CFI Markets Ltd

Pillar III Disclosures for the year ended December 31, 2015

May 2016

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1. Introduction

1.1 Corporate Information

CFI Markets Ltd (the "Company" or "CFI") is a Cypriot Investment Firm regulated by the Cyprus Securities and Exchange Commission ("CySEC") on the 25th of September 2012, with license number 179/12.

The Company has the licence to provide the following investment and auxiliary services:

Investment Services

- Reception and transmission of orders in relation to one or more financial instruments; and
- Execution of Orders on behalf of clients.

Ancillary Services

- Safekeeping and administration of financial instruments, including custodianship and related Services;
- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction; and
- Foreign exchange services where these are connected to the provision of investment services.

Both investment and ancillary services were provided in relation to the following financial instruments:

1. Transferable securities;
2. Money-market instruments;
3. Units in collective investment undertakings;
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF;

7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in paragraph 6 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 recognised clearing houses or are subject to regular margin calls;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for differences; and
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 one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

1.2 Scope of Application

This report has been prepared in accordance with the requirements 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" or "CRR") and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (the 'CySEC') for the Prudential Supervision of Investment Firms. It relates to the year ended 31 December 2015 and is prepared on an individual (solo) basis.

The capital requirements regulatory framework is based on three pillars:

- Pillar I which has to do with the standards that set out the minimum regulatory capital requirements for credit, market and operational risk.
- Pillar II covers the Supervisory Review Process which assesses the internal capital adequacy processes.
- Pillar III covers transparency and relates to the obligation of Investment Firms to publicly disclose information with respect to their risks, their capital and the risk management policies and procedures they have in place.

1.3 Disclosure Policy

The following sets out the Company's Pillar III Disclosure Policy with regards to the information to be disclosed, frequency, media, location and verification.

1.3.1 Disclosed Information

The Company's policy is to meet all required Pillar III disclosure requirements as detailed in Part Eight of the European Regulation 575/2013.

1.3.2 Frequency

A review will be carried out on an annual basis considering the scale, size and complexity of the Company and its operations, and the financial instruments offered to clients.

1.3.3 Medium and Location of Publication

The disclosures report will be published and be made available on the Company's website at http://cfimarkets.com.

1.3.4 Verification

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval.

The Company's Pillar III disclosures have been reviewed and have been approved by the Board. In addition, the Remuneration disclosures as detailed in this document have been reviewed by the Chief Financial Officer.

The Company has commissioned independent external auditors to verify its Pillar III Disclosures. The Company is required by the CySEC's Directive 144-2014-14 to provide a copy of the auditor's verification report to CySEC within five months of each financial year-end.

1.3.5 Non-material, Proprietary or Confidential Information

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

2. Governance – Board and Committees

2.2 Board of Directors

The Board has overall responsibility for the business. It sets the strategic aims for the business and being informed about the Company's operations regularly through the Board of Director's meeting within a control framework, which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are robust. The Board comprises of 2 Executive Directors and 2 Independent Non-Executive directors.

Duties of the Board of Directors

The Board is responsible for ensuring that the Company complies with its obligations under the Law. The Board shall assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law, and to take appropriate measures to address any deficiencies. The Board ensures that it receives on a frequent basis, and at least annually, written reports regarding Compliance, Internal Audit, Money Laundering & Terrorist Financing and Risk Management issues, indicating, in particular, whether the appropriate remedial measures have been taken in the event of any deficiencies. The Board is responsible for the monitoring of the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and the prevention of any unlawful transactions, the identification of risks, and the timely and adequately flow of information. Furthermore, the Board shall pass a resolution for selecting a service provider or individual for outsourcing.

The executive directors takes part in the operation of the Company and, as appropriate, in the provision of investment services. The Non-Executive (Independent) Directors monitor the operations of the Company through their participation in the various Board Committees, as applicable, and in the meetings of the Board, and will also request and be granted access to, as necessary, information and reports from the management of the Company.

The Frequency of the Board of Directors Meetings

The Board meets at least once a quarter. The company agreed to meet each first Wednesday of each quarter. During these meetings, the general strategy of the Company shall be included in the agenda, among others. Quorum must be achieved before meetings can be considered open. Quorum shall be three (3) directors present either physically or through telephone conference calls. The minutes of the meetings of the Board during which the reports regarding Compliance, Internal Audit, and Money Laundering & Terrorist

Financing and Risk Management issues have been discussed shall be submitted to CySEC within twenty (20) days from the date of the relevant meeting within the timeframe provided by the relevant legislation.

