ATON

ATONLINE LIMITED

RISK MANAGEMENT (PILLAR III) DISCLOSURES IN ACCORDANCE WITH THE DIRECTIVE FOR THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS FOR THE YEAR ENDED 31 DECEMBER 2011

May 2012

ACCORDING TO CHAPTER 7 (PAR.34-38) OF PART C AND ANNEX XII OF THE CYPRUS SECURITIES AND EXCHANGE COMMISSION'S DIRECTIVE DI144-2007-05 OF 2011 FOR THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS

TABLE OF CONTENTS

1. INTRODUCTION

a. The Company

Atonline Limited (hereafter - the Company) was incorporated in Cyprus on 22 June 2000 as a limited liability company. On 22 September 2009 it was granted a CIF license by 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 (2) Money- market instruments (3) Units in Collective Investment Undertakings
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	(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)
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	(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
Investment Advice	Foreign exchange services where these are connected to the	(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

		provision of investment services		characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls (8) Derivative instruments for the transfer of credit risk (9) Financial Contracts for Differences (10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to various economic statistics 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), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognized clearing houses or are subject to regular margin calls
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis		Investment research and financial analysis or other forms		
Placing of financial instruments without a firm commitment basis		Services related to underwriting		

b. Scope of Application

In June 2004, the Basel Committee on Banking Supervision (BCBS) published the International Convergence of Capital Measurement and Capital Standards: a Revised Framework (commonly known as Basel II).

This framework was designed to replace the 1988 Accord, which, since publication, had provided the basis for assessing the capital adequacy of supervised institutions by prudential regulators worldwide.

Compared with the original Accord, the revised framework is more risk-sensitive and takes into account financial institutions' own risk management practices. Regulators recognize that strong risk management systems and practices contribute to the stability of individual institutions and play an important role in enhancing the overall soundness and stability of the financial sector.

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

- Directive DI144-2007-05 of 2011 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms (herewith “CRD Directive” or “CRD”)
- Directive DI144-2007-06 of 2011 of the Cyprus Securities and Exchange Commission for the large exposures of the Cyprus Investment Firms, cited as the “Directive for the large exposures of IFs”

The disclosures made in the present document ensure Basel II Pillar 3 compliance. The following information is disclosed in accordance with Chapter 7 (paragraphs 34-38) of Part C and Annex XII, Part 2 of the CRD Directive. It relates to the year ended 31 December 2011 and has been prepared on an individual (solo) basis.

Following the implementation of the CRD Directive the Company is required to disclose information relating to its capital, the risks that the Company is exposed to as well as to promote market discipline.

Given the size and complexity of the business of Atonline Limited, it is not considered necessary to produce Pillar 3 Disclosures any more frequently than annually. The Company has chosen to make this report available on its website.

c. Fundamental Principles of the CRD framework

The Basel II Accord has been implemented in the European Union through the Capital Requirements Directive (“CRD”). The CRD 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 minimum capital adequacy ratio (capital over risk-weighted assets) an investment firm is required to maintain is set at 8%.

Pillar 2 sets the principles, criteria and processes required for assessing the Company's capital adequacy and risk management systems. Pillar 2 consists of two processes:

- the Internal Capital Adequacy Assessment Process (ICAAP), and
- the Supervisory Review Evaluation Process (SREP)

The second Pillar emphasises 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 in 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 organisation.

2. RISK MANAGEMENT FRAMEWORK OF THE COMPANY

a. Fundamentals of the Risk Management framework of the Company

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

The Company 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 Company's business mix and the market environment change.

The major risks faced by the Company 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 Company'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. 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 Company has developed a Risk Management framework, and risk profile is controlled and monitored regularly.

The fundamentals of the Company's 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 Department 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 Company's Investment Committee. This is a multi-faceted committee empowered with the task of defining the strategy and tactics of the Company'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 Company. Risk Management conducts routine market assessment of all the kinds of Company risks and submits complete and comprehensive reports to business units, the Company's management and the Board of Directors.

There are several levels of risk reporting:

- Reports for business units to inform on current utilisation of limits
- Global capital-at-risk calculation is presented to management and gives a strategic view on the current risk profile of the Company

Risk Management conducts regular assessments of all types of risks related to the Company and regularly monitors the market condition of all Company products and services associated with financial risks, paying close attention to products and services that are more prone to generating risks.

The Risk Management Department takes initiatives for enhancing risk awareness throughout the Company. 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 Company (including regulatory, reputational and operational risks), which is updated if the need arises through frequent communication with other Company departments. Drawing on this map, it determines the key risks of the Company, the risk management strategy and the probability of risk occurrence.

For the purpose of controlling, monitoring and minimizing the volume of risks affecting the Company, the Risk Management Department 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 and Compliance Units in better managing the risks to which the Company is exposed.

c. Risk Monitoring and Control

The Company 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 Company strives to mitigate those risks in order to ensure that they remain within the Company's risk appetite.

