U.P.M. LIMITED

Disclosures for the year ended 31 December 2015 required under paragraph 32 (1) of Section 4 of the Cyprus Securities and Exchange Commission (CySEC) Directive DI144-2014-14 and the CySEC Directive DI114-2014-15 for the capital requirements of Investment Firms

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CONTENTS

1. Introduction

U.P.M. Limited has an obligation to disclose annually information in accordance to CySEC Directive DI144-2014-14 for the Prudential Supervision of Investment Firms and the Directive DI 144-2014-15 for the capital requirements of Investment Firms. The Directive DI2014-144-14 was published in the Cyprus Official Gazette on December 19, and has replaced Directives DI144-2007-05 and the amendment to it DI144-2007-05(A) - Capital Requirements of Investment Firms which have been revoked.

2. Risk Management Objectives and Policies

Declaration by the management

The management body of U.P.M. Limited considers that the risk management arrangements of U.P.M. provide assurance that the risk managements mechanisms and / or systems that the company has in place are adequate with regard to the company's risk profile and strategy.

2.1 Risk Management Organisation

Risk is inherent in the Company's business and activities in a complex and dynamic financial markets environment. The Company's ability to identify, evaluate, monitor and manage each type of risk to which the Company is exposed is an important factor in its performance, reputation and the achievement of its strategic objectives.

Risk Management Framework

The Risk Management function, which is performed by the CEO, is responsible for the determination, evaluation and efficient management of the risks inherent in the provision of the investment services. The department's aim is to provide these services in accordance with the provisions of the Law and Directives issued by the CySEC, as well as the internal regulations and policies approved by the Board of Directors. The Risk Management Department identifies, evaluates and efficiently manages financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas.

Risk Management Process

The Risk Manager is responsible to:

- Establish, follow up and monitor a risk policy which includes guidelines regarding possible risk exposures and acceptable risk levels;
- Develop a risk management policy for clients and counterparties for client risk, liquidity risk and market risk;
- Assess credit worthiness of counterparties and classification of the counterparty according to company's risk criteria and limits;
- Assess the risk of the Company's clients and counterparties participating in money laundering and or terrorist funding;
- Monitor asset management transactions as regards adherence to established risk limits
- Monitor day-to-day operational risks; and

2. Risk Management Objectives and Policies (continued)

Risk Management Process (continued)

- Maintain appropriate internal control systems.

On a monthly basis the risk manager evaluates risks such as market risk, which is communicated to the Investment Committee. The Investment Committee is responsible for taking appropriate decision depending on the circumstances. This decision is monitored by the Risk Manager.

The Company has established Risk Policy Guidelines the purpose of which is to address the areas which expose the Company to risk, and manage the risks accordingly.

2.2 Risk management policy for clients and counterparties

All of the Company's counterparties are evaluated through the "Counterparty Risk Evaluation form". Clients are evaluated in the early stages of their relationship with the Company, through the information received when they complete the "Onboarding Booklet" and / or any other information that comes to the company's attention or is obtained by the company from third party sources such as specialized databases like World Check, the internet, etc. The company also constructs and keeps on file a separate "economic profile" for each client. The usual decision following the evaluation of the new client relationship is to either accept or not accept the client.

On a monthly basis the Risk Management Function prepares a risk evaluation report to the Investment Committee. In this report the different types of risk including the risk emanating from clients and counterparties that the company faces are addressed. Any changes from the position of the previous month are noted and discussed so that if necessary, appropriate action may be taken.

Credit assessment of counterparties and classification of the counterparty according to the Company's risk criteria and limits.

The Company establishes counterparty relationships only with reputable banks and other financial institutions which are regulated by national regulators or are rated by international rating agencies and which carry acceptable ratings. These counterparty relationships are evaluated through the "Counterparty Risk Evaluation form" and approved at the investment committee, while they are reviewed at least annually.