Voting Procedures

The Board takes decisions at a meeting by written resolution. All decisions of the Board regardless of the forum (physical or via conference call) shall be made by a majority vote on all matters within the competence of the Board. In the event of voting tie, the group in which the Chairman of the Board has voted for is considered to have the majority.

Senior Management ("4-Eyes")

The Senior Management is responsible to ensure that the Company complies with its obligations under the Law. Further to this, all members of the Senior Management of the Company will have the same level of responsibility and authority regarding the management and good standing of the Company. In particular the Senior Management is responsible to assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law and the relevant Directives and to take appropriate measures to address any deficiencies. In this respect, the Senior Management of the Company receives written reports from the Compliance Officer, the Money Laundering Compliance Officer, the Internal Auditor and the Risk Manager at least annually.

Managing Director

The Managing Director exerts overall control over the Company's affairs and the management of the Company, especially as regards the implementation of strategic objectives, and acts as one of the persons who effectively direct the business of the Company ("4-Eyes"). The Managing Director is responsible for replacing the General Manager, during his absence in all his duties and responsibilities. The Managing Director is a member of the Risk Management Committee of the Company.

More specifically, the responsibilities of the Managing Director include, *inter alia,* the following:

- formulating the Company's strategy in terms of the development of existing and new services;
- governing the Company by broad policies and objectives;
- ensuring that the Company maintains and implements an adequate internal control mechanism;
- ensuring that the Company complies with its legal obligations to CySEC;
- assessing on a regular basis that the Company's policies and procedures are in compliance with the relevant Law and Directives issued by CySEC;

- consenting and approving the selection of the third parties (i.e. sub-custodians) which will be holding Client funds and financial instruments;
- ensuring that the conditions included in the outsourcing agreements with the relevant service providers or individuals, are adhered to at all times;
- participating in the Risk Management Committee meetings; and
- deciding on the access privileges for the relevant users in the Company (as applicable).

2.3 Risk Management Committee

In order to support effective governance and management of the wide range of responsibilities the Board has established the Risk Management Committee.

The Risk Management Committee is formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general.

Towards this direction, the Company shall adopt and maintain risk management policies, which identify the risks relating to the Company's activities, processes and systems and set the risk tolerance levels of the Company. The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of such risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures. Among others, the responsibilities of the Risk Management Committee shall be to scrutinize, and decide on various risks associated with the operation of the Company with the view to increase the awareness of, formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company.

The Risk Management Committee meets at least once every 6 months unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager. The decisions are made by a majority vote, and minutes for all meetings must be kept in writing and on file by the General Manager. In the event of voting tie, the group in which the Managing Director has voted for is considered to have the majority. The Heads of Departments present to the Committee actions taken in the direction of implementing last decisions of the Committee, in respect of their respective departments of responsibility, as applicable. The minutes of the

Committee (and a report on the actions taken, as applicable) shall be presented to the Board during one of the Board's regular meetings, by the General Manager. The decisions of the Risk Management Committee with respect to any of its responsibilities as shown above shall be presented to the relevant employees of the Company orally or in writing. The Risk Committee has met twice during 2015.

An Audit Committee, Remuneration Committee, and Nomination Committee taking into consideration the size of the Company are not established. These committees will be created when the Board of Directors decide that the size of the Company has grown and such sub-committees are needed for the better managing of the Company.

2.4 Recruitment Policy

As far as the Recruitment into the Board is concerned, technical capabilities and competency skills should be combined.

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.

2.5 Diversity Policy

The company is committed to promoting a diverse and inclusive workplace at all areas where any service is provided. Diversity is approached in the broadest sense, while recognising that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organisation. Since CFI's team is still small, there is no need for creating a Nomination Committee to ensure that the appropriate balance of skills and experience is being kept across the Board.

