CFI Markets Ltd

Pillar III Disclosures for the year ended December 31, 2016

May 2017

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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.
- Dealing on Own Account

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.
- Investment research and financial analysis or other forms

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 2016 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. Risk Management Framework and Structures

2.1 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 assesses and periodically reviews 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 passes resolutions for selecting a service provider or individual for outsourcing.

The executive directors take 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 also request and are 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 is 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 are 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) are 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.

2.2 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 has adopted and maintained 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.

More specifically the responsibilities of the Risk Management Committee include:

- 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;

- review the risk management procedures in place ;
- monitor and control the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department;
- ensure that the Company has clear policy in respect of the assumption, follow up and management of risks duly notified to all interested parties or organizational units of the Company.;
- consider, to the extent possible, risk factors affecting costs, the price at which competitors offer the same services, and the cost-benefit ratio for each service, and verify that such information is utilized by the Risk Management Department in the carrying out of their duties;
- specifically, with respect to liquidity risk and market risk, review the policies of the Risk Management Department on:
  - acceptable maximum risk assumption limits per class of risk;
  - break down of such risk limits further where necessary, for example, per class of investment service or Financial Instrument, or Client or market;
  - implementing stop loss-control limits;
  - following up open positions within the approved limits;
- prior to expanding its operations to any new financial instruments or investment services, the Committee shall be satisfied that the Company incorporated such expansion projects into its strategic development plan, located and accurately assessed the inherent risks, by implementing the necessary risk management procedures, and resolving any legal issues associated with the execution of the relevant transactions as well as the issues relating to their monitoring;
- ensure the immediate tracking down and scrutiny of important abrupt changes in the Company's financial figures, procedures or personnel, as well as the regular control of the volume and causes underlying deviations between projections and corporate end results, as submitted to the Board, so as to enable the assessment of the performance of each of the Company's separate organizational units by reference to the set targets;
- approve Client and counterparty limits;
- approve policy description concerning information systems and monitor the information systems in place;
- appoint the responsible security user/super user for the provision of access rights to the various database and monitor the security measures in place;
- establish policy regarding the amount of information provided to Clients about the nature and risks of Financial Instruments according to the Client classification;
- maintain systematic supplier cooperation with the information services' end-users in all phases of development, operation and evaluation of the information applications of the Company's system;
- supervise and approve the Disaster Recovery Plan;

- determine the Company’s pricing policy;
- decide upon the markets and types of Financial Instruments in which the Company shall be active;
- determine the mode, content and frequency of the Client’s briefing;
- brief the Internal Auditor, as applicable.

The Risk Management Committee presents its findings in a report to the Board. The latter decides upon the risk management policies of the Company, giving regard to the recommendations of the Risk Management Committee.

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 2016.

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.

2.3 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 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.

2.4 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, 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).

2.5 General Manager

The General Manager is responsible for administering and applying the decisions of the Board of the Company and act as one of the persons who effectively direct the business of the Company ("4-Eyes"). The General Manager represents the Company to all the government, regulatory and professional bodies. Furthermore, the General Manager monitors the proper execution of the procedures set in the Internal Operations Manual and provides for the unencumbered execution of the duties of the Company's employees. The General Manager is responsible for replacing the Managing Director, during his absence in all his duties and responsibilities. The General Manager is a member of the Risk Management Committee of the Company, where he is responsible for keeping the minutes of the meetings of this Committee.

2.6 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 reports to the Senior Management of the Company.

The Risk Manager is 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.

- Monitoring the high risk clients from high risk countries on a monthly basis, and if any suspicious and/or risky accounts are identified, reporting them to Management for further actions.
- Informing the clients if there is any delivery.
- Closely monitoring the clients who do more than 100 RL per month, comparing to the expected volume as mentioned in each client’s KYC and, in communication with the Head of Brokerage Department and the General Manager, taking appropriate action for each account.
- Controlling EMIR reporting.
- Controlling on a daily basis the accounts that have negative balances and sending weekly reports to the Management for reviewing them and taking action if necessary.

- Checking the phone recorder on a daily basis and, in case of any errors, reporting to the IT Department.
- receiving and checking on a weekly basis based on the traders' email the Margin Calls
- Checking if the clients' deposits and withdrawals are in compliance with the details mentioned in the KYC.
- Checking the credits provided to the clients.
- Preparing the internal suspicious report based on the Monthly Prevention Statement and suggesting if any clients have to be reported to the unit.

The Risk Manager is also responsible for calculating and setting the limits, which is approved by the Risk Management Committee. The approved limits are valid for a period of time and are reviewed at least quarterly.

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
- 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.

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 is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar. More specifically, 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 is however, regularly monitored and if deemed necessary corrective actions are taken to minimize the effect.