Estimating risk of the Company's clients and counterparties participation in money laundering and or terrorist funding

Through the extensive client acceptance process the Company employs, the Company considers that the risk of any of its clients being involved in money laundering or in terrorist funding is minimal. The Company monitors on a continuing basis the accounts of its clients, with an aim among others to spot at an early stage any suspicious transactions.

Through its policy to be dealing only with reputable counterparties, usually registered and operating in the European Union, the Company considers that the risk of its counterparties being involved in money laundering and or terrorist funding is minimal. Nonetheless, the Company regularly monitors information and news published about is counterparties.

2.3 Operational Risk Management

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. Operational risk emanates from inefficiencies and / or failure in internal processes caused either by external events or human error. It includes legal risk but excludes reputation and strategic risks. It is inherent in every business organization and covers a wide range of issues.

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. Operational risk management entails the promotion of risk culture and awareness within the organization. Risk management is supported by a program of audits undertaken by the Internal Auditors of the Company and by continuous monitoring of operational risk incidents to ensure that past failures are not repeated and limit any adverse consequences.

Day to day operational risks are monitored by the Company's Risk Manager as well as by the other members of the Company's executive management. These events are dealt with as they arise and their progress until final settlement is monitored.

In order to act pre-emptively the Company pays particular attention to the following:

- Implementation of the Company's internal procedures;
- Rigorous selection process and continuous training of the Company's staff ;
- Use of high quality systems and IT support; and
- Pre-emptive monitoring of external events that may result in operational risks for the Company.

For the portfolio management services rendered, the Company charges an annual management fee of 0,25%, 0,7%-1% (2014:0,25%, 0.7%-1%) on the average monthly market value of the portfolios under management. The client portfolios consist of 5 different asset classes, namely Cash, Fixed income, Equities, Commodities and Alternative. Each asset class exhibits different historic volatility levels and therefore any possible movement affects the portfolio market value differently. Cash is assumed to have a 0% movement. Investment grade bonds and non-investment grade bonds and similar investments are grouped together under the asset class Fixed income.

The impact of fluctuations in market prices for each class of fiduciary asset investments on the Company's management fee income is summarized below. The percentage of movement per category is based on historical data and the expertise of management.

2.3 Operational Risk Management (continued)

Category of Investments	2015				2014			
		% of movement		Impact on management fee (€)		% of movement		Impact on management fee (€)
Equities and similar investments	+/-	20%	+/-	2.966	+/-	20%	+/-	125.934
Fixed income (Investment and non investment grade bonds and similar investments)	+/-	18%	+/-	2.957	+/-	18%	+/-	10.796
Commodities and similar investments	+/-	30%	+/-	211	+/-	30%	+/-	3.444
Alternative investments	+/-	15%	+/-	3.643	+/-	15%	+/-	3.358

Policies for mitigating operational risk

The Company has developed a Business Continuity plan to ensure that services can resume immediately in case of a disruption.

2.4 Maintenance of appropriate Internal Control Systems

The Company has in place a number of internal controls designed to assist in the prevention of events that may give rise to the risk of loss for the Company. The system of internal controls provides reasonable assurance for the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws and regulations. The risk management process provides for the continuous monitoring of the system of internal controls to ensure its effectiveness.

The Company's strategies and processes of managing risks, as well as the system used to evaluate and measure such risks and the mitigating strategies are analysed below by risk division.

2.5 Remuneration Policy and Practices

2.5.1 Remuneration components

The Company has a remuneration policy in accordance with the provisions of the remuneration guidelines as adopted in the Company's operations manual. The employment terms and the remuneration of staff are stated in the employee's respective employment contracts. Emoluments relate to a fixed element remuneration in accordance with the relevant employment contracts entered into between each employee and the Company. Pay rises, bonuses and any additional remuneration do not form part of the employment contracts. In year 2014, a bonus was paid to the Company's staff including the executive directors on the approval of the Company's sole shareholder and pursuant to a decision of the board. The Company operates a contributory provident fund scheme and has a medical plan for its employees. Total staff costs were as follows:

2.5 Remuneration Policy and Practices (continued)

2.5.1 Remuneration components (continued)

	2015	2014
	€000	€000
Salaries, other short term benefits and bonus paid	**426**	457

Staff costs by function were as follows:

	2015	2014
	€000	€000
Key management compensation	**418**	450
Part time non key management compensation	**8**	7
	426	457

2.5.2 Risk takers and control functions

In accordance with its remuneration policy, the Company does not practice any remuneration principles which encourage its staff to take specific or general undue risk. The board with the approval of the sole shareholder of the Company is responsible for any salary increases, bonuses or any other form of remuneration.