2.6 Number of Directorships held by members of the Board

The table below provides the number of directorships a member of the management body of the Company 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 of Director	Number of Directorships, including position in CFI
Christos Zambas	2 (1 Executive, 1 Non-Executive)
Nectarios Kalopetrides	2 (1 Executive, 1 Non-Executive)
Eduardo Fakhoury	2 (Executive)
Elie Aoun	1 (Executive)

2.7 Information Flow on risk to the management body

All risks related to the company are communicated to the management body through the following reports which are prepared annually, reviewed and approved by the board.

- Annual Risk management report;
- Annual Internal Audit report;
- Annual AML Compliance officer report; and
- Annual Compliance officer report.

2.8 Declaration of Management Body

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 therefore offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The Board considers that it has in place adequate systems and controls to avoid or minimise loss.

2.9 Risk Appetite Statement

CFI's strategic objective is to be very transparent with it clients – rewarding their loyalty and earning their trust. In this respect, the Company operates with a strong customer focus and provides simple, transparent products which aim to deliver value for clients. The Company's strategy is pursued within a defined Risk Appetite.

The Board express the Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across three categories:

- Financial: credit, market and liquidity risks;
- Reputational: conduct, customer, regulatory and external reputational risk; and
- Operational & People: the risk associated with the failure of key processes or systems and the risk of not having the right quality and quantity of people to operate those processes and systems.

The suite of risk appetite measures support the overarching objective to manage profit volatility within prescribed limits. The profit volatility limits seek to ensure that the Company remains profitable under severe market or economic stress conditions.

The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

The following set out a number of the key measures used to monitor the Company's risk profile:

Liquidity risk

The Company manages its liquidity resources to exceed the higher of its liquidity risk on a continuous basis.

Credit Risk

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the institution. The Company has credit management controls and manages each asset class within individual product risk appetites.

Market Risk

Market risk arises from movement in market prices, defines as the risk of losses on On/Off balance sheet positions and movement in FX, IR and Equity market. The Company does not undertake any form of proprietary trading activity.

Reputational Risk, IT Operations and people risks

A number of appetite measures are monitored which collectively seek to ensure that the Company maintains its reputation. These include our core customers, regulator and other external bodies. All measures are within appetite at year end.

The company monitors its IT system security, availability and capacity, operational performance and human resource skill, setting risk appetite limits for each.

2.10 Risk Management Objectives and Policies

The Company shall implement and maintain adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company shall adopt effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

The Company shall always adopt effective arrangements, processes and mechanisms to manage the risks relating to the Company's activities, processes and systems, in light of that level of risk tolerance. The Risk Management function shall operate independently (subject to the above) and shall be assigned the monitoring of the following:

- the adequacy and effectiveness of the Company's risk management policies and procedures;
- the level of compliance by the Company and its relevant persons with the arrangements, processes and mechanisms adopted; and
- 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.

2.11 Risk Management Function

The Board appointed a Risk Manager to ensure that all the different types of risks taken by the Company are in compliance with the Law and the obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place. The Risk Manager is reporting to the Senior Management of the Company.

The Risk Manager shall be responsible, as necessary, for:

- complying and implementing the relevant provisions of the Law, relating to risk management issues;
- requiring sufficient information from all the relevant departments of the Company, as applicable;
- educating and training the personnel of the Company on risk-related issues;
- examining the financial results of the Company;
- analysing the market and its trends (from a risk management perspective), as applicable;
- evaluating how the introduction of any potential new services or activities by the Company could affect the risk management of the Company, and provide such requests to the Senior Management or the Board, as requested;
- examining the capital adequacy and the exposures of the Company;
- drafting written reports to the Senior Management and the Board making recommendations and indicating in particular whether the appropriate remedial measures have been undertaken in the event of any deficiencies, at least annually. These reports shall be presented to the Board and discussed during its

meetings, at least annually. The Company shall also submit to CySEC the minutes of the meetings of the Board of Directors, during which the report of the Risk Manager has been discussed as required;

- calculating, setting, reviewing, updating and monitoring Client and counterparty limits, as applicable;
- maintaining a record of all the Clients and counterparties risk and limits involved;
- recommending, providing and supervising policy description concerning information systems (including backup systems that can restore smooth operation in case of failure);
- with respect to liquidity risk and market risk:
  - defining acceptable maximum risk assumption limits per class of risk;
  - breaking down the above risk limits further where necessary, for example, per class of investment service or Financial Instrument, or Client or market, as applicable;
  - implementing stop loss-control limits, where applicable; and
  - following up open positions within the approved limits.

