



**RISK MANAGEMENT (PILLAR III) DISCLOSURES IN
ACCORDANCE WITH THE PART EIGHT OF THE
EUROPEAN REGULATION 575/2013 FOR THE
YEAR ENDED 31 DECEMBER 2014**

MAY 2015

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

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1. INTRODUCTION

a. The 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	<ul style="list-style-type: none"> (1) Transferable Securities (2) Money- market instruments (3) Units in Collective Investment Undertakings (4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash (5) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities, that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event) (6) Options, futures, swaps and any other derivative contract relating to commodities that can be physically settled, provided that they are traded on a regulated market and/or an MTF (7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in paragraph 6 and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized
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	
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	
Investment Advice	Foreign exchange services where these are connected to the provision of investment services	

Core Services	Ancillary Services	Financial Instruments
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	Investment research and financial analysis or other forms	clearing houses or are subject to regular margin calls
Placing of financial instruments without a firm commitment basis	Services related to underwriting	(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

The Company's license has been revised since January 2015, to reflect the fact that the license for the following investment and ancillary services has lapsed:

- Investment Advice
- Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
- Services related to underwriting

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

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

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

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

The Firm also maintains a relatively small proprietary book. The value of the Firm's proprietary book as at the end of 2014 stood at USD 1.362.012 in long position and USD 45.284 in short position. The strategy and tactics of the proprietary book are determined by the Investment Committee, which is comprised of:

1. The Firm's own account dealer and her assistant. The own account dealer is assisted in the formulation of the proposed strategy by the Head of the Research Department, who, even though is not a member of the Committee, provides the own account dealer with an opinion on the future performance of the markets and direction as to the most promising (or overpriced) investment opportunities.
2. The Head of the Risk Management Department, who is responsible for expressing an opinion on the proposed strategy and tactics with special recourse to the risks entailed in such strategies. Once agreement is reached on the strategy, the Head of the Risk Management Department is responsible for assigning and monitoring limits on positions.
3. The Head of Compliance who is responsible to identify on the spot any potential breaches of the underlying Laws and regulations that might result from the proposed strategy and align participants about any special regulatory obligations.
4. The General Manager, whose role is to fulfill the management body's prerogative and responsibility for the overall overview of the affairs of the Firm, since, Own Account Dealing activity could expose the Firm to considerable risks if not properly handled and controlled.

The Firm's brokerage business comprises of the execution of client orders and custody services¹. The Firm has recently given the opportunity to those clients who have opted for the Firm's Electronic Trading Services to submit their orders electronically through the use of a trading platform. In addition, in 2014, the Firm introduced its Margin Trading Services, whereby clients that opt for it, are in a position to obtain from the Firm credit facilities for an amount that is commensurate with the value of assets that the said clients place as collateral with the Firm.

When it comes to corporate finance services², the Firm is primarily active in the placing of financial instruments without a firm commitment basis, which is a considerably less risky activity compared to the underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis, and in addition, it ties considerably less capital in terms of the Firm's Capital Requirements obligations.

The fact that the Firm applies a prudent and balanced strategy in relation to risks is epitomized by the high ratios attained for Capital Requirements purposes, namely, CET1 Capital ratio, T1 Capital ratio and Total capital ratio of 31,61%, which compares very favourably with the minimum requirements of 4.5%, 6% and 8% respectively.

d. Scope of Application

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

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

Compared with the Basel II, the revised framework sets out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement, measures to promote the build-up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards. In Mr. Nout Wellink's words, Chairman of the Basel Committee on Banking Supervision and President of the Netherlands Bank, the Basel III

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

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

framework is "a landmark achievement that will help protect financial stability and promote sustainable economic growth. The higher levels of capital, combined with a global liquidity framework, will significantly reduce the probability and severity of banking crises in the future."