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

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.

The Company adopted 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 3 year period of income earned. As a result, the Company’s exposure to Operational Risk was based on the projected net income for years 2014, 2015 and 2016.

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 Hong Kong.

Past Due and Impaired Exposures

Past due exposures are those with delayed payments or in excess of authorised credit limits.
Impaired exposures are those which are not considered fully collectable and for which a provision for impairment has been recognised.

As at the end of December 2016, the Company didn't have any past due or impaired exposures.

Counterparty Credit Risk Management

Counterparty credit risk arises from the possibility that a counterparty will fail to perform on an obligation arising from transactions such as money market placements, bonds, derivatives, FX, commercial and other transactions. As at 31 December 2016, the Company had no exposure to transactions which would give rise to Counterparty credit risk.

Liquidity Risk Management

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.

Strategic Risk Management

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 Management

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 Management

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.

Regulatory Risk Management

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 Management

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.

Information Technology (IT) Risk Management

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.

2.7 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, implementing and maintaining 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

2.8 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 also approves the Client File before accepting a Client.

3. Adequacy of Risk Management Framework

3.1 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.

3.2 Risk Appetite Statement

CFI's strategic objective is to be very transparent with its 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

Liquidity risk is the risk that arises when the maturity of assets and liabilities do not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

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

The risk of loss of reputation arising from the negative publicity relating to the Company's operations (whether true or false) may result in a reduction of its clientele, reduction in revenue and legal cases against the Company. The Company applies procedures to minimize this risk.

3.3 Internal Capital Adequacy Assessment Process (ICAAP)

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 updates the results of the Internal Capital Adequacy Assessment process (ICAAP) at least annually.

The ICAAP covers 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 approves the design of the ICAAP and the detailed implementation is the responsibility of the Senior Management.

4. Governance – Board and Committees

4.1 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.

Knowledge, Skills and Expertise of the Management Board

All the Company's BoD members collectively possess adequate knowledge, skill and experience to be able to understand the Company's activities and principal risks. The Company ensures that its Board members act with honesty, integrity and independence of mind to effectively assess and challenge senior management decision and to effectively oversee and monitor the decision making process.

The Company seeks for qualified enough BoD members who are of sufficiently good repute and experience to perform their duties. Furthermore, the Company devotes adequate human and financial resources to the induction and training of its BoD members.

4.2 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.

4.3 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	Position within the Company	Number of Directorships, including position in CFI
Nectarios Kalopetrides	Non-Executive	2 (1 Executive,1 Non-Executive)
Eduardo Fakhoury	Executive	3 (Executive)
Elie Aoun	Executive	1 (Executive)

Christos Zambas who was a member of the Board of Directors during the year ended 31 December 2016 passed away on 7 March 2017.

4.4 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.

5. 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 2016 were €1.760 thousand.

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

Capital Base/Own Funds	31 December 2016 EUR 000
Common Equity Tier 1 Capital (CET1)	
Share Capital	1.500
Retained Earnings	53
Audited Income / (Loss) for the year	278
Total Tier 1 Capital	**1.831**
Additional Own Funds (Tier 2)	
Subordinated Loan Capital	-
Total Tier 2 Capital	**-**
Deductions	
Intangible Assets	-11
Investors Compensation Fund	-60
Total Deduction	**-71**
Total Common Equity Tier 1 Capital	**1.760**

Share capital

On 8 January 2016 the authorised and issued share capital of the Company was increased from 600.000 ordinary shares of €1 each to 1.500.000 ordinary shares of €1 each.

6. Capital Requirements

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.

The CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8% for Pillar I risks, plus the relevant capital buffers, as applicable. In addition, the CySEC may impose

additional capital requirements for risks not covered by Pillar I. For 2016, the Company was subject to a minimum Pillar I capital adequacy ratio of 8% plus a capital conservation buffer of 0,625%, according to the relevant transitional implementation provisions, resulting to an overall minimum of 8,625%. The capital conservation buffer has to be met entirely out of Common Equity Tier 1 capital.

As at 31 December 2016, the Company's capital adequacy ratio was 56%, considerably higher than the minimum required of 8,625%.

The minimum capital requirement calculated for each category of risk as at 31 December 2016 is shown in the table below.

31 December 2016	**Minimum Capital Requirements EUR 000**
Risk Category	
Credit Risk	140
Market FX Risk	41
Operational Risk (Basic Indicator)	70
Total	251

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 2016, broken down by exposure class.