2.5.3 Remuneration of the board of directors

The total remuneration of the board of directors was as follows:

	2015	2014
	€	€
Salaries, short term employee benefits and bonus paid	**418**	450

2.5.4 Remuneration of Executives

The total remuneration of the executive board members was as follows:

	2015	2014
	€	€
Emoluments in their executive capacity		
– Relating to 3 individuals	**410**	442

2.5.5 General

(a) Remuneration Committee

There is no separate Remuneration Committee. The board of directors is responsible for monitoring compliance with the remuneration policy.

2.6 Board of Directors

i. Directorships

The CEO carries one other directorship as non-executive director of CIPA. Also each of all the three executive directors carry one other directorship in limited companies of non-resident interest. None of the directorships interfere with the directors' commitment towards the company.

ii. Governance arrangements

The current management body has been in place since the inception of the company in May 2007. Members of the management team are chosen for their high academic and professional qualifications, long experience in their respective fields of expertise as well as for their integrity.

The company ensures that there is diversity in the knowledge, qualifications and experience of the management body so that each key member of the management team can bring to the team different and diverse valuable experiences and skills and thus the team as a whole commands a variety of relevant experiences and skills.

Risk management matters are reviewed and discussed at the monthly Investment Committee meetings.

The information flow to the management body of the company is considered as very adequate. Each member of the management body communicates to the rest of the members the information that emanates from their respective areas of expertise both on a monthly, quarterly, semiannual, and annual basis as well as on a continuing basis. Examples of information circulated include but are not limited to: monthly management accounts, monthly Investment Committee report, monthly Risk Management report, quarterly Capital Adequacy report and on a continuing basis announcements, issuance of Directives and updates in legislation, and regulatory issues.

The board of directors consists of three executive members and two non-executive members.

Nicolas Theocharides
- Chief Executive Officer & Managing Director
- 21 years of experience in the banking sector, held several management posts in International Business and Private Banking with one of Cyprus' largest banks
- British and American university education and qualified banker of the UK Institute of Financial Services
- Appointment by the Government of Cyprus as Board Member of the Cyprus Investments Promotion Agency.

2.6 Board of Directors (continued)

Elpida Papastylianou
- Chief Financial Controller & Executive Director
- 19 years of experience, senior management position in Big Four audit firm, General Manager Position in an oil-field services group
- American-university education
- Professional qualification, Certified Public Accountant – AICPA (American Institute of Certified Public Accountants), member of the Institute of Certified Public Accountants of Cyprus

Elena Constantinou
- Head of Asset Management & Executive Director
- 13 years of experience in private banking, worked for a major international bank and one of Cyprus' largest banks
- British-university education, holder of the UK FSA Certificate in Securities & Financial derivatives and Associate member of the UK Chartered Institute for Securities & Investment (CISI)
- Recently passed Level 1 of the CFA Institute

iii. Nomination Committee
The board of directors is responsible for this function.

2.7 Credit Risk Management

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.

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms.

The Company's credit risk is mostly with banks with which it maintains its bank balances and to a smaller extent with related parties. The Company structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to the counterparty. Such risks are subject to regular review. Limits on the level of credit risk by counterparty are approved regularly by management and actual exposures against limits are regularly monitored.

The Company also has policies to ensure that management services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. In relation to cash balances, the credit ratings as well as the financial position of the banks are regularly monitored and extensive counterparty risk evaluations are carried out annually.

