the financial year broken down by business area;**

<b>Business area</b>	<b>Total remuneration USD ('000)</b>
Operations and Support	83
Brokerage	68
Own account dealing	199
Accounting	94
Control Functions	125
<b>Total</b>	<b>569</b>

**g. Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investment firm, indicating the following:**

**(i) The amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;**

<b>Position</b>	<b>Number of beneficiaries</b>	<b>Annual Remuneration USD ('000)</b>		<b>Total Remuneration USD ('000)</b>
		<b>Fixed</b>	<b>Variable</b>	
Senior Management (Executive Directors and Heads of Departments with material impact on the Firm's risk profile)	5	315	10	<b>325</b>
Other staff in risk taking positions	5	231	13	<b>244</b>
<b>Total</b>	<b>10</b>	<b>546</b>	<b>23</b>	<b>569</b>

**(ii) The amounts and forms of variable remuneration, split into cash, shares, share linked instruments and other types;**

None of the variable remuneration declared and paid amounts exceeded the proportionality Conditions outlined in [Section C](#) hereabove, and as such, variable remuneration was paid in cash.

**(iii) The amounts of outstanding deferred remuneration, split into vested and unvested portions;**

The said provisions do not apply due to the factors stated in [section \(ii\)](#) here above.

**(iv) The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;**

The said provisions do not apply due to the factors stated in [section \(ii\)](#) here above.

**(v) New sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; and**

No sign-on payments have been awarded during the year 2017.

**(vi) The amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person.**

No severance payments were awarded in 2017.

**(vii) The number of individuals being remunerated EUR 1 million or more per financial year**

No individual has been remunerated with an amount that equals or exceeds the value of EUR 1 million for 2017.

## APPENDIX

### I. Balance sheet reconciliation

Balance Sheet Description, as per published financial statements	Year ended 31/12/2017
	USD ('000)
Share capital	19
Share premium	44.319
Reserves (Retained earnings)	26.055
Income from current year (audited)	2.695
<b>Total Equity as per audited financial statements</b>	<b>73.088</b>
<b>Adjustments to CET1 due to transitional provisions and other CET1 deductions</b>	
(-)Intangible assets	(18)
(-) Investor compensation fund	(131)
<b>Total Common Equity Tier 1</b>	<b>72.939</b>
<b>Total regulatory own funds</b>	<b>72.939</b>

## II. Own funds disclosure template under the Transitional and fully phased in definition

At 31 December 2017	Transitional Definition	Full - phased in Definition
	USD ('000)	USD ('000)
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
Capital instruments and the related share premium accounts	44.338	44.338
Retained earnings	28.750	28.750
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-	-
Funds for general banking risk	-	-
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>73.088</b>	<b>73.088</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>		
Intangible assets (net of related tax liability)	(18)	(18)
Additional deductions of CET1 Capital due to Article 3 CRR	(131)	(131)
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(149)</b>	<b>(149)</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>72.939</b>	<b>72.939</b>
<b>Additional Tier 1 (AT1) capital</b>	-	-
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>72.939</b>	<b>72.939</b>
<b>Tier 2 (T2) capital before regulatory adjustments</b>	-	-
<b>Tier 2 (T2) capital: regulatory adjustments</b>		
Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	-	-
<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	-	-
<b>Tier 2 (T2) capital</b>	-	-
<b>Total capital (TC = T1 + T2)</b>	<b>72.939</b>	<b>72.939</b>
<b>Total risk weighted assets</b>	<b>115.537</b>	<b>115.537</b>
<b>Capital ratios and buffers</b>		
Common Equity Tier 1	63,13%	63,13%
Tier 1	63,13%	63,13%
Total capital	63,13%	63,13%

### Definitions:

The **Common Equity Tier 1 (CET1) ratio** is the CET1 capital of the Firm expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The **Tier 1 (T1) ratio** is the T1 capital of the Firm expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The **Total Capital ratio** is the own funds of the Firm expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.