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

- Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms. The said directive transposes Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC
- Directive DI144-2014-15 on the discretions of the Cyprus Securities and Exchange Commission arising from Regulation (EU) No 575/2013
- The introduction of several amendments to the Law Which Provides For The Provision of Investment Services, the Exercise of Investment Activities, the Operation of Regulated Markets and Other Related Matters (Law 144(I)/2007)
- The direct implementation of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

The disclosures made in the present document ensure compliance with those provisions of the Basel III framework that relate to Pillar 3. The following information is disclosed in accordance with Part Eight of Regulation (EU) No 575/2013. It relates to the year ended 31 December 2014 and has been prepared on an individual (solo) basis.

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

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

The Company has opted to make this report available on its website at www.atonint.com.

e. Fundamental Principles of the CRD4 framework

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

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

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

- Common Equity Tier 1 (CET1) Capital ratio: 4.5%
- T1 Capital ratio: 6.0%
- Total capital ratio: 8.0%

Where:

- ✓ CET1 Capital consists of:
 - (a) capital instruments, provided that the conditions laid down in Article 28 or, where applicable, Article 29 Regulation (EU) No 575/2013 are met;
 - (a) share premium accounts related to the instruments referred to in point (a);
 - (b) retained earnings³;
 - (c) accumulated other comprehensive income³;
 - (d) other reserves³;
 - (e) funds for general banking risk³.

and,

- ✓ Tier 1 (T1) Capital consists of the sum of the Common Equity Tier 1 capital and Additional Tier 1 capital (e.g. hybrid instruments) of the institution.
- ✓ Total Capital consists of the sum of the Tier 1 capital and Tier 2 capital of the institution. The Tier 2 capital is comprised mainly by capital securities (e.g. subordinated loan capital) that meet specific conditions as per the Article 63 of the European Regulation 575/2013.

The CRD4 framework introduces the concept of capital buffers, whereby institutions, apart from being in a position to meet the minimum capital adequacy ratios outlined here above,

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

they also have to set aside a certain amount of CET1 capital to meet their 'combined buffer requirement, that includes the capital conservation buffer extended by the following buffers, as applicable:

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

Currently, the Capital Buffer requirements have not been put into effect, and the CRD4 framework provides for implementation in phases, where the first phase begins on 01 January 2016 and the implementation phase spans until December 2018.

The CRD4 Framework also introduces the new concept of liquidity coverage requirement. Article 412 of Regulation (EU) No 575/2013 sets the said requirement by stating that "Institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. During times of stress, institutions may use their liquid assets to cover their net liquidity outflows"

Additionally, the concept of "stable funding" is introduced for the first time, whereby institutions are expected to ensure that long term obligations are adequately met with a diversity of stable funding instruments under both normal and stressed conditions.

▀ 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 on the banking book and liquidity risk. Pillar 2 also lays out the interaction between the investment firms' own assessments and the dedicated supervision of the regulators.

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

2. GOVERNANCE ARRANGEMENTS

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

The members of the management body of Atonline Ltd hold the following directorships, over and above being directors of Atonline Ltd.

Name of Director	Capacity		Number of executive directorships	Number of non-executive directorships
	Executive	Non-executive		
Christos Pavlides	<input checked="" type="checkbox"/>		0	0
Anna Orlova	<input checked="" type="checkbox"/>		0	0
Melina Pyrgou		<input checked="" type="checkbox"/>	1	10
Christina Mavronicola		<input checked="" type="checkbox"/>	1	1

b. Information about the Firm's Recruitment Policy and the actual knowledge and expertise of the Firm's Directors

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

In the absence of any guidance from relevant regulatory authorities as to what constitutes significance in relation to the factors stated hereabove, the Firm considers itself not to be significant, and as such, it shall not establish a nomination committee.

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

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

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

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

- (a) the board of directors must have the overall responsibility for the CIF and approve and oversee the implementation of the CIF's strategic objectives, risk strategy and internal governance;
- (b) the board of directors must ensure the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards;
- (c) the board of directors must oversee the process of disclosure and communications;
- (d) the board of directors must be responsible for providing effective oversight of senior management;
- (e) the chairman of the board of directors of the CIF must not exercise simultaneously the functions of a chief executive officer within the same CIF, unless justified by the CIF and authorized by the Commission.

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

1. The Board of Directors must be comprised of an odd number of directors. This measure is included in order to ensure that no voting process will end-up in a tie.

