DISCLOSURES IN ACCORDANCE WITH THE DIRECTIVE FOR THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS FOR THE YEAR ENDED 31 DECEMBER 2016

May 2017

CONTENTS

1 Introduction

Company Incorporation and Principal Activities

BDSwiss Holding Plc ("the Company") was incorporated in Cyprus on 23 January 2012 as a limited liability company under the Companies Law, Cap. 113. The Company through its licensed brand BDSwiss Holding Plc, is an innovative consumer trading company providing to its clients binary option trading in relation to stocks, currencies, indices and commodities. Since 31 May 2013 the Company is authorized and regulated as a Cyprus Investment Firm ("CIF") by the Cyprus Securities and Exchange Commission ("CySEC"), under the Investment Services and Activities and Regulated Markets Law of 2007 (Law 144(I)/2007), with License Number 199/13. Since March 2016 the company has added CFDs and Forex Trading facilities to its client's offering, and has increasingly shifted its attention to this product segment. Its user and income base has changed accordingly toward CFDs and Forex.

The Company is authorized to provide the following investment and ancillary services, in the financial instruments specified below:

Investment Services	Ancillary Services	Financial Instruments
1. Reception and transmission of orders in relation to one or more financial instruments 2. Execution of orders on behalf of clients	1. Safekeeping and administration of financial instruments, including custodianship and related services 2. Foreign exchange services where these are connected to the provision of	1. Transferable securities 2. Money-market instruments 3. Units in Collective Investment Undertakings (CIUs) 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

Investment Services	Ancillary Services	Financial Instruments
	investment services	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 or/and an MTF 7. Options, futures, swaps and any other derivative contracts relating to commodities that can be physically settled not otherwise mentioned in paragraph 6 of Part III 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 clearing houses or are subject to regular margin calls 8. Derivative instruments, the transfer of credit risk 9. Financial contracts for differences 10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of the parties (otherwise than by reason of a default or other termination event), as well

Investment Services	Ancillary Services	Financial Instruments
		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 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 are subject to regular margin calls

Regulatory framework

The Management of BDSwiss Holding Plc, in accordance with the provisions of Part Eight 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 (hereinafter the “Regulation”) and paragraph 32(1) of DI144-2014-14 of the CySEC for the prudential supervision of investment firms, has an obligation to publish information relating to risks and risk management on an annual basis at a minimum.

Disclosure Policy

This document represents the Pillar 3 disclosures of BDSwiss Holding Plc for the year ended 31st December 2016. Enhancing the capital requirements framework, the Pillar 3 introduces the obligation to provide to the public a market disclosure and discipline report. The purpose of this report is to inform the public and other market participants of the key components, scope and effectiveness of the Company’s risk measurements, risk profile and capital adequacy, thus promoting market discipline and improving transparency to market participants.

Frequency

The Company’s policy is to publish the Pillar 3 disclosures on an annual basis. The frequency of disclosure will be reviewed should there be a material change in the approach used for the calculation of capital, business structure or regulatory requirements.

Medium and location of publication

The Company's Pillar 3 disclosures are published on the BDSwiss Holding PLC website (https://www.bdswiss.com/en/).

Verification

The Company's Pillar 3 disclosures are subject to internal review and validation prior to being submitted to the Board for approval. In addition, their adequacy and accuracy is verified by the Company's external auditor and are submitted to CySEC together with the auditor's opinion the latest by 31st of May of each year.

Non-material, proprietary or confidential information

This document has been prepared to satisfy the Pillar 3 disclosure requirements as these are set out in the Regulation. The Company does not seek any exemption from these requirements on the basis of materiality or on the basis of proprietary or confidential information.

Scope of Disclosures

As at 31 December 2016, the Company owned the following entities:

Name	Country of incorporation	Principal activities	Holding	Exposure amount (€)
BDSwiss GmbH	Germany	Sales & customer support	100%	8.624
BDS Media GmbH	Austria	Marketing	100%	-
BDSwiss Labs A.E.	Greece	Research & development	100%	-
BDSwiss LLC	United States	Introducing Broker	100%	50.835
Total				**59.459**

The Company is not required by the Cyprus Companies Law, Cap.113, to prepare consolidated financial statements because the Company and its subsidiaries constitute a small sized group as defined by the Law and it therefore does not intend to issue consolidated financial statements for the

year ended 31 December 2016. As a result, the Pillar 3 disclosures relate solely to information of the Company.
The company periodically evaluates the recoverability of investments in subsidiaries whenever indicators of impairment are present.

