



**RISK MANAGEMENT (PILLAR III) DISCLOSURES IN
ACCORDANCE WITH THE DIRECTIVE FOR THE
CAPITAL REQUIREMENTS OF INVESTMENT FIRMS
FOR THE YEAR ENDED 31 DECEMBER 2013**

April 2014

ACCORDING TO CHAPTER 7 (PAR.34-38) OF PART C AND ANNEX XII OF THE CYPRUS
SECURITIES AND EXCHANGE COMMISSION'S DIRECTIVE D1144-2007-05 OF 2012 FOR
THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS

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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
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 (3) Units in Collective Investment Undertakings
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	(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)
Investment Advice	Foreign exchange services where these are connected to the	(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

	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
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	Investment research and financial analysis or other forms	(8) Derivative instruments for the transfer of credit risk (9) Financial Contracts for Differences
Placing of financial instruments without a firm commitment basis	Services related to underwriting	(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

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 that they 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 2012 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms (herewith "CRD Directive" or "CRD")
- Directive DI144-2007-06 of 2012 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 Directive DI144-2007-05 of 2012 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms. It relates to the year ended 31 December 2013 and has been prepared on an individual (solo) basis.

Following the implementation of the CRD, the Company is required to disclose information relating to its capital and 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)
 - 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 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 organization.

2. RISK MANAGEMENT FRAMEWORK OF THE COMPANY

a. Fundamentals of 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 the 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 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 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 kinds of the Company risks and submits complete and comprehensive reports to business units, the Company 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 Company

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

The Risk Management 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 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 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 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 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 are within the Company 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
<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 Ratings Based Approach (FIRB)	<input checked="" type="checkbox"/> Financial collateral Comprehensive Method	Internal Models Approach (IMA)	Traditional Standardised Approach (TSA)
Advanced Internal Ratings Based Approach (AIRB)	Internal Models Method (IMM)		Advanced Measurement Approach (AMA)

4. CAPITAL BASE

The capital base of the Company as at 31 December 2013 comprised solely of original own funds and included share capital, share premium, retained earnings and audited income from year 2013, as shown in the table below:

Table: Composition of the capital base of Atonline Limited

Own Funds	Year ended 31/12/2013
Tier 1 Capital (Original Own Funds)	USD ('000)
Share capital	17
Share premium	9 321
Reserves (Retained earnings)	21 207
Income from current year (audited)	894
Total original own funds (before deductions)	31 439
<i>Deductions: Intangible assets</i>	-97
Total own funds	31 342

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 2013 is shown in the table below:

Table: Capital Requirement by Risk Category

Year ended 31/12/2013	
Risk Category	Regulatory Capital Requirement USD ('000)
Credit Risk	1.640
Market Risk	319
Operational Risk	1.169
TOTAL	3.128

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 31/12/2013 was **80,15%**.

6. CREDIT RISK

a. Credit risk management

Credit risk is the risk of financial losses resulting from the impossibility of a counterparty or a borrower to execute its obligations towards the Company, 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 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 reducing 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 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 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 2013, 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 31/12/2013		
		Original Exposure USD ('000)	RWA USD ('000)	Capital Requirement USD ('000)
Institutions	252.326	85.401	12.267	982
Corporates	103.369	39.900	6.779	542
CIUs	890	890	890	71
Other Items	1.754	566	566	45
Total	358.339	126.757	20.502	1.640

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 31/12/2013
	Original Exposure Amount USD ('000)
20%	85.401
100%	41.356
Total	126.757

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 31/12/2013				
	USD ('000)				
	Institutions	Corporates	CIUs	Other Items	Total
Russia	62.000	319	0	0	62.319
Bermuda	0	14.605	0	0	14.605
UK	21.664	37	0	0	21.701
Cyprus	264	24.931	0	0	25.195
Kazakhstan	181	0	0	0	181
Canada	0	8	0	0	8
Germany	864	0	0	0	864
Cayman	0	0	890	0	890
Austria	428	0	0	0	428
Other	0	0	0	566	566
TOTAL	85.401	39.900	890	566	126.757

As for industry breakdown the great majority of credit risk exposures is 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 31/12/2013		
	USD ('000)		
	Financial Services	Other	Total
Institutions	85.401	0	85.401
Corporates	39.847	53	39.900
CIUs	890	0	890
Other Items	0	566	566
Total	126.138	619	126.757

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 31/12/2013		
	USD ('000)		
	Residual Maturity ≤ 3 months	Residual Maturity > 3 months	Total
Institutions	85.401	0	85.401
Corporates	39.900	0	39.900
CIUs	890	0	890
Other Items	388	178	566
Total	126.579	178	126.757

With respect to derivatives, the Company 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 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 31/12/2013		
	Market Value	PFCE%	Final Exposure
Short term FX Contracts	534	1%	2.301

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 2013, 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	Net effect of credit risk mitigation (FCCM)	Exposure value after credit risk mitigation
	USD ('000)	USD ('000)	USD ('000)
Credit quality step 1	22.956	-2.492	20.465
Credit quality step 2	0	0	0
Credit quality step 3	62.181	-21.573	40.607
Credit quality step 4	0	0	0
Credit quality step 5	0	0	0
Credit quality step 6	264	0	264
Unrated	41.356	-33.120	8.235
Total	126.757	-57.185	69.571

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 the 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 2013, 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 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.