2.7 Credit Risk Management (continued)

Risk weighted assets

	Maximum exposure to credit risk	
	2015	**2014**
	€000	**€000**
Risk weighted assets:		
Cash	**582**	993
Fees Receivable & Other Assets	**89**	112
Fixed Assets	**11**	18
Total risk weighted assets	**682**	1.123
Credit Risk (8% of total risk weighted assets)	***54***	*90*

2.8 Market Risk Management

Foreign Exchange Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company's financial assets and financial liabilities are primarily denominated in Euro which is the Company's functional currency and hence the Company is not exposed to any significant foreign exchange risk.

The table below shows the Company's exposure to Foreign Exchange Risk (Market Risk).

	Exposure to foreign exchange risk		
	Net Position		
	Assets (Long)	Liabilities (Short)	**Overall Net FX Position**
2015	€000	€000	**€000**
EUR	681	52	**629**
USD	6	1	**5**
Total foreign exchange risk	6	1	**5**
Capital Base			**629**
2 % Capital Base			**13**
Market Risk (8% of total foreign exchange risk)			**0,40**
2014	€000	€000	€000
EUR	1.118	50	1.068
USD	10	6	4
Total foreign exchange risk	10	6	4
Capital Base			1.067
2 % Capital Base			21
Market Risk (8% of total foreign exchange risk)			0,32

2.8 Market Risk Management (continued)

Cash Flow and Fair Value Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Financial assets and financial liabilities issued at variable rates expose the Company to cash flow interest rate risk. Financial assets and financial liabilities issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on continuous basis and acts accordingly.

The table below summarises the Company's exposure to interest rate risk. Included in the table are the Company's financial assets and financial liabilities at carrying amount categorised by the earlier of contractual maturity or reprising dates.

31 December 2015	Up to 1 year €	1 to 5 years €	Non-interest bearing €	Total €
Financial assets				
Trade and other receivables (excl. prepayments and VAT Refundable)	-	-	16.753	16.753
Cash and cash equivalents	-	-	582.439	582.439
Total financial assets	-	-	599.192	599.192
Financial liabilities				
Payables (excluding VAT payable)	-	-	53.878	53.878
Total financial liabilities	-	-	53.878	53.878
Interest sensitivity gap	-	-		

31 December 2014	Up to 1 year €	1 to 5 years €	Non-interest bearing €	Total €
Financial assets				
Trade and other receivables (excluding prepayments)	-	-	38.246	38.246
Cash and cash equivalents	-	-	992.865	992.865
Total financial assets	-	-	1.031.111	1.031.111
Financial liabilities				
Payables (excluding VAT payable)	-	-	47.650	47.650
Total financial liabilities	-	-	47.650	47.650
Interest sensitivity gap				

The non-interest bearing cash and cash equivalents comprise non-interest bearing current accounts.

2.8 Market Risk Management (continued)

Cash flow and fair value interest rate risk (continued)

The following table demonstrates the sensitivity on the Company's post-tax profit to a reasonably possible change in interest rates, with all other variables held constant. The sensitivity of the Company's post tax profit is the effect of changes in interest rates which are reasonably possible at the reporting dates which arise on floating rate interest bearing financial assets and financial liabilities as at 31 December 2015 and 2014.

Sensitivity as of 31 December 2015

Increase/decrease in basis points	Sensitivity of profit after tax €
+/-50	**NIL**

Sensitivity as of 31 December 2014

Increase/decrease in basis points	Sensitivity of profit after tax €
+/-50	NIL

Liquidity Risk

Liquidity risk is defined as the risk 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 has policies and procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets. All of the Company's financial liabilities are due within twelve months of the balance sheet date.

The liquidity position of the Company was as follows.