2. The number of non-executive directors shall exceed the number of executive directors. This principle is introduced in order to ensure that:
 - (a) In case of disagreement between the executive and non-executive directors, the non-executive directors will have the possibility to define the final outcome of the vote.
 - (b) The board of directors, being comprised by a majority of non-executive directors, can provide effective oversight of senior management, thus satisfying the provisions Article 18A(1)(d) of Law 144(I)/2007.
 - (c) the board of directors' decision making is not dominated by any one individual or small group of individuals (in this case, the executive directors) in a manner that is detrimental to the interests of the CIF as a whole.
3. The Firm's "four-eye" persons, that is the two persons that undertake the management of the firm, as per the provisions of section 12(3) of Law 144(I)/2007 must be executive members of the Board of Directors. The rationale for this principle is to entrench the authority and at the same time the responsibility of the said persons for the proper operation of the Firm. In addition, the said persons, by being responsible for the overall operation of the Firm, are in the best condition to know in detail all matters that affect the Firm and inform the Board of Directors by setting the agenda for board meetings.

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

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

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

The representation of the disciplines stated in (a) and (b) hereabove ensures that the board possesses the requisite knowledge to ensure the integrity of the accounting and financial

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

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

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

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

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

As can be inferred from the information provided so far, the current composition of the Board of Directors is short of one executive director with Risk Management discipline to comply with the Firm's recently established Recruitment Policy. The issue shall be addressed within the current year.

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

Name of Director	Capacity		knowledge and expertise
	Executive	Non-executive	
Christos Pavlides	<input checked="" type="checkbox"/>		Compliance
Anna Orlova	<input checked="" type="checkbox"/>		Accounting
Melina Pyrgou		<input checked="" type="checkbox"/>	Legal
Christina Mavronicola		<input checked="" type="checkbox"/>	Legal

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

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

1. At all times, the Firm shall give precedence to substance over any other consideration, including the need for diversity. This shall not mean that we shall not make any effort or not pay any attention to the principles of diversity, nevertheless, this will not be done at the expense of substance.
2. In respect of age, the articles and memorandum of association of the Firm do not set an age limit for directors. As part of the recruitment and diversity policy, we shall set the maximum age of directors to be seventy (70) years of age.
3. In relation to gender, due to the fact that, as part of the recruitment policy principles, we have committed to an odd number of directors, the two genders cannot, by definition be equally represented on the Board. As a target though, we shall aim for the almost equal representation of the two genders, where the under-represented gender will not be represented by more than one (1) person less than the over-represented gender. This principle, is of course, subject to the provision that substance gets a precedence.
5. In relation to geographical provenance, it has already been established that the majority of directors shall reside permanently in Cyprus.
6. In relation to educational and professional background, we have already established that the following disciplines shall be represented in the Board of Directors:
 - (a) Accounting
 - (b) Compliance
 - (c) Risk Management and
 - (d) Legal.

It has already been established that if it is not possible that all of the above disciplines are represented on the board, it should be ensured that persons from the said disciplines are

frequently present at board meetings, albeit without carrying a vote, or in other ways and manners, advise the board of directors on matters involving their respective disciplines.

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

It has already been established that the Firm needs to employ an additional non-executive director with specialization in risk management matters to comply with its recruitment policy. Taking into account the provisions of the Firm's policy on diversity when it comes to gender, the additional non-executive director shall preferably be male, since the male gender is under-represented in the composition of the Board of Directors.

d. Risk Committee

The requirement for the establishment of a Risk Committee applies for firms that are significant in terms of their size, internal organisation and the nature, scope and complexity of their activities. In the absence of any guidance from the relevant competent authorities in relation to the above criteria, it is management's contention that Atonline Limited does not fall into this category of investment firms, and as such, we have not established a risk committee.