Exposure Classes and Minimum Capital Requirements			**31 December 2016 EUR 000**
Exposure Class	**Total Exposure Value**	**RWA**	**Minimum Capital Requirements**
Institutions	292	58	5
Other Items	188	185	14
Corporates	1.509	1.509	121
Total	**1.989**	**1.752**	**140**

The table below presents exposure amounts per Asset Class and Risk Weight

Table: Exposure amount per Asset Class and risk weight				**31 December 2016 EUR 000**
Exposure Class	**RW 0%**	**RW 20%**	**RW 100%**	**Total**
Institutions	-	292	-	292
Other Items	3	-	185	188
Corporates	-	-	1.509	1.509
Total	**3**	**292**	**1.694**	**1.989**

The table below presents the average exposure per exposure class:

Average Exposure for 2016	**31 December 2016 EUR 000**
Exposure Class	**Average Exposure Value**
Institutions	233
Other Items	1.095
Corporates	787
PSE	43
Total	**2.158**

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 2016 EUR 000**
Exposure Class	**<= 3 months**	**>3 months or N/A**	**Total**
Institutions	292	-	292
Other Items	3	185	188
Corporates	1.508	1	1.509
Total	**1.803**	**186**	**1.989**

The table below illustrates the geographic distribution of the Company's exposures as at 31 December 2016.

Exposure Classes by Country						31 December 2016 EUR 000
Exposure Class	**Cyprus**	**Lebanon**	**Switzerland**	**UK**	**USA**	**Total**
Institutions	115	-	119	35	23	292
Other Items	188	-	-	-	-	188
Corporates	1	1.508	-	-	-	1.509
Total	**304**	**1.508**	**119**	**35**	**23**	**1.989**

The following table shows the distribution of the Company's exposures by industry type as at 31 December 2016.

Breakdown of Exposures by Industry Sectors			31 December 2016 EUR 000
Exposure Class	**Financial**	**Other**	**Total**
Institutions	292	-	292
Other Items	-	188	188
Corporates	1.508	1	1.509
Total	**1.800**	**189**	**1.989**

The following table shows the distribution of the Company's exposures per Asset Class and Counterparty CQS as at 31 December 2016.

Table: Exposure amount per Asset Class and counterparty CQS				31 December 2016 EUR 000
Exposure Class	**CQS3**	**CQS6**	**Unrated/NA**	**Total**
Institutions	23	70	199	292
Other Items	-	-	188	188
Corporates	-	-	1.509	1.509
Total	**23**	**70**	**1.896**	**1.989**

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

For its exposures to Institutions, the Company used the credit ratings of Moody's as these stood as of 31 December 2016.

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	Moody's
1	Aaa to Aa3
2	A1 to A3
3	Baa1 to Baa3
4	Ba1 to Ba3
5	B1 to B3
6	Caa1 and below

7. Leverage Ratio

The Leverage ratio is a new monitoring tool which will allow competent authorities to assess the risk of excessive leverage in their respective institutions. It is a simple, non-risk-based ratio that has been introduced in the Basel III framework to constrain the build-up of excessive leverage.

This new regulatory and supervisory tool has been running from 1st January 2015.

Leverage ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2016/62 of 10 October 2014 amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regards to the Leverage ratio. It is noted that the final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar 1 minimum capital requirement on 1 January 2018.

The Company's Leverage ratio as at the reference date was 88,51%, the minimum proposed allowable being 3%.

The table below provides a reconciliation of accounting assets and Leverage ratio exposures:

Summary reconciliation of accounting assets and leverage ratio exposures		Applicable Amounts USD '000
1	Total assets as per published financial statements	2.057
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	-
5	Adjustments for securities financing transactions "SFTs"	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
7	Other adjustments	-68
8	**Total leverage ratio exposure**	1.989

The following table provides a breakdown of the Leverage ratio exposure measure by exposure type:

Leverage ratio common disclosure		CRR leverage ratio exposures USD '000
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2.060
2	(Asset amounts deducted in determining Tier 1 capital)	-71
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	1.989
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	-
Securities financing transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	-
Other off-balance sheet exposures		
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	-
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		

20	**Tier 1 capital**	1.760
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	1.989
Leverage ratio		
22	**Leverage ratio**	88.51%

The table below provides a breakdown of total on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by asset class:

		CRR leverage ratio exposures USD '000
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1.989
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	1.989
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	-
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
EU-7	Institutions	292
EU-8	Secures by mortgages of immovable properties	-
EU-9	Retail exposures	-
EU-10	Corporate	1.509
EU-11	Exposures in default	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	188

Description of the processes used to manage the risk of excessive leverage

In order to manage the risk of excessive leverage, the Company ensures that its Leverage ratio is always above the current 3% proposed regulatory limit. The Company monitors its Leverage ratio on a quarterly basis and through its ICAAP.

Factors that had an impact on the Leverage ratio during the period

The Company has estimated its Leverage ratio for the first time on 31 December 2016. As a result no fluctuation of the Leverage ratio was noted during the financial year 2016.