31 December 2015	Within 1 year €	Total €
Cash and cash equivalents	582.439	582.439
Trade and other receivables (excluding prepayments and VAT refundable)	16.753	16.753
Other payables (excluding VAT payable)	(34.051)	(34.051)
Accruals	(19.827)	(19.827)
	545.314	**545.314**

31 December 2014

	Within 1 year €	Total €
Cash and cash equivalents	992.865	992.865
Trade and other receivables (excluding prepayments)	38.246	38.246
Other payables (excluding VAT payable)	(28.658)	(28.658)
Accruals	(18.992)	(18.992)
	983.461	983.461

2.9 Management of Other Risks

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 fact that the Company has a small number of selected high net worth clients. There is no history of default with any client and the Company's experience in the collection of trade receivables has never caused impairments resulting from past due payments. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Company's trade receivables.

The Company has a policy in place to monitor debts overdue by preparing on a monthly basis a debtors ageing report. Fees receivable which are past due the payment period are followed up for collection.

A further aspect of concentration risk which the Company may be faced with is with regards to assets under management. For the most part, the Company's net income is derived from the collection of fees from a few large clients. Therefore concentrating on these large clients may pose a threat to the Company either if they fall due or decide to terminate their investment management agreement. For this reason the Company is continuously seeking to attract additional funds under management from both individual and institutional investors.

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 on the part of customers, 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 customer service, fraud or theft, customer claims and legal action, regulatory fines.

The Company has policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is assessed low as services are based on discretionary mandate based on the client profile to which the client agrees beforehand. In addition, the Company's Directors are made up of high caliber professionals who are recognized in the industry for their integrity and ethos; this adds value to the Company. Furthermore, the Company maintains separate accounts for its own account and its clients and between the clients themselves; funds and/or financial instruments are held with prime banks and asset management companies.

Strategic Risk

This could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company'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 Company.

2.9 Management of Other Risks (continued)

Strategic Risk (continued)

Business Risk

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Economic and market forecasts are closely monitored with a view to minimize the Company's exposure to business risk. These are analyzed and taken into consideration when implementing the Company's strategy.

Capital Risk Management

This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to cover for the various risks to which the company is exposed to.

The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. The adequacy of the Company's capital is monitored by reference to the rules established by the Basel Committee as adopted by the Cyprus Securities and Exchange Commission. In December 2014 the Cyprus Securities and Exchange Commission issued the CRD IV Directive DI144-2014-14 and DI144-2014-15 for the calculation of the capital requirements of Investment Firms adopting the relevant European Union Regulation 575/2013. The Company has implemented the provisions of the Directive as of 1st January 2015. The Company is further required to report on its Capital adequacy ratio each quarter and has to maintain at all times a minimum capital adequacy ratio. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. The minimum ratio is calculated as 8% of the total risk weighted exposures of the Company.

Risk weighted exposures means total assets and / or off-balance sheet items. The exposure value of an asset item is equal to its balance-sheet value unless otherwise provided in the Directive and the exposure value of an off-balance sheet item is a percentage of its value based on its risk (100% for full risk items, 50% for medium risk items, 20% of medium/low risk items and 0% for low-risk items). This ultimately ensures the going concern of the Company.

Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of management accounts to monitor the financial and capital position of the Company.

2.9 Management of Other Risks (continued)

Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Internal Operations Manual as well as other internal documentation of the Company. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore the risk of non-compliance is very low.

Legal and Compliance Risk

This could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the board meets regularly to discuss such issues and any suggestions to enhance compliance are implemented by management.

IT Risk

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. The Company's Business Continuity Plan addresses the consequences of IT risk. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet, anti-virus procedures, control of user rights, disaster recovery plan and business continuity plan. Materialization of this risk has been minimized to the lowest possible level.

3 Capital Management

The adequacy of the Company's capital is monitored by reference to the rules established by the Basel Committee as adopted by the Cyprus Securities and Exchange Commission. Basel II consists of three pillars: (I) minimum capital requirements, (II) supervisory review process and (III) market discipline.

On June 26, 2013, the following legal documents were issued at European level:

i. The Directive 2013/36/EU on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, for the amendment of the Directive 2002/87/EC and the repealing of the Directives 2006/48/EC and 2006/49/EC ('the European Directive').