The Risk Manager shall be responsible for calculating and setting the limits, which shall be approved by the Risk Management Committee. The approved limits shall be valid for a period of time and shall be reviewed at least quarterly. It should also be mentioned that the Risk Manager has established an Internal Capital Adequacy Process ("ICAAP") based on the relevant legislation guidelines. The Company's ICAAP should be approved by the Board of Directors and it should be updated at least once a year.

2.12 Internal Audit

The Company is taking into account the nature, scale and complexity of its business activities, as well as the nature and the range of its investment services and activities, established an internal audit function through the appointment of a qualified and experienced outsourced Internal Auditor. The Internal Auditor is separated and independent of the other functions and activities reporting to the Senior Management of the Company.

The Internal Auditor is responsible for:

- Establishing, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements;
- Issuing recommendations based on the result carried out in accordance with the aforementioned point;
- Verifying compliance with the recommendations in regards to the previous point; and
- Providing timely, accurate and relevant reporting in relation to internal audit matters to the Board of Directors and the Senior Management of the Company, at least annually.

The Internal Auditor is responsible for applying the Internal Control System (hereinafter, the “ICS”), which shall confirm the accuracy of the reported data and information. Furthermore, the role of the Internal Auditor shall be the programming, on an at least annual basis (as applicable), of checks on the degree of application of the required ICS.

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

The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions are taken. The Board ensures all issues are dealt with and prioritized according to the Board’s assessment

2.13 Money Laundering and Compliance Officer

The Board retains a person to the position of the Company’s Money Laundering Compliance Officer (hereinafter the “MLCO”) to whom the Company's employees should report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The MLCO belongs to the management of the Company so as to command the necessary authority. The MLCO leads the Company’s Money Laundering Compliance procedures and processes and report to the Senior Management of the Company. In cases where it shall be deemed necessary, and following recommendations by the MLCO, assistants to the MLCO shall also be appointed.

Once a Company employee has reported his/her suspicion to the MLCO he/she shall be considered to have fully satisfied his/her statutory requirements, according to the Law 188(I)/2007 and the CySEC Directive DI144-2007-08, as amended.

The MLCO shall also approve the Client File before accepting a Client.

2.14 Capital Adequacy

Based on the Company’s authorization, quarterly Capital Adequacy Reports are prepared and submitted to Cyprus Securities and Exchange Commission. The Capital Adequacy Reports a prepared on a solo basis and the reporting currency is Euro.

Pillar I – Minimum Capital Requirements

The Company adopted the Standardised approach for Credit and Market risk and the Fixed Overheads 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 to 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 mainly deposits with banks, other assets and fixed assets.

The Company, under the Standardized measurement method is subject to foreign exchange risk if its overall net foreign exchange position plus the net gold position exceeds 2% of its own funds.

For operational risk, the Fixed Overheads approach applies.

Pillar II – The Supervisory Review Process (SREP)

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.

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.

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 a summary of the Company's approach to assessing the adequacy of its internal capital to support current and future activities is disclosed.

According to the CySEC Directive DI144-2014-14, 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 sent to CySEC.

2.15 The Supervisory Review and Internal Capital Adequacy Assessment

The purpose of the CFI Markets Ltd Internal Capital Adequacy Assessment Process (ICAAP) is to ensure that CFI has sufficient capital at all times to cover the risks associated with its activities.

The company must update the results of the Internal Capital Adequacy Assessment process (ICAAP) at least annually.

The ICAAP should cover risks covered under Pillar I and II (e.g. operational risk, concentration risk, strategic risk, liquidity risk, reputation risk etc.)

The CFI Board of Directors should approve the design of the ICAAP and the detailed implementation is the responsibility of the Senior Management.

The ICAAP should be strongly interconnected with the strategic plans of the CIF and a forward capital should be integrated in place in function with a 3 to 5 year budget.

The Company didn’t prepare its ICAAP report with reference date 31 December 2015.

3. Risk Management Functions

Market Risk Management

Market risk is the risk associated with the Company’s balance sheet positions where the value or cash flow depends on financial markets. Fluctuating risk drivers resulting in market risk include:

- Equity market prices;
- Commodity market prices;
- Interest rates; and
- Currency exchange rates.