Article 6(3) of Directive DI144-2014-14 provides that the Commission may allow a CIF which is not considered significant as referred to above to combine the risk committee with the audit committee as referred to in Article 46 of Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009. From an analysis of the provisions of the said article, it can be concluded that insofar Atonline Limited does not fit the definition of a public-interest entity, it does not have an obligation to establish an audit committee, which, in the case of firms that are not considered to be significant, it should undertake the objectives assigned to the risk committee.

e. Information flow on risk to the management body

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

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

1. At least once per year, care of the Risk Management Department, a review is performed of the Firm's Business Continuity / Disaster Recovery plan (herewith "BCDRP"), and the outcome of the review is reported to the Board of Directors. If the review process signifies that the BCDRP is in need of revision, all necessary amendments are introduced and the revised document is presented to the Board for approval.
2. At least once per year, several facets of the BCDRP are tested, and the outcome of the test is reported to the Board of Directors. If the test reveals any weaknesses, remedial action is undertaken.
3. At the beginning of each calendar year, and in good time before the deadline for the submission of the Suitability report (end of April), care of the Head of the Risk Management Department, a full review of the arrangements with third party:
 - Banks
 - Custodians
 - Brokersis performed and the outcome of this review is presented to the Board of Directors.
4. Investment Firms have an obligation to have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed.

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

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

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

document its compliance with these policies and procedures and shall subject them to periodic internal audit.

The said policies and procedures are described in the “Trading Book Policy Statement” document that is approved by the Board of Directors. The said document is subjected to the onus of the internal audit process, and the findings of the review are included in the internal audit report that is presented to the Board of Directors for approval.

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

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

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

1. At least once per year, the Board of Directors receives written reports on compliance and internal audit matters, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.

2. Within two months from the end of each calendar year, the Board of Directors receives and approves the annual anti-money laundering report that is prepared by the Firm's anti-money laundering compliance officer.
3. The Board of Directors receives and reviews the minutes of the Investment Committee. The Investment Committee convenes at least twice per year to discuss and decide on the strategy and the tactics for the Firm's own book, comprised of the facilitation and the proprietary books. The Risk Management Department is represented and consults the Investment Committee by preparing limits for the various books.

3. RISK MANAGEMENT FRAMEWORK OF THE COMPANY

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

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

Risk Management is responsible for 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.

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 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 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 risks are within the company risk appetite.

4. APPROACHES ADOPTED FOR PRUDENTIAL CAPITAL REQUIREMENTS CALCULATION

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

The approaches adopted by the Company are the following:

Table: Approaches adopted for CRR calculation

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

5. CAPITAL BASE

The capital base of the Company as at 31 December 2014 consists of Common Equity Tier 1 (CET1) capital and Tier 2 capital. CET1 is comprised by share capital, share premium, retained earnings and audited income from year 2014. From CET1, the Company deducts its intangible assets. Tier 2 includes only the 80% of the Company's unrealized gains in AFS instruments as per the transitional provisions of Directive D1144-2014-15 of the CySEC.

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

Table: Composition of the capital base of Atonline Limited

Own Funds	Year ended 31/12/2014
	USD ('000)
Common Equity Tier 1 Capital	
Share capital	17
Share premium	9.321
Reserves (Retained earnings)	22.101
Income from current year (audited)	1.612
Total CET1 (before deductions)	33.051

Own Funds	Year ended 31/12/2014
	USD ('000)
CET1 Deductions:	
Intangible assets	- 60
Total Tier 1 Capital (Original Own Funds)	32.991
Tier 2 Capital	
Available for sale financial assets	3
Total Tier 2 capital	3
Total own funds	32.994

6. 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 2014 is shown in the table below:

Table: Capital Requirement by Risk Category

Year ended 31/12/2014		
Risk Category	Regulatory Capital Requirement USD ('000)	RWA USD ('000)
Credit Risk	3.909	48.861
CVA Risk	77	958
Market Risk	3.221	40.269
of which Foreign Exchange risk	2.995	37.438
of which Interest rate risk	1	17
of which Equity risk	225	2.814
of which Commodity risk	-	-
Large exposure in the Trading Book	225	2.809
Operational Risk	918	11.474
TOTAL	8.350	104.371

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 31/12/2014 was **31,61%**.