8. Remuneration Policy and Practices

Introduction

The Company has designed appropriate remuneration policies and practices. Due to the small size of the company, there is no need to establish a Remuneration committee or Human Resources department, flow will remain between the general manager assistant acting as Human Resources officer and the General Manager. Once the company reaches 20 employees, these policies and practices will be reviewed, taking into consideration the duties, role, size and the members of the remuneration committee.

When designing or reviewing remuneration policies and practices, the Company has taken into consideration the conduct of business and conflicts of interest risks that may arise. The Company's remuneration policies and practices are aligned with effective interest of management duties and conduct of business risk management obligations, in order to ensure that clients' interests are not impaired by the remuneration policies and practices adopted by the Company in the short, medium and long term.

The Compliance function is involved in designing and reviewing the process of the remuneration policies and practices. The remuneration policies and practices are being periodically reviewed in order to always comply with the requirements by Law from the Compliance department, the General Manager assistant acting as Human Resources officer and the General Manager.

As a matter of principle, the Company supports levels of remuneration and compensation necessary to attract, retain and motivate high quality people required to lead, manage and serve the Company in a competitive environment. The Company strives to ensure that remuneration packages reflect the relevant duties and responsibilities, are fair and equitable, and incorporate rewards clearly and measurably linked to performance both on an individual and on a corporate basis.

Key characteristics of remuneration policy

The Company ensures the ratio between the fixed and the variable components of the remuneration is at an appropriate level, in order to take into consideration the best interests of its clients. High variable remuneration, based on quantitative criteria can increase the relevant person's focus on short term gains rather than the client's best interest. Additionally, the remuneration policies and practices show the operation of a flexible policy on variable remuneration including, where appropriate, the possibility to pay no variable remuneration at all. As at 31 December 2016 the ratio of the variable remuneration over fixed for all employees was below 100%.

The fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, seniority, education, responsibility, job complexity, local market conditions, etc.
Sales development staff typically have both fixed and variable salary components that together comprise each employee's total compensation. At higher levels in the Company, the amount of variable compensation is usually greater than at lower levels because it is only paid when sales goals are met. Some salespeople may not have any fixed component of pay at all and instead are paid a commission for each sale they make.

Staff at all levels may also earn a bonus or incentive. For sales employees, incentives are usually based on individual, team and company sales goals. Unlike a fixed component, such as a salary, bonuses and incentives are variable pay because the amount an employee is paid varies based on actual performance.

When assessing performance for the purposes of determining variable remuneration as described above, the Company does not only take sales volume into consideration as this can create conflicts of interest which can ultimately result in detriment to the client

In order to abide all the above, the Company has created an internal form where all the above criteria are implemented in order to assess each employee’s performance at a certain time where it is accessible, understandable and filed. The Performance Appraisal Form clearly indicates the competencies/qualitative criteria used in evaluating performance.

In addition to the non-financial criteria indicated in the Performance Appraisal From, individual as well as collective performance could also be evaluated based on measurable performance criteria. These Key Performance Indicators (KPIs) differ depending on the business unit/profit center and reflect the targets/objectives of the specific area.

Furthermore, the Company’s remuneration policies and practices are adopted and maintained in order to enable effective identification where the relevant persons fail to act in the best interests of the clients and to take remedial action(s) as deemed appropriate.

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	3	70	25	**95**
Members of staff whose actions have a material impact on the risk profile of the institution, other than those included in category above	8	79	2	**81**
Total	**11**	**149**	**27**	**176**

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 2016:

Annual Aggregate Remuneration by Business Area (€000)	
Business Area	**Aggregate Remuneration**
Control Functions	95
Other Functions (Sales, Customer Support, Marketing, Other)	81
Total	**176**

Appendices

Appendix I: Transitional own funds disclosure

At 31 December 2016	Transitional Definition	Full - phased in Definition
	€000	**€000**
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	1.500	1.500
Retained earnings	331	331
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1.831**	**1.831**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments	-	-
Intangible assets (net of related tax liability)	(11)	(11)
Investors Compensation Fund	(60)	(60)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(71)**	**(71)**
Total Common Equity Tier 1 (CET1)	**1.760**	**1.760**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**1.760**	**1.760**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**1.760**	**1.760**
Total risk weighted assets	**3.141**	**3.141**
Capital ratios		
Common Equity Tier 1	56.04%	56.04%
Tier 1	56.04%	56.04%
Total capital	56.04%	56.04%

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 2016 EUR 000
Share capital	1.500
Retained Earnings	53
Profit for the period	278
Intangible Assets	(11)
Investors Compensation Fund	(60)
Total Own Funds	1.760