3. APPROACHES ADOPTED FOR PRUDENTIAL CAPITAL REQUIREMENTS CALCULATION

The CRD Directive 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 Company are the following:

Table: Approaches adopted for CRD calculation

Credit Risk	Credit Risk Mitigation	Market Risk	Operational Risk
☑Standardised Approach	Financial collateral simple method	☑Standardised Approach	☑Basic Indicator Approach (BIA)
Foundation Internal Rating (FIRB)	☑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)

4. CAPITAL BASE

The capital base of the Company as at 31 December 2011 comprised solely of original own funds and included share capital, share premium, retained earnings, audited income and intangibles from year 2011, as shown in the table below:

Table: Composition of the capital base of Atonline Limited

Own Funds	Year ended 31/12/2011
Tier 1 Capital (*Original Own Funds*)	**USD ('000)**
Share capital	17
Share premium	9 322
Reserves (Retained earnings)	11 748
Income from current year (audited)	4 460
Total original own funds (before deductions)	**25 547**
Deductions: Intangible assets	-168
Total own funds	**25 379**

5. CAPITAL REQUIREMENTS

The Company 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 2011 is shown in the table below:

Table: Capital Requirement by Risk Category

Year ended 31/12/2011	
Risk Category	**Regulatory Capital Requirement USD ('000)**
Credit Risk	1 649
Market Risk	0
Operational Risk	1 175
TOTAL	**2 824**

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

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

The capital adequacy ratio as at 31/12/2011 was **71.88%.**

6. 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 Company, or from the default of the issuer of a security.

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

The Company manages its exposure to counterparty credit risk through the use of limits which restrict its exposure to individual counterparties and issuers. Furthermore the Company 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 the Company to reduce significantly 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 Company will cooperate with a specific counterparty and for determining the amount of exposure that the Company wishes to maintain towards that counterparty/issuer. It is an important element of the risk management process, and for that it is integrated in the decision-making process and in the limit setting procedure.

In addition, the Company 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 Company 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 the operations of the counterparty and issuer are their constitutive documents, financial reports, any additional information, and other sources determined by the Company. The Company provides for reception of information that is necessary and sufficient for establishing a professional judgment regarding the degree of the reliability and financial position of the counterparty.

The limit set represents the amount of exposure that the Company 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 Company 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 Company is comfortable to create with a particular counterparty.

The Company 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 Company 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 Company adopts the Standardized Approach. The table below provides information on the Company's credit risk exposure, risk weighted assets ("RWA") and capital requirement as at 31 December 2011, 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 31/12/2011		
		Original Exposure USD ('000)	RWA USD ('000)	Capital Requirement USD ('000)
Institutions	104 442	59 201	7 908	633
Corporates	53 818	75 133	12 593	1 007
Other items	350	110	110	9
Total	**158 610**	**134 444**	**20 611**	**1 649**

The table below shows the Company's credit risk exposure, broken down by risk weight:

Table: Exposure amount analyzed by risk weight

Risk Weight	Year ended 31/12/2011 Original Exposure Amount USD ('000)
20%	59 201
100%	75 243
Total	**134 444**

As for industry breakdown the great majority of credit risk exposures are attributable to companies of the financial services industry, as shown in the table below:

Table: Breakdown of exposures by industry sector

Exposure Class	Original Exposure for year ended 31/12/2011 USD ('000)		
	Financial Services	Other	Total
Institution	59 201	0	***59 201***
Corporate	74 838	295	***75 133***
Other	0	110	***110***
Total	***134 039***	***405***	***134 444***

The residual maturity of most of the Company'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 31/12/2011 USD ('000)		
	Residual Maturity ≤ 3 months	Residual Maturity > 3 months	Total
Institution	59 201	0	***59 201***
Corporate	75 133	0	***75 133***
Other	0	110	***110***
Total	***134 334***	***110***	***134 444***

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

Table: Geographic distribution of exposures

Country	Original Exposure Amount for year ended 31/12/2011 USD ('000)			
	Institution	Corporate	Other	Total
Russia	33 494	33 108	0	***66 602***
Cyprus	402	39 971	110	***40 483***
UK	23 561	0	0	***23 561***
Kazakhstan	1 097	631	0	***1 728***
Bermuda	0	918	0	***918***
Austria	337	0	0	***337***
USA	309	0	0	***309***
Cayman	0	210	0	***210***
Denmark	1	0	0	***1***
Other	0	295	0	***295***
TOTAL	***59 201***	***75 133***	***110***	***134 444***

With respect to derivatives, the Company calculates its exposure to counterparty credit risk by employing the Mark-to-Market method for its FX forwards, while for its repo and reverse repo deals it makes use of the Financial Collateral Comprehensive Method for credit risk mitigation, as analysed below. The following table provides details on the Company'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 31/12/2011		
	Market Value	PFCE%	Final Exposure
Short term FX Forwards	**55**	**1%**	**1 665**

The Company uses Fitch ratings to determine the risk weights of its counterparties, based on the Credit Quality Step matching principles established by the Capital Requirements Directive. As at 31 December 2011, all corporate counterparties of the Company were unrated, and therefore the Company made use of Fitch credit ratings only for its exposures to "Institutions".

