



Risk Management Disclosures 2016

1. INTRODUCTION

According to the Cyprus Securities and Exchange Commission (“CySEC”) paragraph 32(1) of Part II of the Directive DI 2014-144-14 (the “Directive”) for the Prudential Supervision of Investment Firms, **Axia Ventures Group Ltd** (the “Company”) and its subsidiaries (the “Group”) has an obligation to disclose information on a consolidated basis relating to risks and risk management on an annual basis at a minimum as per Part Eight of regulation (EU) No 575/2013 “Disclosure By Institutions”.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. The financial statements of the Company incorporate the results, position and cash flows of the Company's Branches "Axia Ventures - Athens Branch" which is registered and operates in Greece and "Axia Ventures (Group) Ltd - Lisbon Branch", which is registered and operates in Portugal.

The financial statements are the separate financial statements of the Company. 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 medium sized group as defined by the Law and the Company does not intend to issue consolidated financial statements for the year ended 31 December 2016.

3. CREDIT RISK

In the ordinary course of business, the Group is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises when a failure of parties to discharge their obligations could reduce the amount of future cash inflows from financial assets at the reporting date.

Some concentrations of credit risk with respect to trade receivables exist due to the small number of clients. Trade receivables are shown net of any provision made for impairment of the receivables. Due to this factor, the management believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in the trade receivables.

The Risk Management Department has also implemented effective controls and procedures so as to minimize the risk of banking with various financial institutions. More specifically, the Group’s policies to limit the amount of credit exposure to any financial institution include the following:

- a) The Risk Management Department monitors the credit ratings of credit institutions on a quarterly basis.

- b) The Group's research department monitors the banking system in Greece and Cyprus very closely as evidenced by the various reports it prepares and issues. This information is also received and reviewed by the Risk Manager in order to assess possible risks and impacts on the Group.
- c) The Group has established long-term relationships with all its banks and has direct communication with their top management.

The above measures have ensured that the Group has very successfully managed to retain active banking accounts in Cyprus and Greece without: (a) affecting its operational capacity and its capability to carry out stock exchange trades for its clients in both countries (Cyprus and Greece) in line with best execution principles, and (b) suffering any undue complications in Cyprus or Greece during critical times, when both countries went through significant political and economic turmoil, capital controls and the first deposit haircut in the EU (in Cyprus).

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk.

Capital requirement for Credit Risk under the Standardised Approach for 31 December 2016 (€'000)					
Asset Class	RWA	Capital Requirement	Less than 1 Year	Over 1 Year	Undefined
Institutions	582	47	523	59	-
Corporates	4.124	329	4.124	-	-
Default	320	26	80	240	-
Other Items	449	36	163	42	244
Total	5.475	438	4.890	341	244

The maturity of fixed assets is classified as undefined. The investments in available for sale financial assets and the deposits in relation to the investors' compensation are classified as over 1 year.

Credit Risk Hedging and Mitigation Policies

The table below presents exposure values before credit risk mitigation, per credit quality step. The Credit Quality Step (the "CQS") is based on the asset class and the credit quality rating of the counterparty. The values before credit risk mitigation represent the initial exposure value net of provisions.

Credit Risk Hedging & Mitigation Policies for 31 December 2016 (€000)						
Risk Weight	Corporate	Institutions	Default	Equity	Other Items	Total
CQS 1	2.481	118	-	42	-	2.641
CQS 2	-	210	-	-	-	210
CQS 3	-	-	-	-	-	-
CQS 4	98	-	-	-	286	384
CQS 5	-	-	-	-	-	-
CQS 6	1.272	161	320	-	121	1.874
N/A	273	93	-	-	-	366
<i>Total</i>	<i>4.124</i>	<i>582</i>	<i>320</i>	<i>42</i>	<i>407</i>	<i>5.475</i>

Geographical Breakdown

The Geographical distribution of the Group's credit exposure is shown in the below table:

Geographical breakdown of Credit Risk as at 31 December 2016 (€'000)	
Type	Amount
Domestic Exposures	1.099
Non-Domestic Exposures	6.373
<i>Total</i>	<i>7.472</i>
CY	1.099
GR	2.426
MC	466
US	2.499
VG	273
GB	106
PT	97
AT	41
FR	165
LU	300
<i>Total</i>	<i>7.472</i>

Leverage Ratio

The Group's leverage ratio is shown in the table that follows:

Leverage Ratio as at 31 December 2016	
Type of Leverage Ratio	%
Fully phased-in definition of Tier 1	80,73
Transitional definition of Tier 1	80,73

4. MARKET RISK

Currency Risk

The Group is exposed to currency or foreign exchange risk which is the risk that the value of financial instruments will fluctuate due to changes in exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency other than the currency in which the Group operates. The Group is exposed to currency risk arising from transactions in different currencies. To minimise the exposure to currency risk, the Group has adequate cash in banks, both in EUR and in USD, to perform its transactions without the need to exchange currencies. Transactions in other currencies, such as GBP, are very few in numbers and irrelevant in value therefore there is immaterial currency risk on such transactions for the Group.

At any instance, the Risk Management Department monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The table below shows the Group's exposure to Currency Risk (Market Risk).

Exposure to Currency risk for 31 December 2016 €000			
	Assets (Long)	Liabilities (Short)	Overall Net FX Position
USD	751	82	669
GBP	184	149	35
Total	935	231	704
Foreign exchange risk			704
<i>Capital Base</i>			6.032
2 % Capital Base			121
Market Risk (8% of total foreign exchange risk)			56

Cash Flow and Fair Value Interest Rate Risk

Interest rate risk is the risk that the value of financial measures will fluctuate due to changes in market interest rates. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Other than cash at bank, which attracts interest at normal commercial rates, the Group has no other significant interest bearing financial assets or liabilities.

At 31 December 2016, a 10% strengthening or weakening of the Euro against foreign currencies would have (decreased)/increased profit or loss by €64k, assuming that all other variables, in particular interest rates, remain constant.

The Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Liquidity Risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. When the maturities are unmatched, this potentially enhances efficiency but may also increase the risk of losses.

The Risk Management Department has implemented procedures to minimize related losses such as maintaining sufficient cash and other assets with high liquidity and maintaining an adequate amount of committed credit facilities.

As at 31 December 2016, the Group's exposure to liquidity risk is limited only to financial liabilities that are comprised of trade and other payables of €621.264 which have an average maturity term of approximately 90 days and a loan from parent company of €300.000. The Group has no long term debt such as bank loans and overdraft facilities.

5. OTHER RISKS

Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, errors, omissions, inefficiencies, systems failure or external events. It is inherent in every business organization and covers a wide range of issues.

The Group manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by a program of controls undertaken by the Group's internal mechanisms and audits undertaken by the Internal Auditors of the Group and by continuous monitoring of operational risk incidents to ensure that past mistakes and failures are not repeated.

Concentration Risk

This includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc.

Some concentration of credit risk with respect to trade receivables exists due to the Group's relatively small number of clients. The Group reviews all outstanding balances at each year end and provides against any doubtful amounts accordingly. Due to these factors, the management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's trade receivables.

The Group has a policy in place to monitor debts overdue by preparing a debtors ageing report on a monthly basis. Fees receivable which are past the payment period are chased for collection. There is also concentration of credit risk with regards to bank institutions. The Group is closely monitoring the creditworthiness of these institutions and acts accordingly (see also section 3. Credit Risk).

Reputational Risk

Reputational risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Group on the part of clients, shareholders, investors, regulators or other stakeholders and counterparties. Reputational risk could be triggered, among others, by poor performance, the loss of one or more of the Group's key Directors, the loss of large clients, poor client service, fraud or theft, client claims and legal action, regulatory fines and other factors.