As at year ended, the Company has tested the investment in BDS Media GmbH and BDSwiss Labs A.E. and decided to fully impair the investments by €67.860.

As at year ended, the Company has tested the investment in BDSwiss LLC and BDSwiss GmbH and decided to impair the investments by €6.891 and €13.358 respectively.

2 Governance, Risk Management Objectives and Policies

2.1 Board of Directors

The Board of Directors is responsible for overlooking the operations of the Company.

The main responsibilities of the Board of Directors are:

- Ensure that the Company complies with its obligations under the legislation.
- Periodically assess and review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the applicable legislation and to take appropriate measures to address any deficiencies.
- Set the strategy and ensure the continuing operations of the Company.
- Meet on a frequent basis to ensure that operational and strategic issues are discussed and issue guidance to the Senior Management and the heads of departments.
- Ensure that written reports concerning internal audit, compliance and risk management are received on a frequent basis, and at least annually, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.
- Address any issues raised by the regulators and define the action to be taken in case corrective measures are required.

As at 31 December 2016 the Company's Board of Directors consisted of three executive members and two non-executive member. The Chairman of the Board is an Executive Director.

2.2 Number of Directorships held by Board members

The table below presents the number of directorships each member of the Company's management body holds at the same time in other entities. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below. It shall be noted that, the Company is not considered significant in terms of its size, internal organization and the nature, scope and complexity of its activities.

Name	Number of Executive Directorships	Number of Non-Executive Directorships
Mr. Jan Eric Malkus	3	1
Ms. Tatiana Kyriakidou	-	-
Mr. Konstantinos Tsoraklidis	3	-
Mr. Pieris Hadjipieris	-	4
Mr. Dimitris Christoforou	-	2
Mr. Stefanos Mitsi	2	-

Note: The information in this table is based only on representations made by the Company.

On 17 March 2016 Mr. Stefanos Andreas Mitsi and Mr. Dimitris Christoforou were appointed as members in the Board of Directors and on 18 May 2016, Ms. Tatiana Kyriakidou resigned from her position as a member of the Board of Directors of the Company.

2.3 Recruitment Policy

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework.

Board recruitment is subject to the approval of the CEO, the Chairman and the senior Non-Executive Director. Regulatory approval is coordinated through the Compliance Officer.

Reference is made to the most recent Board Skills review to establish the specific experience and skills needed to ensure the optimum blend of individual and aggregate capability having regard to the Company's long term strategic plan.

2.4 Diversity Policy

The Company is committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognising that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organisation. The Directors of the company will be responsible for ensuring there is an appropriate balance of skills and experience across the Board.

2.5 Risk Management Function

For the year 2016, the Risk Management Function was carried out by an Executive Director of the Company.

The Company establishes, implements and maintains adequate risk management policies and procedures which identify the risks relating to its activities, processes and systems.

The Company's Risk Management Function operates independently and is responsible for implementing the Risk Management Policy set by the Board of Directors, as well as for ensuring that it is properly followed under the supervision and control of the Risk Manager.

Responsibilities of the Risk Manager

- Identify and evaluate the fundamental risks faced by the Company.
- Adopt and implement effective arrangements and procedures to manage all types of risks that arise due to the Company's operations in respect of the level of risk tolerance.
- Monitor the adequacy and effectiveness of the Company's risk management policies and procedures.
- Identify and evaluate the fundamental risks faced by the Company.
- Monitor the level of compliance by the Company and the persons employed to the measures and arrangements set for the managing of the risk exposures of the Company.
- Monitor the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant

persons of the Company to comply with such arrangements, processes and mechanisms or follow such policies and procedures.

- Produce all the required reports related to the risks the Company is exposed to, as well as the documents that are required by the applicable regulatory framework to be submitted to CySEC, and keep records of these reports. Furthermore, where applicable and required, the Risk Manager should provide advice to the Senior Management of the Company in relation to any potential deficiencies and suggest remedial measures so as to be in full compliance with the Law.
- Undertake a quarterly review of effectiveness of the system of internal control and provide a report to the Senior Management

Compliance Officer

The Compliance Officer role is outsourced to an external firm. The Company intends to uphold the strictest rules in order to ensure high ethical and professional standards, both in terms of managers and staff.