3 Capital Management (continued)

ii. The Regulation 575/2013 on prudential requirements for credit institutions and investment firms and the amendment of the Regulation (EU) No. 648/2012 ('the Regulation').

Cysec has transposed the European Directive as follows:

i. The Investment Services and Activities and Regulated Markets Law, as in force, has been amended in December 2014 in order to accommodate a number of articles of the European Directive.

ii. New Directive with number DI2014-144-14 for the Prudential Supervision of Investment Firms and DI2014-144-15 on the discretions of the Cyprus Securities and Exchange Commission arising on Regulation (EU) No 575/2013 have been published in order to incorporate all relevant articles of the European Directive. The Directive DI2014-144-14 and DI2014-144-15 have replaced Directive DI144-2007-05 and DI144-2007-05(A) for the calculation of the capital requirements of Investment Firms.

According to article 95 (1) of Regulation no. 575/2013, "For the purposes of Article 92(3), investment firms that are not authorised to provide the investment services and activities listed in points (3) and (6) of Section A of Annex I to Directive 2004/39/EC shall use the calculation of the total risk exposure amount specified in paragraph 2". Pursuant to article 95 (2) of the Regulation, U.P.M. Limited calculates the total risk exposure amount as the higher of the following:

(a) The sum of items referred to in points (a) to (d) and (f) of Articles 92 (3) after applying Article 92 (4);
(b) 12,5% multiplied by the amount specified in Article 97. As per Article 97 'Own Funds based on Fixed Overheads', U.P.M. Limited shall hold eligible capital of at least ¼ (one quarter) of the fixed overheads of the preceding year.

3.1 Pillar I – Minimum Capital Requirements

The first Pillar sets out the minimum regulatory capital requirements that an investment firm is required to meet.

Commencing with the Common Reporting for the year ended 31 December 2014, the Company calculates own fund requirements based on the Fixed Overhead Requirement for in accordance with the new laws and regulations adopted.

For COREP reporting for up to the period ended 30 September 2014, the Company calculated own fund requirements using the sum of Credit, Market and Operational Risk, used the Basic Indicator approach for Operational risk. The Company used the Standardised approach for Credit and Market risk and the Basic Indicator approach for Operational risk.

3 Capital Management (continued)

3.1 Pillar I – Minimum Capital Requirements (continued)

The Fixed Overhead Requirement

Investment Firms with limited authorization to provide investment services, falling under Article 95 (1) of Regulation no. 575/2013, calculate the minimum capital requirements as the higher of:

- fixed overhead requirement
- sum of market and credit risk

Investment firms are required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year, or projected fixed overheads in the case of an investment firm not having completed business for one year. The approach for calculating fixed overheads is a subtractive approach, whereby variable cost items are deducted from the total expenses as calculated according to the applicable accounting framework.

The Standardised Approach

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 favourable risk weights apply where the exposure is under three months). The categories of exposures the Company is exposed to with regards to credit risk are deposits with banks, trade receivables and other assets.

The Standardised measurement method for the capital requirement for market risk adds together the long and short positions of foreign exchange risk according to predefined models to determine the capital requirement. The main sources of foreign exchange risk for the Company are certain bank balances in foreign currencies.

The Basic Indicator Approach

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 3 year period of management fees, interest income and broker trailer fees.

3.2 Pillar II – The Supervisory Review Process (SRP)

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures of the Company 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 Company.

3 Capital Management (continued)

3.2 Pillar II – The Supervisory Review Process (SRP) (continued)

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

3.3 Pillar III – Market discipline

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations 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 CySEC Directive, the risk management disclosures should be included in either the financial statements of the investment firms if these are published, or on their websites. In addition, these disclosures must be verified by the external auditors of the investment firm. The investment firm will be responsible to submit its external auditors' verification report to CySEC. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures have been made by the external auditors and submitted to CySEC.

3.4 Capital management

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

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

The Cyprus Securities and Exchange Commission requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8%. The CySEC may impose additional capital requirements for risks not covered by Pillar I.