7. CREDIT RISK

a. Credit risk management

Credit risk is the risk of financial losses resulting from the impossibility of 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 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 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 addition 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 2014, broken down by exposure class:

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

Corporates	Average exposure over period USD ('000)	Year ended 31/12/2014		
		Original Exposure	RWA	Capital Requirement
		USD ('000)	USD ('000)	USD ('000)
Institutions	188.510	22.783	4.362	349
Corporates	128.595	120.741	43.458	3.477
Other items	856	924	924	74
Public sector Entities	10	117	117	9
Total	317.971	144.565	48.861	3.909

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 and Great Britain:

Table: Geographic distribution of exposures

Country	Original Exposure Amount for year ended 31/12/2014				
	USD ('000)				
	Institution	Corporate	Other	Public Sector Entities	Total
Russia	2.745	119.073	84	0	121.902
Bermuda	0	577	0	0	577
UK	14.472	35	0	0	14.507
Cyprus	3.597	34	840	117	4.588
Kazakhstan	0	121	0	0	121
Canada	0	8	0	0	8
Malta	0	5	0	0	5
Germany	42	0	0	0	42
Cayman	0	686	0	0	686
Lithuania	930	0	0	0	930
Netherlands	997	0	0	0	997
Virgin Islands	0	202	0	0	202
BVI	0	0	0	0	0
Total	22.783	120.741	924	117	144.565

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 31/12/2014		
	USD ('000)		
	Financial Services	Other	Total
Institution	22.783	0	22.783
Corporate	120.741	0	120.741
Public Sector Entities	117	0	117
Other	0	924	924
Total	143.641	924	144.565

The residual maturity of all 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 31/12/2014		
	USD ('000)		
	Residual Maturity ≤ 3 months	Residual Maturity > 3 months or no Maturity	Total
Institution	22.783	0	22.783
Corporate	120.741	0	120.741
Public Sector Entities	0	117	117
Other	788	136	924
Total	144.312	253	144.565

With respect to derivatives, the Company calculates its exposure to counterparty credit risk by employing the Mark-to-Market method for its FX swaps, 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 31/12/2014			
	Market Value	PFCE%	Notional amount	Final Exposure
Short term FX Swaps	- 2	1%	114.430	1.237
Total	- 2	-----	114.430	1.237

Exposure type	Amounts in USD ('000), for year ended 31/12/2014	
	Positive Fair Value	Negative Fair Value
Short term FX Swaps	92	- 94
Total	92	- 94

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

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

Table: Standardised approach: Long Term mapping

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

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

Credit quality step	Exposure value pre credit risk mitigation	Net effect of credit risk mitigation (FCCM)	Exposure value after credit risk mitigation
	USD ('000)	USD ('000)	USD ('000)
Credit quality step 1	13.674	- 166	13.508
Credit quality step 2	1.371	0	1.371
Credit quality step 3	3.792	- 3.671	121
Credit quality step 4	89.980	- 47.871	42.109
Credit quality step 5	0	0	0
Credit quality step 6	88	0	88
No Rating	35.660	- 28.240	7.420
Total	144.565	- 79.948	64.617

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.

On the reporting date Russia is still treated as equivalent third country, with a provision coming into force starting from 1st January 2015, which no longer supports Russian status. The company chose to implement these changes starting from December 2014, in order to estimate the impact of such changes to business processes.

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 2014, CySEC has set the number of days past due up to a figure of 90.

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.

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

e. Specific and general credit risk adjustments

General Principles

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

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

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

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

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

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

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

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

- losses recognised in the profit or loss account for instruments measured at fair value that represent credit risk impairment under the applicable accounting framework;
- losses as a result of current or past events affecting a significant individual exposure or exposures that are not individually significant which are individually or collectively assessed;

- losses for which historical experience, adjusted on the basis of current observable data, indicates that the loss has occurred but the institution is not yet aware which individual exposure has suffered these losses.