The Duties of the Compliance Officer include the following:

- To monitor and to assess the adequacy and effectiveness of the measures and procedures put in place, and the actions taken to address any deficiencies in the Company's compliance with its obligations under the applicable legislation.
- To advise and assist the relevant persons responsible for carrying out investment services and activities to comply with the Company's regulatory obligations.
- To undertake a programme of work, based on the Internal Procedures Manual which details the controls that the Company should have in place.

The Compliance Officer reports to the Senior Management and Board of Directors at least annually, on the compliance of management and staff with regulatory requirements and supervisory expectations, as well as with internal policies and procedures, pointing out any weaknesses in compliance and any deficiencies in the relevant policies and their implementation.

Internal Audit Function

The Company, taking into consideration the nature, scale and complexity of its operations, as well as the investment services and activities provided, establishes, implements and maintains adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the Company. The Internal Audit Function is independent from all other functions of the Company.

The Internal Audit Function has the following responsibilities:

- Establish, implement and maintain an audit plan with the purpose of examining and evaluating whether the Company's systems, internal control mechanisms and agreements are adequate and effective and comply with the legal framework.
- Issue recommendations based on the result of the audit plan's examinations.
- Verify compliance with any potential recommendations.
- Provide timely, accurate and relevant reporting in relation to internal audit matters to the Board and the Senior Management of the Company, at least annually. The internal audit report shall be presented to the Board for review and discussion. The minutes of the meeting along with the report shall be submitted to CySEC within twenty days from the date of the meeting.

Furthermore, the Internal Auditor shall have clear access to the Company's personnel and books. Likewise, the Company's employees shall have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided.

2.6 Information Flow on Risk to Management Body

All risks relating to the Company's activities and operations are communicated to the Management body through the following reports which are prepared annually and reviewed and approved by the Board:

- Annual Risk Management report
- Annual Internal Audit report
- Annual Compliance Officer report
- Annual AML Compliance Officer report
- Financial Statements

2.7 Board Declaration

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives and, as such, offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

2.8 Internal Capital Adequacy Assessment Process

Capital adequacy is monitored by the financial controller with quarterly reporting provided to the Board and to CySEC. In addition, capital planning forms a key element of the Company's budgeting, whereby the financial controller prepares a forward looking capital plan which is approved by the CEO and the Board. The capital plan ensures that the Company has sufficient Own Funds to support the business and strategic objectives. The first year of the plan is revised for each reforecast and reported monthly to the CEO and the Board. The Internal Capital Adequacy Assessment Process ("ICAAP") considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against them both currently and in the future.

The company is considering the time and requirements in order to initiate the establishment of an ICAAP report.

2.9 Risk Statement

The Company's Risk Statement is provided in Annex I. This is approved by the Board and describes the Risk Appetite and its link to the overall strategy. The Board maintains a Risk Appetite which is regularly monitored with formal reviews of the risk measures in conjunction with the long term planning process. During the year the risk profile of the Company has been maintained within the key financial exposure limits.

3 Own Funds

Table 1: Composition of the Capital Base of BDSwiss Holding Plc

Own Funds Components	31 Dec 2016 €'000
Eligible Own Funds	
Share capital	230
Retained Earnings	2.046
Audited Profit for the period	448
Funds for general banking risk (shareholder contribution)	1.334
Total Own Funds before Deductions	***4.058***
Own Funds Deductions	
Intangible Assets	(1.364)
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(43)
Original Own Funds (Tier 1 Capital)	**2.651**

Capital management

The Company aims to operate at all times over and above the minimum capital requirements and maintains a prudent level of capital for both short and long term requirements.

The Own Funds of the Company as at 31st December 2016 consisted solely of Core Tier 1 Capital. The Company's CET1 capital includes share capital and reserves, less the contribution to the Investors Compensation Fund, less intangible assets which is deducted in accordance with CySEC's Circular C162 issued on 10/10/2016.

Capital Adequacy Ratio

The Capital Adequacy Ratio as reported to CySEC for the year ended 31 December 2016 was 56,03%, well above the minimum regulatory requirement of 8%.