The Group has policies and procedures in place when dealing with possible client complaints in order to provide the best possible assistance and service under such circumstances. In addition, the Group's Directors are made up of high caliber professionals who are recognized in the industry for their integrity and ethos; thereby adding genuine value to the Group.

Strategic Risk

This could occur as a result of adverse business decisions, improper long-term planning and/or direction, incorrect implementation of decisions or lack of responsiveness to changes in the business environment. The Group's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Group.

Business Risk (including Political and Sovereign Risk)

Business risk is the current or prospective risk to earnings and capital arising from changes in the business environment, including the effects of deterioration in economic conditions due to political risk. Political risk refers to external factors which are beyond the control of the Group, such as political developments and government actions specifically in Cyprus, Greece, Portugal, the EU and the United States, which may adversely affect the operations of the Group, its strategy and prospects.

Research on economic, political, sovereign and market forecasts is conducted with a view to minimizing the Group's exposure to business risk. The relevant factors are analyzed and taken into consideration when implementing the Group's strategy and day-to-day actions.

Capital Management Risk

This is the risk that the Group will not comply with capital adequacy requirements. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Group is required to test its capital against regulatory requirements

and has to maintain a minimum level of capital. This ultimately ensures that the Group will continue as a going concern. Such procedures are explained in detail in the Policy and Internal Operations manual of the Group.

The Group is further required to report on its capital adequacy on a quarterly basis and has to maintain at all times a minimum capital adequacy ratio which is set at 8,00% plus Capital Conservation buffer ratio which is set at 0,625% as at 31/12/2016. The capital adequacy ratio expresses the capital base of the Group as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to ensure that the specific regulatory requirements are met. This is achieved through the preparation on a monthly basis of consolidated accounts to monitor the financial and capital position of the Group.

Furthermore, the Group is required to prepare and update its Internal Capital Adequacy Assessment Process (the "ICAAP") report on an annual basis. As the name of the report indicates, the ICAAP is an internal tool which allows the Group to assess its position and determine the amount of internal capital it needs to hold in order to be covered against all the risks it is facing or against the risks to which it may be exposed in the future.

The ICAAP falls under the scope of Pillar 2, which can be described as a set of relationships between the CySEC and the CIF, the objective of which is to enhance the link between an investment firm's risk profile, its risk management and risk mitigation systems, and its capital.

Legal and Regulatory/Compliance risk

This is the risk the Group faces by not complying with relevant Laws and Directives issued by its supervisory bodies. This risk could arise as a result of breaches or non-compliance with agreements or ethical standards. If materialized, this risk could trigger the effects of reputation and strategic risk.

The probability of such risks occurring is decreased from 'high' to 'medium' due to the detailed internal procedures and policies implemented by the Group and reviewed by the Internal Auditors. Specifically the following are in place:

- a) The Group has documented procedures and policies based on the requirements of relevant Laws and Directives issued by CySEC; these can be found in the Group's Internal Operations Manual. Compliance with these procedures and policies is assessed and reviewed on a constant basis by the Compliance Officer and is further assessed and reviewed by the Group's Internal Auditors who evaluate and test the effectiveness of the Group's control framework annually on the basis of a three-year audit plan. Suggestions for improvement by the Internal Auditors are implemented by management. Therefore, the risk of non-compliance is moderate.
- b) The structure of the Group is such so as to promote clear coordination of duties.
- c) The management team consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Group's strategic targets and goals.
- d) The Board of Directors holds meetings to discuss such issues and any suggestions for improvements are implemented by management.
- e) The Group receives, whenever required, legal advice from a number of legal firms in order to minimise its exposure to legal and regulatory/compliance risk.

All of the above measures taken by the Group have ensured that, as of today, there have been no incidents of non-compliance.