The association of the external rating of each nominated ECAI or ECA with the credit quality steps is in line with the standard association prescribed by CRD.

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	24 208	0	24 208
Credit quality step 3	34 993	-19 660	15 333
Total	***59 201***	***-19 660***	***39 541***

c. Credit risk mitigation

The Company calculates its exposure to counterparty credit risk by employing the Mark-to-Market method. For its repo and reverse repo deals the Company 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 Company deals with the most reliable, well known, highly reputable and solid counterparties, which have been approved by the Company.

The Company accepts only securities of higher liquidity as collateral for the reverse repurchase transactions.

The Company continuously assesses the realizable value of the collateral, as well as the liquidation period with respect to the market liquidity. The Company monitors VaR and stress values for the securities used in the repurchase transactions to estimate the risk amount for a deal. Periodically the Company 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. Until 31 December 2011, CySEC has set the number of days past due up to a figure of 180 for exposures to corporates and to counterparties situated in the territories of other Member States, the competent authorities of which have exercised the discretion and set a higher number of days past due.

Definition of impaired exposures

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company follows the guidance of IAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

An impairment loss is recognised 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).

A financial asset or group of assets is impaired, and impairment losses are recognised, only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset. An entity is required to assess at each balance sheet date whether there is any objective evidence of impairment. If any such evidence exists, the entity is required to do a detailed impairment calculation to determine whether an impairment loss should be recognised.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate. Assets that are individually assessed and for which no impairment exists are grouped with financial assets with similar credit risk statistics and collectively assessed for impairment.

If, in a subsequent period, the amount of the impairment loss relating to a financial asset carried at amortised cost or a debt instrument carried as available-for-sale decreases due to an event occurring after the impairment was originally recognised, the previously recognised impairment loss is reversed through profit and loss. Impairments relating to investments in available-for sale equity instruments are not reversed.

Provisions and Value Adjustments

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

With regards to value adjustments, in the case where available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as fair value gains or losses on investments, taking into account any amounts charged or credited to the statement of comprehensive income in previous periods. Moreover, the adjustments on the fair value of derivatives held at fair value through profit and loss are transferred to the statement of comprehensive income.

7. 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 Company 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 Department 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 Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly. Furthermore, the Company manages its exposure to market risk arising from uncertainties about future prices of financial instruments through the diversification of its investment portfolio.

The Company continuously monitors its foreign currency position and evaluates its exposure to foreign currencies by employing Value at Risk (VaR) methods. For the Company, 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 be set aside.

b. Exposure to market risk

As at 31 December 2011, the Company did not have any open positions in equities, debt instruments and commodities in the Trading Book. It was therefore only exposed to foreign exchange (currency) risk and interest rate 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 Company's positions in currencies other than its reporting currency (US Dollar).

The Company calculates its capital requirement with respect to foreign exchange risk using the Standardised Approach. As at 31 December 2011, the market risk minimum capital requirements due to foreign exchange risk (open foreign currency positions) was nil as Total net foreign exchange position was immaterial (0.8% of Capital base).

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 2011 the Company was exposed to interest rate risk through its repo and reverse repo contracts and its positions in FX forwards, which it books in the Trading Book. Nevertheless, due to the very short-term maturity of these positions, the final capital requirement for Market TDI risk was zero.

8. LIQUIDITY RISK

There are two different types of liquidity risk which are considered by the Company 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 Company may experience when it fulfills its obligations to its counterparties.

The Company'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 Company makes projections with regards to the balance-sheet movements of its asset and liability accounts. The Company 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 Company in choosing highly reliable counterparties for its transactions and high quality securities for its investments. In addition, the Company mitigates its liquidity risk by maintaining sufficient cash and other highly liquid assets and by having available an adequate amount of committed credit facilities.

9. 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 Company.

Operational risks are inherent in all business activities covering a wide spectrum of issues and therefore can never be completely eliminated. However, the Company 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 Company's strategic goals. All business processes undergo regular quality controls to ensure that the system's bottlenecks and weaknesses are identified and eliminated.

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

The Company 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 Company against operational risk at a rate of 15%. A 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 31/12/2011	
	RWA USD ('000)	Minimum Capital Requirement USD ('000)
Basic Indicator Approach (BIA)	14 694	1 175

10. OTHER RISKS

Reputational Risk

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

The maintenance of the Company'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 concentration 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 a limiting system adopted by the Company which ensures that single-name concentrations are reduced to a minimum.

11. Internal Capital Adequacy Assessment Process (ICAAP)

The Company 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 Company has balanced risk-profile, maintains enough capital to absorb potential future losses and has a sufficient capital cushion for further business expansion.