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

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

8. MARKET RISK

a. Market risk management

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

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

For internal purposes market risk is controlled by means of Value-at-risk methodology. VaR is a function of the market value of a position, the volatility of the particular security / currency held, and the liquidity of the market for that security/currency. To simplify the monitoring of Value at risk, the 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

Table: Market Risk Capital Requirement breakdown

Market Risk	Year ended 31/12/2014
	Minimum Capital Requirement
	USD ('000)
Equities in Trading Book	225
Debt instruments	1
Position in Commodities	0
Total Positions in Non-reporting Currencies and Gold	2.995
Total	3.221

As seen from the above table at 31 December 2014, the Company did not have any open positions in commodities. It was therefore only exposed to foreign exchange (currency) risk, interest rate risk and price fluctuations of position in Trading Book. All of these are exposed to general and specific market risk. Foreign exchange risk is defined as the occurrence of losses caused by negative fluctuations of the exchange rate of one currency in relation to the other, and arises from the 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 2014, the market risk minimum capital requirements due to foreign exchange risk (open foreign currency positions) was \$2.995 thousand.

Interest rate risk can be defined as the possibility of a reduction in the value of an investment, resulting from a change in the interest rates. As at 31 December 2014 the Company was exposed to interest rate risk through its repo and reverse repo contracts, which it books in the Trading Book. Nevertheless, due to the very short-term maturity of these positions, the interest rate risk is negligible. In addition, the company incurs interest rate risk on its positions in market traded debt instrument. However, such positions were small and the minimum capital requirement for Market TDI risk was only \$1 thousand.

Company's exposure to own positions in the Trading book as at 31 December 2014 had minimum capital requirement of \$225 thousand, Trading Book portfolio consists of highly liquid securities, purchased with trading intent, as can be seen from the Table below, the most significant exposures being noted in USA and Great Britain

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

Country	long USD ('000)	Short USD ('000)	Capital Requirements USD ('000)
Russia	35	-	6
USA		45	7
OTHER	1.327	0	212
Total	1.362	45	225

9. LIQUIDITY RISK

There are two different types of liquidity risk for 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.

10. OPERATIONAL RISK

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

The operational risk framework adopts a bottom up approach to identifying operational risks within each business area and considers the impact and probability of the risk occurring. Consideration is then given to the controls in place to mitigate the risks. A strategic risk profile then takes a top down assessment of risks which culminates in the creation of a risk map showing the current assessment of operational risks within the 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 31/12/2014	
	RWA USD ('000)	Minimum Capital Requirement USD ('000)
Basic Indicator Approach (BIA)	11,474	918

11. LEVERAGE RATIO

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

The leverage ratio is set at a 3% limit during the testing phase.

The disclosure of the leverage ratio and its components will commence from 1 January 2015.

12. 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 limiting system adopted by the Company which ensures that single-name concentrations are reduced to minimum.

13. 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 capital cushion for further business expansion.

In performing its ICAAP, the Company has adopted the “Pillar I Plus” approach.

The ICAAP is determined using the following steps:

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

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

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

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

Establishment of the Remuneration Committee (herewith “Committee”)

Atonline Limited’s management body, the Board of Directors, is responsible for the adoption, periodic review and implementation of the Remuneration Policy. The Board of Directors, approved, at the meeting that took place on 25 December 2012, the Remuneration Policy that was prepared by Management based on the relevant provisions of Directive DI144-2014-14 For The Prudential Supervision Of Investment Firms and of European Regulation No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (herewith “Remuneration Rules”). The Remuneration Policy has ever since been amended on several occasions. On the 24th of April, 2015 the Board of Directors approved the latest version of the Remuneration Rules that were amended to facilitate the recently revised Remuneration Rules.

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

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

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

Composition of the Committee

The Remuneration Committee is comprised of the following persons:

- The non-executive members of the Board of Directors. In compliance with the provisions of paragraph 22(2) of Directive DI144-2014-14, the remuneration committee is Chaired at each meeting by a non-executive member of the Board of Directors.
- One of the two persons who effectively direct the business of the Firm
Or
- One of the General Manager or the COO / CFO (if not the same as the persons who effectively direct the business of the Firm)

The Remuneration Committee is advised by the following persons:

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

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

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

Voting rights

Each member of the Remuneration Committee carries one voting right. Through its composition (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 Firm has not employed external consultants for the determination of the remuneration policy. Nevertheless, the remuneration policy, in accordance with the Remuneration Rules, is “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 Firm has mandated KPMG Ltd for the performance of the independent internal review of the Remuneration Policy. The mandate includes the review of:

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

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

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

In addition, the assessment of the performance of each employee is set in a multi-year framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of the investment firm and its business risks. The Firm has opted for a three-year framework, based on the rationalisation that on average, in recent years, a full economic cycle spans over a period of three years.