Large Exposures

As at 31st December 2016 the Company's total exposure to its group entities, namely BDSwiss GmbH, BDS Media GmbH, BDSwiss Labs A.E. and BDSwiss LLC exceeded the large exposure limits to shareholders and their connected persons, as these are set out in paragraph 61 of CySEC's Directive

144-2014-14. The Company plans to take action to reduce this exposure within the allowable limits by 30 June 2016.

4 Minimum Capital Requirements

The total capital requirements of the Company as at 31st December 2016 amounted to €378 thousand and are analyzed in Table 2 below:

Table 2: RWA & Minimum Capital Requirements

Risk Type 31 Dec 2016	Risk Weighted Assets €'000	Minimum Capital Requirements €'000
Credit Risk	2.156	173
Market Risk	-	-
Operational Risk (based on Fixed Overheads)	4.731	378
Total RWA / Capital Requirements	**4.731**	**378**

The Company follows the Standardized Approach for the measurement of its Pillar 1 capital requirements for Credit and Market Risk and the Fixed Overheads Approach for Operational Risk. The capital requirement calculated for each category of risk as at 31 December 2016 is shown in the table above. As at 31st December 2016, the Company did not have any collaterals or guarantees, and therefore did not make use of Credit Risk Mitigation techniques.

4.1 Credit Risk

General

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has credit exposure to the banks with which it deposits funds and the market counterparties with which it trades on own account.

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

- Performing regular credit review of all counterparties, and
- Diversifying its funds over several European banks and is choosing banks that were awarded by with high ratings by recognised credit rating agencies.

For calculating its credit risk capital requirement, the Company uses the standardized approach. The following table represents the Company's Risk Weighted Assets ("RWA") and minimum capital requirements as at 31 December 2016, broken down by asset class:

Table 3: Credit Risk Summary

Asset Class	Risk Weighted Assets €'000	Minimum Capital Requirement €'000
Corporate	18	1
Institutions	294	24
Other Items	244	20
Retail	1.399	112
High Risk	74	6
Equity	127	10
Total	**2.156**	**173**

The following table provides information on the average exposures of the Company's asset classes as at 31/12/2016 as well as on the total amount of exposures after accounting offsets:

Table 4: Average exposures and total amount of exposures after accounting offsets

Asset Class	Original exposure amount, net of specific provisions €'000	Average exposure €'000
Corporate	18	115
Institutions	1.293	912
Other Items	244	160
Retail	1.866	2.036
High Risk	50	12
Equity	51	13
Total	**3.522**	**3.248**

The following table provides information on the residual maturity of the Company's credit risk exposures as at 31/12/2016:

Table 5: Residual Maturity of credit risk exposures, broken down by exposure class

Asset Class	Up to 3 months €'000	More than 3 months €'000	Total €'000
Corporate	-	18	18
Institutions	1.293	-	1.293
Other Items	-	244	244
Retail	-	1.866	1.866
High Risk	-	50	50
Equity	-	51	51
Total	**1.293**	**2.229**	**3.522**

The table below illustrates the geographic distribution of the Company's exposures as at 31/12/2016:

Table 6: Geographic Distribution of exposures

Asset Class	Cyprus €'000	Germany €'000	USA €'000	Total €'000
Corporate	18	-	-	18
Institutions	27	1.266	-	1.293
Other Items	244	-	-	244
Retail	1.866	-	-	1.866
High Risk	11	39	-	50
Equity	-	-	51	51
Total	**2.166**	**1.305**	**51**	**3.522**

The following table shows the distribution of the Company's exposures by industry type as at 31/12/2016:

Table 7: Distribution of exposures by industry

Asset Class	Financial €'000	Other €'000	Total €'000
Corporate	-	18	18
Institutions	1.293	-	1.293
Other Items	-	244	244
Retail	-	1.866	1.866

Asset Class	Financial €'000	Other €'000	Total €'000
High Risk	-	50	50
Equity	-	51	51
Total	**1.293**	**2.229**	**3.522**

Use of External Credit Assessments Institutions' (ECAI) Credit Assessments for the determination of Risk Weights

Institutions

For the credit ratings of Institutions, the Company uses the sovereign ratings of Standard & Poor's to rate its exposures, matching the external rating of the government of the country where each institution is incorporated with the corresponding Credit Quality Step ("CQS"), according to the provisions of the Regulation.

Public Sector Entities

The Company's exposure to Public Sector Entities included its contribution to the Investors Compensation Fund, which is unrated, and was therefore assigned a 100% risk weight.