The Company manages the market risk of assets relative to liabilities on an economic total balance sheet basis. It strives to maximize the economic risk-adjusted excess return of assets relative to the liability benchmark taking into account the Company's risk tolerance as well as regulatory constraints.

The Company is exposed to the financial impact arising from changes in the exchange rates of various currencies in 3 ways. Firstly, since the Company acts as agent to fulfil a customer order it is only exposed to market risk if the transaction does not clear or settle properly. Secondly, the Company may receive commissions in a currency other than Euro, which is the base currency of the Company. Thirdly, the Company has expenses denominated in a foreign currency.

However, considering the current nature, scale and complexity of the Company's operations, the said risk is deemed insignificant and any adverse movement in exchange rates is not expected to materially impact the Company's financials. It will however, be regularly monitored and if deemed necessary corrective actions will be taken to minimize the effect.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate risk can be derived from the following areas:

- Employee errors;
- System failures or failed internal processes, people and systems, or from external events;
- Fire, floods or other losses to physical assets; and
- Fraud (internal/external) or other criminal activity.

The Company's exposure to operational risk is limited to the extent of its current scale and complexity. The Company has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk. Overall planning, coordination, and monitoring is centralized, however, most operational risks are managed within the departments in which they arise.

In addition to its overall framework, in order to mitigate operational risks, the Company has specific processes and systems in place to focus continuously on high priority operational matters such as information security, managing business continuity and combating fraud.

For calculating its Pillar I capital requirements for operational risk, the Company adopted the Fixed Overheads approach.

Credit Risk Management

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations.

The Company's objective in managing credit risk exposures is to maintain them within parameters that reflect the strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Company has policies to manage the specific risks within the various subcategories of credit risk.

To assess counterparty credit risk, the Company uses the ratings assigned by external rating agencies. The Company is only exposed to credit risk mainly arising from cash and cash equivalents. It has significant exposure with financial institutions in the European Economic area (e.g. Cyprus), in the Middle East (e.g. Lebanon) and in Switzerland.

In order to mitigate risks related to cash and cash equivalents, the Company utilizes European, Swiss and Middle Eastern Banks with lower default risks and tries to limit the maximum cash amount that can be deposited with a single counterparty. In addition, the Company reviews a list of acceptable counterparties based on current ratings and outlook, taking into account analysis of fundamentals and market indicators. Furthermore, the Company is subject to various acquaintances with several electronic methods of funding and withdrawals regulated and located in London, Luxembourg, Cyprus and United States of America.

Wrong-way risk

Wrong way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty i.e. changes in market rates have an adverse impact on the probability of default (PD) of a counterparty.

The Company has no positions in derivatives therefore this type of risk is not addressed.

Other Risk Management

Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Company's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions. To achieve this, the Company assesses, monitors and manages its liquidity needs on an ongoing basis.

The Company also ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Moreover the company segregates accounts with different subaccounts, and all clients' funds are being kept on off balance sheet. The reconciliation of Clients segregated funds is done weekly from the Safekeeping department and being check from the Risk and General Manager.

Strategic Risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy. A strategy is a long term plan of action designed to allow the Company to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans;
- Improper implementation of strategic plans; and
- Unexpected changes to assumptions underlying strategic plans.

Risk considerations are a key element in the strategic decision-making process. The Company assesses the implications of strategic decisions on risk-based return measures and risk-based capital in order to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

Reputation Risk

Risks to the Company's reputation include the risk that an act or omission by the Company or any of its employees could result in damage to the reputation or loss of trust among its stakeholders. Every risk type has potential consequences for the Company's reputation, and therefore, effectively managing each type of risk helps reduce threats to its reputation.

Additionally, the Company strives to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of the Company, which includes integrity and good business practice. The Company centrally manages certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

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. Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. These are analysed and taken into consideration when implementing the Company's strategy.

Capital Risk

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

The Company is further required to report on its capital adequacy on a regular basis and has to maintain at all times a minimum capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. 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 Company's Management Accounts to monitor the financial and capital position of the Company.

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. 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 performed by the Compliance Officer. 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 at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management. During the reviewed year, no legal risk was raised within the company.