In order to ensure the integrity and impartiality of persons employed in the Risk Management or the Compliance departments, the remuneration and / or any bonus paid to such persons are determined independently of the profitability of the departments supervised by the Department.

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

Important design characteristics

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

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

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

In order to ensure that the remuneration policy achieves on the one hand its objectives of promoting steady and continuous performance, while at the same time, it restricts undesired short-termism, and in order to avert the possibility that the measures adopted as part of the remuneration policy act as a counterincentive to performance, the more stringent provisions of the remuneration policy are subject to proportionality thresholds (herewith “Proportionality Conditions”).

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

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

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

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

Deferral Policy

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

- ▀ The deferred portion of the variable remuneration is set to forty percent (40%), and shall be subject to annual review.
- ▀ An increased deferral ratio of sixty (60%) shall apply for amounts of variable remuneration where the total remuneration is at least 1.5 times the amount established in the Proportionality

Conditions. The amount or methodology for determining “particularly high amounts” shall be subject to annual review.

- The deferral period is set to three (3) years, on the ground that on average, a full economic cycle lasts for three years. The deferral period shall be subject to annual review.
- If the cumulative value of the deferred variable remuneration is such that it warrants the creation of provisions to cater for such liabilities, care of the Head of the Risk Management Department and the COO / CFO, a decision shall be reached on the matter, taking into account the Performance Adjustment provisions.
- If an employee leaves the Firm before the due time for the payment of the deferred part of the bonus, the Firm shall pay to the said employee the adjusted value, as the case might be subject to the Performance Adjustment provisions, of the deferred cash bonus payment in proportion to the time that has elapsed between the approval of the bonus divided by the deferral period. The number of notes and convertibles the said employee is entitled to shall be adjusted accordingly, and the said notes and convertibles will render payable at the time of departure of the said employee.
- The provisions of paragraph 5 here above shall also apply in cases where the employee is made redundant.
- In cases where an employee is fired, the treatment will depend on the reasons the said employee was fired and whether the deferred part of the bonus will be forgone, as per the Performance Adjustment provisions. If the payment of the deferred part of the bonus will not be totally forgone, the adjustment of paragraph 5 here above shall apply to the adjusted value of the deferred bonus.

Risk Adjustment

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

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

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

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

d. Information on the ratios between fixed and variable remuneration

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

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

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

In respect of persons employed in control departments like compliance, risk management and where applicable, internal audit, it is advisable that the fixed component of the total remuneration (salary) is set at a sufficiently high amount, to ensure the impartiality and integrity of the said persons. In relation to the actual proportion of variable remuneration to total remuneration, it is advisable that the ratio of variable remuneration to total remuneration is pegged at a lower level than the one for persons employed in profit centers, partly to compensate for the need to offer to

persons employed in control functions comparatively higher salaries and on the other hand to ensure that such persons do not have an incentive to allow or tolerate excessive risk taking behavior by risk takers.

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

1. The salaries of persons employed in control functions shall be set at a sufficiently high level to ensure their impartiality. The variable component of total remuneration, if any, shall, as a general rule, not exceed 20% of the annual salary of the year on which the determination of the variable remuneration was based.
2. For persons employed in profit centers, the fixed remuneration component shall be set at a sufficient level to ensure that such persons can attain a reasonable standard of living in case no bonus payment will be made. In the case of such persons, the variable component of total remuneration can exceed, where appropriate the indicative level proposed for persons in control functions, but shall not, as a general rule, exceed the percentage level of 33% of total remuneration set as Proportionality Condition.
3. The proposed ceiling for variable remuneration proposed in point 1 here above, shall, as a general rule, apply for all other persons that are employed in support functions.
4. As a general rule, the variable remuneration of any person shall not exceed 100% of the fixed component, or any other ceiling set by the Remuneration Rules from time to time. In the unlikely event that, in exceptional and extraordinary circumstances, it is desirable that the said threshold is exceeded, care of the General Manager and the Head of Compliance, the provisions of paragraph 21(g) of Directive DI144-2014-14 must be upheld in full.