Other Items

A risk weight of 100% was applied to Other Items, with the exception of petty cash, which received a 0% risk weight.

An analysis of the exposure by CQS is provided in the table below:

Table 8: Exposures before and after credit risk mitigation by credit quality step

Asset Class	CQS 6	N/A	Total
Corporate	-	18	18
Institutions	27	1.266	1.293
Other Items	-	244	244
Retail	-	1.866	1.866
High Risk	-	50	50
Equity	-	51	51
Total	**27**	**3.495**	**3.522**

4.2 Operational Risk

General

Operational risk is the risk that derives from the deficiencies relating to the Company's information technology and control systems as well as the risk of human error and natural disasters. The Company's systems are evaluated, maintained and upgraded continuously.

The Company's operations are highly dependent on technology and advanced information systems. Its ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of the business. Such dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. The Company has business continuity procedures and policies in place which are designed to allow the Company to continue trading in its core markets and its systems are designed to mitigate the risk of failure of any component.

Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that where possible multiple providers and data routes are utilized. To remain competitive, the Company must continue to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

Capital Requirements

The Company applies the Fixed Overhead Approach for calculating the amount of capital required under the minimum regulatory capital requirements for operational risk. The minimum capital requirement under this approach amounts to €378 thousand (see Table 2).

4.3 Market Risk

General

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. Market risk changes in line with fluctuations in market prices, such as foreign exchange rates, interest rates, equities and commodities prices. These market prices affect the Company's income or the value of its holdings of financial instruments.

Foreign exchange risk

The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis. As at 31st of December 2016, the foreign exchange exposures did not generate any capital requirement for the Company.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company considers interest rate risk to be significantly low.

4.4 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The company considers liquidity risk to be significantly low.

4.5 Compliance risk

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

4.6 Reputation risk

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company by Clients, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large Clients, poor Client service, fraud or theft, Client claims, legal action, regulatory fines and from negative publicity relating to the Company's operations whether such fact is true or false.

5 Remuneration

The remuneration of the members of the Board of Directors and other staff to be subject to non-variable remuneration which consists of a fixed annual amount equally divided to 12 monthly instalments. Such fixed amounts vary taking into consideration each member's and employee's experience and qualifications and will be independent from the business performance.

The Internal Compliance function will be involved in the design of the remuneration policies and practices in order to ensure implementation of the legislative and regulatory requirements. More specifically, the Internal Compliance function will have access to all relevant documents and will participate in the periodic review of the remuneration policies and practices which will be performed annually.

The table below provides information on the remuneration of Senior Management and other staff whose activities have a material impact on the risk profile of the Company, broken down by fixed and variable remuneration. During the year 2016 the Company provided variable remuneration in form of bonus.

Table 9: Aggregate Remuneration by Senior Management and Other Staff

Fixed and Variable Remuneration by Senior Management and Other Staff (€ '000)				
Position / Role	**No. of staff**	**Fixed**	**Variable**	**Total**
Senior Management	6	209	-	209
Other Staff	42	577	3	580
Total	**48**	**786**	**3**	**789**

Senior Management includes the Executive Directors, the heads of control functions, the Head of Dealing and the Head of the Sales Department. Three members of the Board are not remunerated by the Company. The fees of non-executive directors include fees payable to them as members of the Company's Board as well as for being members of the Board's committees. They include the fees for the period that they serve as members of the Board.

The aggregate remuneration of the Company's risk takers and other staff whose activities have a material impact on the risk profile of the Company, for the year ended 31st December 2016, broken down by business area, is as follows:

Table 10: Aggregate Remuneration by Business Area

Annual Aggregate Remuneration by Business Area (€ '000)	
Business Area	**Aggregate Remuneration**
Control Functions	270
Dealing and Marketing & Sales	86
Total	**356**