In 2015, CySEC applied a new supervisory approach, entitled Risk Based Supervision Framework (hereafter the "RBS-F"). The RBS-F includes the processes and procedures, methodology and software tools that CySEC will use to rank all the investment firms into one of four categories of supervision based on their risk weightings. On the 29th of February 2016, the Company was informed by CySEC that it was ranked as 'medium high risk'. This means that a proactive supervision will be conducted on a 2-3 year cycle. In addition to this, a Relationship Manager (hereafter the "RM") has been assigned to the Company and all future correspondence with CySEC must be made through the designated RM apart for matters relating to CySEC's authorisation department. On the 24th of January 2017, the 'medium high risk' ranking has been re-affirmed by CySEC as a result of the RBS-F exercise that was carried out during 2016. The Company was also informed that it will be subject to a proactive supervision on a 2-5 year cycle and it has been appointed a new RM for all matters other than those related to the Authorisation and AML departments.

The management of the Group is alert and closely monitoring this process.

Information Technology (IT) Risk

IT risk is associated with various aspects of IT including cyber risk, weak IT infrastructure and out of date technology. Exposure to such risks could increase as a result of inadequate IT and processing, or arise from an inadequate IT strategy and policy, inadequate maintenance or inadequate use of the Group's IT. The Group has in place a Business Continuity Plan (thereafter the "BCP") which is reviewed and updated on an annual basis by the Chief Technology Officer and a summary of the BCP is posted on the Group's website at the following e-address:

http://www.axiavg.com/images/pdf/AXIA_IT%20Business%20Continuity%20Framework.pdf.

The Group's BCP addresses the consequences of IT risk. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures.

6. CAPITAL MANAGEMENT

The adequacy of the Group's capital is monitored by reference to the rules established by the Basel Committee as adopted by CySEC. The Group is subject to compliance with paragraph 32(1) of Part II of the Directive DI 2014-144-14 (the "Directive") for the Prudential Supervision pursuant to Part Eight of regulation (EU) No 575/2013 "Disclosure By Institution". Basel II consists of three pillars: (i) minimum capital requirements, (ii) supervisory review process and (iii) market discipline.

Pillar I – Minimum Capital Requirements

The Group adopted the Standardised approach for Credit and Market risk and the Basic Indicator approach for Operational risk.

According to the Standardised approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, after the consideration of various mitigating factors, according to the exposure class to which they belong. For exposures with institutions, the risk weight also depends on the term of the exposure (more favorable risk weights apply where the exposure is under three months). The categories of exposures the Group is exposed to with regards to credit risk are deposits with banks, other assets and fixed assets.

For operational risk, the Basic Indicator approach calculates the average, on a three year basis, of net income to be used in the risk weighted assets calculation. This includes the average over a three-year period of net brokerage commission, income from provision of investment banking and other financial services, interest income and fees from research services.

Pillar II – The Supervisory Review Process (the “SRP”)

The SRP provides rules to ensure that adequate capital is in place to support any risk exposures of the Group in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Group.

Pillar II connects the regulatory capital requirements to the Group’s ICAAP and establishes a process of prudential interaction that complements and strengthens Pillar I by promoting an active dialogue between the regulator and the Group such that, any inadequacies or weaknesses of the internal control framework and also other important risks, the fulfillment of which may entail threats for the Group, are identified and managed effectively through the enforcement of additional controls and mitigating measures.

The ICAAP comprises of all the measures and procedures adopted by the Group, with the purpose of ensuring:

- a) The appropriate identification and measurement of risks,
- b) An appropriate level of internal capital in relation to the Group’s risk profile, and
- c) The application and further development of suitable risk management and internal control systems and tools.

Pillar III – Market Discipline

Market Discipline requires the disclosure of information regarding the risk management policies of the Group, as well as the results of the calculation of minimum capital requirements, together with concise information as to the composition of original own funds. In addition the results and conclusions of ICAAP are disclosed.