3 Capital Management (continued)

3.4 Capital management (continued)

During 2015 and 2014 the Company had fully complied with all externally imposed capital requirements as shown in the table below.

Year ended 31 December 2015	**2015**
	€000
Total Capital (Own Funds) – refer to section 4.3	629
Risk weighted exposures for Credit and Counterparty credit risks	216
Risk weighted exposures for position and foreign exchange risk	-
Additional Risk exposure amount due to Fixed Overheads	1.525
Total Risk Exposure amount	1.741
Total Capital Adequacy Ratio	36%

Year ended 31 December 2014	**2014**
	€000
Total Capital (Own Funds) – refer to section 4.3	1.067
Risk weighted exposures for Credit and Counterparty credit risks	328
Risk weighted exposures for position and foreign exchange risk	-
Additional Risk exposure amount due to Fixed Overheads	1.288
Total Risk Exposure amount	1.616
Total Capital Adequacy Ratio	**66%**

4 Own Funds

Under the Directive, Own Funds consist of original own funds (Tier 1) and additional own funds (Tier 2).

4.1 Original own Funds

Original own Funds (Tier 1) consist of:

(a) paid up capital,

(b) reserves excluding revaluation reserves, the profits and losses brought forward as a result of the application of the final profit or loss net of any foreseeable dividends (whether declared or not), as well as audited interim profits;

(c) funds for general investment firm risks which the investment firm decides to put aside to cover such risks, where that is required due to prudence, by the particular risks that are inherent to investment services or activities or other business conducted by the investment firm.

4 Own Funds (continued)

4.1 Original own Funds (continued)

Less
(d) Own shares at book value held by an investment firm;
(e) Intangible assets including goodwill, formation and software expenses;
(f) Material losses of the current financial year;

4.2 Additional Own Funds

Additional Own Funds (Tier 2) consist of:
(a) revaluation reserves of fixed assets;
(b) value adjustments due to mark-to-market of financial instruments in accordance with International Financial Reporting Standards;
(c) Other items as per paragraph 6 of Part B, Chapter 1 of The Directive;
(d) Fixed-term cumulative preferential shares of subordinated loan capital.

4.3 Computation of U.P.M. Limited own funds

The own funds of U.P.M. Limited as at 31 December 2015 were €'000 629 (2014: €'000 1.067) as shown below:

	2015	**2014**
Original Own Funds (Tier 1)	**€000**	**€000**
Share Capital (consisting of 200 000 shares of €1 each)	**200**	200
Reserves	**433**	873
Less: intangible assets	**(4)**	(6)
Total Tier 1	**629**	1.067
Total Additional Own Funds (Tier 2)	**-**	-
Total own funds	**629**	1.067

The figure for reserves for the year ended 31 December 2015 are based on the Company's Capital Adequacy Return submitted for the year ended 31 December 2015.

5 Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings, if available, internal assessment of the credit history of the receivables. The following table summarises the credit quality of financial assets and shows the maximum exposure to credit risk:

	2015	2014
	€	€
Trade receivables and receivables from related parties (excluding prepayments)		
Counterparties without external credit rating :		
Group 1(*)	**-**	-
Group 2 (**)	**16.753**	38.246
Group 3 (***)	**-**	-
Total trade receivables and receivables from related parties (excluding prepayments)	**16.753**	38.246
Cash and cash equivalents by credit rating (by Fitch) of counterparty banks		
Bank 1: B- (2014:CCC)	**22.986**	26.174
Bank 2: CCC (2014:B-)	**723**	3.180
Bank 3 :CCC (2014:CC)	**3.187**	3.242
Bank 4: A (2014: A)	**69.336**	476.764
Bank 5: A (2014:A+)	**486.207**	483.505
Total cash and cash equivalents	**582.439**	992.865
Maximum exposure to credit risk	**599.192**	1.031.111

(*) Group 1 – New customers during the year.
(**) Group 2 – Existing customers with no defaults in the past.
(***) Group 3 – Existing customers with some defaults in the past. All defaults were fully recovered.