Appendices

ANNEX I: Risk Appetite Statement

The Company needs to clearly define its **risk appetite** which provides the directors, senior management and staff with a framework which facilitates the identification and management of both risks and opportunities. Clear and concise strategic objectives should underpin the Risk Appetite Statements. Even though this implies that risk appetite and strategy are interlinked, it is clear that one does not lead the other; risk appetite and strategic planning occur and evolve in parallel. An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the board and management confidence to avoid risks that are not in keeping with the strategic objectives. In line with the above, the Company, after the approval by the Board of Directors, can set its own definition of risk appetite most likely as: "*The aggregate level and types of risk a Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan*". The Risk Appetite Statement is the formal articulation of the Company's willingness to take on certain risks and avoid or minimize other risks in the pursuit of its strategic objectives. Furthermore, the Risk Capacity is the maximum amount of risk which the Company is technically able to assume before breaching one or more of its capital base, liquidity, and borrowing capacity, reputational and regulatory constraints. In regards to the above, setting the corporate risk appetite without taking into account the risk capacity of the entity may have serious consequences. The board and management should understand how the risk capacity impacts on the business. Risk capacity may be easy to quantify in terms of capital or required funding but it is more challenging to consider the point at which the Company's reputation is beyond repair. The Board needs to understand the risk capacity of the Company prior to framing strategy and setting risk appetite. The risk capacity represents the upper limit beyond which a breach is likely to result in failure (see figure below).

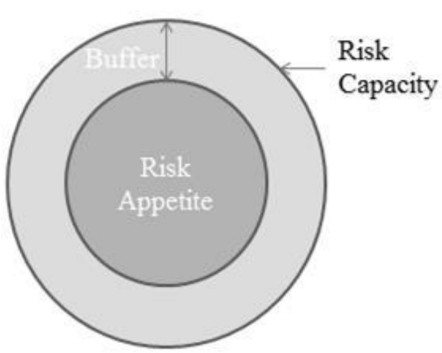

Figure: Risk Appetite vs Risk Capacity

It is sound practice for the Company to set a series of buffers around risk appetite due to the fact that a breach does not necessitate the failure of an institution. These buffers become an important management information tool in that they assist in the identification and communication of adherence to or breaches of stated risk appetite, which taken in aggregate may result in a breach of risk capacity. Further to the above, **risk tolerance** refers to the acceptable variability around the risk limit. There will be many reasons why some tolerance around limits is appropriate. In all cases, however, the Board should have a clear understanding of how much risk it is willing to tolerate against the level of risk that it is willing to accept. The Board may consider building both upper and lower tolerance bands around risk limits. This is to ensure that the Company is taking sufficient risk in order to achieve strategic goals. Further to risk appetite, the Company needs to clearly define its **risk tolerance** which provides the directors, senior management and staff with a framework which facilitates the identification and management of both risks and opportunities. Once the Company's risk appetite is developed and communicated throughout the Company, it is advisable to be revisited in frequent intervals by the senior management and the Board of Directors should intervene with discussions and possible future changes. As the Company progresses towards its strategic goals, the senior management should monitor all employees in order to always communicate efficient mitigation practices for controlling the Company's risk appetite. Therefore, the Company needs to periodically review the application of risk appetite through a series of monitoring activities. Management should monitor the Company's activities for consistency with risk appetite through the specifics identified with risk tolerances. In line with the above and the context of this report it is our opinion that the Company should establish key performance risk metrics for monitoring performance which could also be used for internal auditing purposes.

ANNEX II: Transitional Own Funds Disclosure

At 31 December 2016	Transitional Definition €'000	Full - phased in Definition €'000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	230	230
Retained earnings	2.494	2.494
Accumulated other comprehensive income (and other reserves, to include unrealized gains and losses under the applicable accounting standards)	-	-
Funds for general banking risk	**1.334**	**1.334**
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**4.058**	**4.058**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(1.364)	(1.364)
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(43)	(43)
CET instruments of FSE where the institution has a significant investment		
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(1.407)**	**(1.407)**
Common Equity Tier 1 (CET1) capital	**2.651**	**2.651**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**2.651**	**2.651**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**2.651**	**2.651**
Total risk weighted assets	**4.731**	**4.731**
Capital ratios and buffers		
Common Equity Tier 1	56,03%	56,03%
Tier 1	56,03%	56,03%
Total capital	**56,03%**	**56,03%**

ANNEX III: Balance Sheet Reconciliation

Balance sheet reconciliation	**2016 €'000**
Capital and reserves	
Share capital	230
Retained Earnings	2.046
Special reserve (shareholder contribution)	1.334
Total Equity as per Audited Financial Statements	**3.610**
Profit for the audited period	448
Intangible assets	(1.364)
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(43)
Total Own funds as per CoRep	**2.651**