According to the Directive, the risk management disclosures should be included in either the financial statements of the CIFs if these are published, or on their websites. In addition, these disclosures must be verified by the external auditors of the CIF. The CIF will be responsible to submit its external auditors’ verification report to CySEC. The Company includes its risk management disclosures on its website www.axiavg.com as it does not publish its financial statements. Verification of these disclosures are made by the Company’s external auditors Messrs. Deloitte Ltd and submitted to CySEC within the stipulated timeframe.

Capital Requirements

The primary objective of the Group’s capital management is to ensure that the Group complies with externally-imposed capital requirements and that the Group maintains healthy capital ratios in order to support its business and maximise shareholders’ value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8,00% plus 0,625% for Capital Conservation Buffer. CySEC may impose additional capital requirements for risks not covered by Pillar I.

Throughout 2016, the Group has fully complied with all externally imposed capital requirements as shown in the table below.

Pillar 1 Capital requirements for 31 December 2016 (€'000)		
Risk Type	RWA	Capital requirements
Credit Risk	5.475	438
Market Risk	704	56
Operational Risk	15.495	1.240
<i>Total</i>	<i>21.674</i>	<i>1.734</i>
Capital Adequacy Ratio – Pillar 1		27,83%
Own Funds – Capital Base		6.032
Minimum CAD ratio		8,00%
Capital Conservation Buffer ratio		0,625%
Capital Surplus		4.298

Under the Directive, Own Funds consist mainly of paid up share capital, share premium and other reserves less any proposed dividends, revaluation reserves and un-audited current year losses. Current year profits are not added to own funds unless these are audited.

7. CORPORATE GOVERNANCE POLICY

Corporate governance can be defined as the framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in a Group's relationship with all its stakeholders (including clients, management, employees, government and the community).

The Group ensures that the corporate governance framework is implemented as follows:

- a) Wherever applicable, explicit and implicit contracts are made between the Group and the stakeholders for the distribution of responsibilities, rights and rewards.
- b) Procedures are in place for reconciling the sometimes potentially conflicting interests of stakeholders in accordance with their duties, privileges and roles.
- c) Procedures are in place for proper supervision, control and information-flows to serve as an internal control mechanism.
- d) The Group continuously evaluates its personnel needs to ensure that each position (either vacant or filled) has its job description, objectives and that the employee's knowledge, skills and expertise are sufficient for the specific position. In case of a vacant position, use of the above information is made for the selection of the new employee.

- e) The Group has a Risk Manager that continuously assesses all possible risks and presents to the Group's Board of Directors at least on an annual basis his report in relation to the evaluation of the Company's risk management policies, arrangements and procedures.

8. RETURN ON ASSET RATIO

The Group's return on asset ratio is shown in the below table:

Return on Asset Ratio as at 31 December 2016	
	%
Return on Asset Ratio	-17

9. REMUNERATION POLICY

As part of the Group's human resources policy, its focus on performance management and its commitment to the retention and ongoing development of its staff, the Group operates an annual Performance Appraisal Program for all its employees.

The main purpose of the annual Performance Appraisal Program is to ensure that, at least once a year, employees and their managers meet to discuss individual and team performance/development/other issues, as well as elaborate on and discuss various pertinent subjects in a formal manner.

Following the completion of the annual Performance Appraisal, the managers of the individual departments make recommendations to the Group's Managing Directors, who are responsible for the approval of salary levels and bonuses. Changes in salaries and bonuses lie at the absolute discretion of the Group Managing Directors, all three of whom have to approve and authorize them before they can be processed.

The remuneration for 2016 is presented in the table below.

	Investment banking (€000)	Brokerage (€000)	Other (€000)	Total (€000)
Senior management – fixed remuneration	706	240	242	1.188
Senior management – cash remuneration	240	23	45	308
Total	946	263	287	1.496
Ratio Cash Vs Total	25%	9%	16%	21%
Number of employees	3	3	4	10

The above table shows the emoluments/number of people whose professional activities have a material impact on the risk profile of the Group as defined by CySEC and Part Eight of regulation (EU) No 575/2013 "Disclosure By Institutions".