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

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

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

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

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

In the case of employees employed in cost centers (the definition of cost center also includes personnel employed in control functions, like compliance and risk management), the Key Performance Indicators are associated with the quality of the performance of the actual task at hand and the contribution of each employee in the attainment of the department’s outcome or progress.

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

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

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

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

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

1. The Firm shall not declare any bonuses for any particular year when the Firm has incurred a financial loss. If exemplary situations pertain (for example, due to the efforts of one employee, the losses have been minimized), the person who proposes or initiates the payment of the bonus must duly justify this proposal in a memorandum addressed to the Remuneration Committee. The Remuneration Committee shall deliberate on such matters and the Board of Directors has the prerogative of taking the final decision.
2. The size of the total pool of bonuses should be such that the payment of the said bonuses should not force the Firm's Capital Adequacy Ratio to decrease below the minimum Capital Adequacy Ratio (currently set at 8%) plus a margin of 5%.
3. As a general rule, the Firm shall not create an obligation to pay variable remuneration or discretionary pension benefits, nor pay variable remuneration if the Firm does not meet the combined buffer requirement.

Table: Aggregate quantitative information on remuneration, broken down by business area:

Business area	Total remuneration (USD) ('000)
Brokerage	35
Own account dealing	57
Investment advice	223
Corporate finance	35
Other staff	382
Total	732

f. 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) ('000)			
Fixed Remuneration	Number of beneficiaries	Variable Remuneration	Number of beneficiaries
484	7	164	3
Other staff in risk taking positions (USD) ('000)			
Fixed Remuneration	Number of beneficiaries	Variable Remuneration	Number of beneficiaries
80	2	4	1

- (ii) The amounts and forms of variable remuneration, split into cash, shares, sharelinked instruments and other types;

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

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

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

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

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

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

No sign-on payments have been awarded during the year 2014. A severance payment of the amount of GBP36.641 (EUR47.042) was paid to one former employee.

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

The amount of severance payment stated in section (v) hereabove was awarded and paid in 2014 to a single beneficiary.

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

No individual has been remunerated with an amount that equals or exceeds the value of EUR 1million for 2014.

APPENDIX

I. Balance sheet reconciliation

Balance Sheet Description, as per published financial statements	Year ended 31/12/2014
	USD ('000)
Share capital	17
Share premium	9.321
Retained earnings	23.713
Fair value reserves	4
Total Equity as per audited financial statements	33.055
Adjustments to CET1 due to transitional provisions and other CET1 deductions	
(-) Unrealised gains on AFS instruments (100%)	-4
(-) Intangible assets	-60
Total Common Equity Tier 1	32.991
Adjustments to Tier 2 due to transitional provisions	
Unrealised gains on AFS instruments (80%)	3
Total Tier 2 capital	3
Total regulatory own funds	32.994

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

At 31 December 2014	Transitional Definition	Full - phased in Definition
	USD'000s	USD'000s
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	9.338	9.338
Retained earnings	23.713	23.713
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	4	4
Funds for general banking risk	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	33.055	33.055
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	- 60	- 60
Regulatory adjustments relating to unrealised gains and losses	- 4	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	- 64	- 60
Common Equity Tier 1 (CET1) capital	32.991	32.995
Additional Tier 1 (AT1) capital		
	-	-
Tier 1 capital (T1 = CET1 + AT1)	32.991	32.995
Tier 2 (T2) capital before regulatory adjustments		
	-	-
Tier 2 (T2) capital: regulatory adjustments		
Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	3	-
Total regulatory adjustments to Tier 2 (T2) capital	3	-
Tier 2 (T2) capital	3	-
Total capital (TC = T1 + T2)	32.994	32.995
Total risk weighted assets	104.371	104.371
Capital ratios and buffers		
Common Equity Tier 1	31,61%	31,61%
Tier 1	31,61%	31,61%
Total capital	31,61%	31,61%

Definitions:

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

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

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