6 Company's exposure to impairment risk

6.1 Past due exposures and Impaired exposures

Past due amounts are defined as financial assets (trade receivables) where the counterparty has failed to make a payment when it is contractually due.

At each balance sheet date the Company assesses whether there is any objective evidence that financial assets are impaired. The collectability of trade receivables is evaluated based on the customer's overall financial condition resources and payment record. There is objective evidence that a financial asset has been impaired when it is probable that the Company will not be able to collect all amounts due according to the original contract terms unless other factors exist whereby the Company expects that all amounts due will be collected.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income.

The Company has had no history of uncollectible amounts and no impairment of assets.

6 Company's exposure to impairment risk (continued)

6.2 Residual maturity breakdown of all exposures

	Credit Exposure by Maturity as at 31 Dec. 2015	
	Trade receivables – related parties	Other trade receivables
	€	€
Less than 30 days	486	15.598
Between 30 days and 60 days	-	-
Between 61 days and 90 days	-	669
	486	16.267

	Credit Exposure by Maturity as at 31 Dec. 2014	
	Trade receivables – related parties	Other trade receivables
	€	€
Less than 30 days	481	33.610
Between 30 days and 60 days	-	2.535
Between 61 days and 90 days	-	1.620
	481	37.765

6.3 Impaired exposures and past due exposures

Impaired exposures and past due exposures as at 31 Dec. 2015

Neither past due nor impaired	Past due but not impaired	Impaired
€	€	€
16.753	Nil	Nil

Impaired exposures and past due exposures as at 31 Dec. 2014

Neither past due nor impaired	Past due but not impaired	Impaired
€	€	€
38.246	Nil	Nil

7 Additional information – Current and future developments

The Company has experienced a substantial decrease in assets under management, which has resulted in a substantial decrease in management fee income during the year ended 31 December 2015. As a result the Company incurred a net loss of €439.646 during the year ended 31 December 2015. Furthermore, during 2016 the Company commenced a process to liquidate client assets under management with the purpose of returning to its clients the remaining client assets under management.

7 Additional information – Current and future developments (continued)

Taking into consideration the Company's capital adequacy requirements as determined by its license and authorization to operate as a Cyprus Investment Firm and the projected losses to be incurred during 2016 given the Company's current cost base, the Company's Management is exploring various alternatives. The objective of these alternatives is to ensure that the Company continues to operate as a going concern and does not breach externally imposed capital requirements. In case that it is foreseen by Management that this objective cannot be achieved alternative options will be pursued by Management with the primary objective been the avoidance of breach of externally imposed capital requirements.

In order to achieve the above stated objectives, the management and the Board of Directors of the Company have considered the following alternative courses of action to be followed once all the client funds under management are remitted back to the beneficial owners, a process that is expected to be completed by the end of May 2016:

1. The Company to be sold to an interested buyer who will be in a position to continue the Company's operations as a going concern; or
2. Surrender the Company's license to the Cyprus Securities and Exchange Commission and pursue other business as a going concern; or
3. Surrender the Company's license to the Cyprus Securities and Exchange Commission and proceed with the necessary legal and other processes for winding up the Company.

The Directors have also considered the current liquidity and financial position of the Company as follows:

1. The Company remained in a net asset position of €633.607 as at 31 December 2015 (2014: €1.073.253) and in a net current asset position of €569.213 (2014: €1.000.681).
2. The Directors have considered the future cash flows of the Company and assessed that the Company will have adequate liquidity so as to enable the Company to conduct its operations and meet its obligations and liquidity requirements as they fall due for the period necessary until the Company determines which of the above alternative courses of actions will be pursued.

The Directors having considered the above, have assessed that necessary action has been determined to enable the Company to continue in operation with sufficient liquidity and maintaining the necessary capital adequacy position, until the Company finalizes its plans and determines which alternative course of action will be pursued.

The Directors will continue assessing the above described situation and scenaria in order to reach a decision before the end of October 2016.