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 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).

A financial asset or group of assets is impaired, and impairment losses are recognized, 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 recognized.

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 amortized cost or a debt instrument carried as available-for-sale decreases due to an event occurring after the impairment was originally recognized, the previously recognized 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 recognized 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 recognized 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 the prices of assets in the trading book.

For internal purposes market risk is controlled by means of the 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 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 set aside.

b. Exposure to market risk

As at 31 December 2013, the Company capital requirement arising from trading book equity positions was 73 thousand USD.

Also the Company was 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 Standardized Approach. As at 31 December 2013, the market risk minimum capital requirements due to foreign exchange risk (open foreign currency positions) was 246 thousand USD.

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 2013 the Company was exposed to interest rate risk through its repo and reverse repo contracts and its positions in FX derivatives, 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%. 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 31/12/2013	
	RWA USD ('000)	Minimum Capital Requirement USD ('000)
Basic Indicator Approach (BIA)	14.609	1.169

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 arises 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 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 adsorb potential future losses and has capital cushion for further business expansion.

12. DISCLOSURES REGARDING THE REMUNERATION POLICY AND PRACTICES OF THE COMPANY

- 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 DI144-2007-05 Of The Cyprus Securities And Exchange Commission For The Capital Requirements Of Investment Firms of 2012” (herewith “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 Company 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 following persons:

- The non-executive members of the Board of Directors: In compliance with the provisions of paragraph 24 of the Remuneration Rules, the Remuneration Committee is chaired at each meeting by a non-executive member of the Board of Directors
 - One of the two persons who effectively direct the business of the Company
- Or
- One of the General Manager or the COO / CFO (if not the same as the persons who effectively direct the business of the Company).

The Remuneration Committee shall be advised by the following persons:

- The Head of Compliance: The Head of Compliance shall be 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 23 (a) of the Remuneration Rules 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 23(i) 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 23(n) of the Remuneration Rules, has to issue an opinion as to

whether the methodology and the value of proposed bonus payments cater for current and future risks.

Voting rights

Each member of the Remuneration Committee carries one voting right. Through its composition (two non-executive directors versus one executive director / four eyes person / General Manager or CFO) it is ensured that any decisions or proposals of the Remuneration Committee are determined by the non-executive members of the Board of Directors.

Each member of the Remuneration Committee shall abstain from voting when issues relating to his / her remuneration are discussed.

External Consultants

The Company has not employed external consultants for the determination of the Remuneration Policy. Nevertheless, the Remuneration Policy, in accordance with the Remuneration Rules, was “subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the management body in its supervisory function”. The said review should be performed at least on an annual basis.

The Company has mandated KPMG Limited for the performance of the independent internal review of its Remuneration Policy. The mandate included the review of:

- The design, structure and contents of the documented Remuneration Policies adopted by Atonline Limited
- The implementation of the aforementioned policies in all bodies / units and at all levels of the Company

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) or 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,
- ▀ the business unit concerned, and
- ▀ the overall results of the Company.

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

Furthermore, 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 Company 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 remuneration and/or any bonus paid to such persons are determined independently of the profitability of the said departments.

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 Company 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 Euros (€600.000)

Deferral Policy

The Company 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 percent (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 grounds 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 Company before the due time for the payment of the deferred part of the bonus, the Company 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 the previous point 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 aforementioned adjustment shall apply to the adjusted value of the deferred bonus.

Risk Adjustment

The Company'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 Company deteriorates to such an extent that the Company 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 Company's Remuneration Policy.

The Remuneration Policy also provides that if, following the payment by the Company 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 Company has incurred a substantial financial loss or a fine of a substantial value has been imposed on the Company, the Company 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 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 appraisee 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.

e. 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 Company 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 Company 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 Company 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 Company 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 Company shall not declare any bonuses for any particular year when the Company 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 Company's Capital Adequacy Ratio to decrease below the minimum Capital Adequacy Ratio (currently set at 8%) plus a margin of 5%.

f. Aggregate quantitative information on remuneration, broken down by business area

Business area	Total remuneration (USD)
Brokerage	32.271
Own account dealing	43.107
Investment advice	457.918
Corporate finance	33.098
Other staff	730.300

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:**

Senior Management (USD)			
Fixed Remuneration	Number of beneficiaries	Variable Remuneration	Number of beneficiaries
206.531	2	0	0
Other staff in risk taking positions (USD)			
Fixed Remuneration	Number of beneficiaries	Variable Remuneration	Number of beneficiaries
987.045	12	103.118	5

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

Bonus payments made in 2013 were paid in cash.

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

The said provisions are subject to the [proportionality thresholds](#), and since the said thresholds were not exceeded, the said provisions are not applicable.

- 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**

No sign-on or severance payments have been awarded during the year 2013.

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

Not applicable.