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.

The Company's exposures to shareholders and connected parties, as at the reference date, exceeded the maximum permitted large exposure limits of CySEC's Directive 144-2014-14. The Company will take actions to rectify the issue within the first half-year of 2016.

Information Technology (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. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

4. Own Funds

The Company's eligible own funds as at the reference date, are comprised only by Common Equity Tier 1 items. Total eligible own funds for 31 December 2015 were €1.553 thousand.

The composition of the Company's capital base is shown in the table below.

Capital Base/Own Funds	31 December 2015 EUR 000
Common Equity Tier 1 Capital (CET1)	
Share Capital	600
Non-refundable advances	900
Retained Earnings	-303
Audited Income / (Loss) for the year	356
Total Common Equity Tier 1 Capital	**1.553**

According to the Regulation 575/2013 the minimum capital adequacy ratio is 8%. As at 31 December 2015, the Company's capital adequacy ratio was 72,47%, considerably higher than the minimum required of 8%.

Share capital

The Company's issued and fully paid in share capital as at 31 December 2015 is €600.000, divided into 600.000 shares of €1 each.

On 8 January 2016 the share capital of the Company has been increased to €1.500.000 divided into 1.500.000 shares of €1 each.

5. Minimum required own funds

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 maximise shareholders' value.

The Company 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%. CySEC may impose additional capital requirements for risks not covered by Pillar I.

The Company falls under Article 95 of the Regulation therefore, it calculates its total Risk Weighted Assets as the higher of the following:

(a) the sum of the risk weighted assets calculated for credit and market risks;

(b) 12,5 multiplied by the one quarter of the fixed overheads of the preceding year.

The minimum capital requirement calculated for each category of risk as at 31 December 2015 is shown in the table below.

31 December 2015	**Minimum Capital Requirements EUR 000**	**Risk Weighted Assets EUR 000**
Risk Category		
Credit Risk	171	2.143
Market FX Risk	0	0
12,5 multiplied by the one quarter of the fixed overheads of the preceding year	46	574
Total Risk Weighted Assets as per Article 95(2) of the Regulation *(i.e. for the reference date, this will be equal to the sum of risk weighted assets for credit and market risk)*	**171**	**2.143**

Credit Risk

For calculating its credit risk capital requirement, the Company uses the standardized approach. The following table represents the Company's credit risk exposure and average exposure, risk weighted assets ("RWA") and minimum capital requirement as at 31 December 2015, broken down by exposure class.

Exposure Classes and Minimum Capital Requirements			**31 December 2015 EUR 000**
Exposure Class	**Total Exposure Value**	**RWA**	**Minimum Capital Requirements**
Corporates	2.003	2.003	160
Institutions	173	34	3
Other Items	65	63	5
PSE	43	43	3
Total	**2.284**	**2.143**	**171**

The table below presents the average exposure per exposure class:

Average Exposure for 2015	**31 December 2015 EUR 000**
Exposure Class	**Average Exposure Value**
Corporates	1.137
Institutions	135
Other Items	97
PSE	43
Total	**1.412**

The following table provides information on the residual maturity of the Company's credit risk exposures as at the reference date.

Exposure Classes and Residual Maturity			**31 December 2015 EUR 000**
Exposure Class	**<= 3 months**	**>3 months or N/A**	**Total**
Corporates	1.920	83	2.003
Institutions	173	0	173
Other Items	2	63	65
PSE	0	43	43
Total	**2.095**	**189**	**2.284**

The table below illustrates the geographic distribution of the Company's exposures as at 31 December 2015.

Exposure Classes by Country					31 December 2015 EUR 000
Exposure Class	**Cyprus**	**Lebanon**	**Switzerland**	**UK**	**Total**
Corporates	83	1.920	0	0	2.003
Institutions	65	0	86	22	173
Other Items	65	0	0	0	65
PSE	43	0	0	0	43
Total	**256**	**1.920**	**86**	**22**	**2.284**

The following table shows the distribution of the Company's exposures by industry type as at 31 December 2015.

Breakdown of Exposures by Industry Sectors			31 December 2015 EUR 000
Exposure Class	**Financial**	**Other**	**Total**
Corporates	1.920	83	2.003
Institutions	173	0	173
Other Items	2	63	65
PSE	0	43	43
Total	**2.095**	**189**	**2.284**

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

For its exposures to Institutions, the Company used the credit ratings of Standard & Poor's as these stood as of 31 December 2015. All exposures to institutions were unrated as at the reference date.

Corporate & Other Items

Exposures to Corporates and Other Items were unrated. As a result, a 100% risk weight was used, except for cash in hand which are subject to a 0% risk weight.

The Company has used the credit step mapping table below to map the credit assessment to credit quality steps.

Credit Quality Step	S&P's
1	AAA to AA-
2	A+ to A-
3	BBB+ to BBB-
4	BB+ to BB-
5	B+ to B-
6	CCC+ and below

6. Remuneration Policy and Practices

Due to the size and complexity of the Company, the General Manager oversees the remuneration Policy and decisions on reward for remuneration. The General Manager seeks to ensure that the levels and structures of remuneration are designed to attract, retain and motivate management talent needed to run the business in a way which is consistent with the Risk Appetite and on-going sustainability of the business and to be compliant with the applicable legislation and regulation. The remuneration policy covered the competencies evaluation, key performance indicators, professional development plan, levels of performance, variable and fixed criteria's based on the staff duties and targets. The Policy considers the link between pay and performance when determining individual remuneration arrangements.

A combination of a balanced scorecard and the financial performance of the Company is used, ensuring that decisions are not taken for short-term financial gain to the detriment of other aspects of the business. An appropriate combination of fixed and variable pay is made, benchmarked annually, ensuring the Company's fixed-variable ratios on remuneration are controlled and do not encourage inappropriate risk taking behaviour. The basis of assessment for the short-term bonus is adjusted for people in control functions, so greater emphasis is placed on the performance of the control function. Maximum award levels are determined as percentages of salary, which are pre-set for the whole Company based on work level and individual performance rating.

The table below shows the fixed and variable remuneration paid to those categories of staff whose professional activities have a material impact on the risk profile of the Company, broken down by Senior Management and other staff. Due to the small size of the Company, all Company employees are considered risk takers.

Fixed and Variable Remuneration by Senior Management and Other Staff (€000)				
	No. of staff	**Fixed**	**Variable**	**Total**
Senior Management & Executive Directors	4	64	14	**78**
Members of staff whose actions have a material impact on the risk profile of the institution, other than those included in category above	2	8	0	**8**
Total	**6**	**72**	**14**	**86**

All variable remuneration has been granted in the form of cash.

The table below presents the annual gross remuneration per business line as at 31 December 2015:

Annual Aggregate Remuneration by Business Area (€000)	
Business Area	**Aggregate Remuneration**
Control Functions	78
Brokerage and sales	8
Total	**86**

Appendices

Appendix I: Transitional own funds disclosure

At 31 December 2015	Transitional Definition	Full - phased in Definition
	€'000	**€'000**
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	600	600
Retained earnings	53	53
Funds for general banking risk	900	900
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1.553**	**1.553**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	0	0
Additional value adjustments		0
Intangible assets (net of related tax liability)	0	0
Total regulatory adjustments to Additional Tier 1 (AT1) capital	**0**	**0**
Additional Tier 1 (AT1) capital	**0**	**0**
Tier 1 capital (T1 = CET1 + AT1)	**1.553**	**1.553**
Tier 2 (T2) capital before regulatory adjustments	**0**	**0**
Tier 2 (T2) capital: regulatory adjustments		0
Total regulatory adjustments to Tier 2 (T2) capital	**0**	**0**
Tier 2 (T2) capital	**0**	**0**
Total capital (TC = T1 + T2)	**1.553**	**1.553**
Total risk weighted assets	**2.143**	**2.143**
Capital ratios		
Common Equity Tier 1	72,47%	72,47%
Tier 1	72,47%	72,47%
Total capital	72,47%	72,47%

Definitions:

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

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

The Total Capital ratio (TC) is the own funds of the Company expressed as a percentage of the total risk weighted assets for covering Pillar I risks.

Appendix II: Balance Sheet Reconciliation

	31 December 2015 EUR 000
Share capital	600
Non-refundable advances	900
Reserves	53
Total Equity as per Balance Sheet	**1.553**
Total Own Funds as per CoRep	**1.553**
Difference	**-**