X GLOBAL Markets Ltd

Risk Management Disclosures Year ended 31st December 2015

"This document has been prepared in accordance with the provisions of Title II ("Technical Criteria on Transparency and Disclosure"), Articles 435-451 of Regulation (EU) No 575/2013 of 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms"

Contents

1. Introduction & Scope of Application

1.1. X GLOBAL Markets Ltd (hereinafter called the "Company") is an investment firm regulated by the Cyprus Securities and Exchange Commission (License No. 171/12). The *Risk Management Disclosures* (hereinafter called "*the Disclosures*") are provided to clients and potential clients and to all market participants in accordance with the provisions of Title II ("*Technical Criteria on Transparency and Disclosure*"), Articles 435-451 of Regulation (EU) No 575/2013 (hereinafter "*the Capital Requirements Regulation*" or "*the CRR*") of 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

1.2. The Company obtained its license to act as a Cypriot Investment Firm, on the 15th of June 2012. The information provided in this document is based on procedures followed by the management of the Company to identify, quantify (where applicable), monitor and manage risks for the year ended 31 December 2015 and on reports submitted to the Cyprus Securities and Exchange Commission (hereinafter called "*the* CySEC") for the year under review. The Company's reporting currency is the Euro.

2. The Company's Approach to Risk Management

2.1. Managing risk in an investment firm which offers its investment and ancillary services across the globe and is exposed to multiple risks is a challenging task and requires a strong risk management culture. As a result, the Company has established an effective risk management framework comprised of the necessary internal controls to ensure that the Company identifies and manages its risks adequately, establishes the necessary policies and procedures, sets and monitors relevant limits and complies with the requirements of applicable legislation.

2.2. Risks in the Company are efficiently managed through the Company's Internal Capital Adequacy Assessment Process (ICAAP) which embodies, amongst others, the aforementioned risk management framework. The Board of Directors (hereinafter "*the management body*" or "*the BoD*") places special attention to the prudent design, adoption and implementation of the Company's ICAAP; therefore, an ICAAP Committee comprised by all the members of the Company's Risk Management Committee has been formed. One of the members of the ICAAP Committee is also appointed as the Promoter of the ICAAP (the Company's General Manager) and thus assumes the overall responsibility for its supervision and implementation.

3. Risk Management Framework

3.1. The Company has a full time Risk Manager who, on a frequent basis, identifies, measures, monitors and manages the Company's risks. In addition, a Risk Management Committee has been set which, in combination with the Company's Risk Manager, defines and suggests risk management limits, control mechanisms, risk management policies and procedures, additional capital allocation for Pillar II risks and for risks not fully covered by Pillar I, et cetera. It goes without saying that the Company's BoD bears the ultimate responsibility and has the last call as regards final decisions and approvals.

3.2. All employees of the Company receive continuous support and guidance on risk management related issues by the Company's Risk Manager and they are aware that risk related incidents should be immediately reported to the Risk Manager.

3.3. The Company meets the criteria to be considered as small, non-complex for the purposes of the ICAAP and has chosen to apply the Pillar I minimum capital requirement approach in designing and implementing its ICAAP. In accordance with this approach, the minimum capital calculated under Pillar I is internally assessed and challenged, aiming to identify and quantify all uncontrolled/material risks. Subsequently, the allocation of additional capital and/or the imposition of additional controls is decided. It should be highlighted that the Company has chosen to adopt a conservative approach in measuring/quantifying its internal capital requirements, by totally ignoring potential correlation effects between risks of different nature and following a simple "add-on" process (i.e. the calculated capital requirements for each risk are summed together in order to derive the amount of required internal capital; the total capital requirement resulting from the Company's Pillar I and Pillar II calculations).

3.4. In order to impartially assess the appropriate profile for each risk, the Company's Risk Manager maintains and frequently updates a detailed Risk Map/Register. In particular, the Company's Risk Manager identifies all the financial and non-financial risks the Company faces and records them in the said register, where all the details related to the relevant risk management controls are also documented. Thereafter, each risk in the Risk Register receives two (2) different ratings (both based on the Risk Manager's competent professional judgment coupled with previous events/experience):

- A rating related to its potential financial impact on the Company; and,
- A rating related to its probability of occurrence

3.5. The Risk Manager uses the following profiling of risks to group risks according to their category of severity:

- Immaterial (category I)
- Low (category L)
- Material (categories M for medium and H for high)

The product (i.e. multiplication) of the two aforementioned ratings gives the overall score of each risk. Such score determines each risk's category of severity (I, L, M, or H); thus its profile. The Company considers itself to be both willing and able to tolerate risks (the combination of willingness and ability to tolerate risks determines the Company's Risk Tolerance) falling under categories I and L, whilst risks having an overall risk score of M and H (i.e. uncontrolled/material risks) are considered to violate the

Company's degree of risk tolerance. In accordance with the Company's ICAAP, when risks are categorized as material, supplementary analysis is performed and decisions are taken on whether additional capital needs to be allocated (i.e. risk based capital allocation based on each risk's measurement/quantification) in order to cope with such risks and/or whether additional risk controls need to be established and implemented. The Company, following a conservative approach, usually decides on the allocation of additional capital. To this end, the Risk Manager takes into consideration the overall score of each risk, which places the risk into a sub-category (i.e. M1, M2, M3, H1, H2, or H3). The additional capital requirement arising from each material risk is calculated as a percentage of the potential financial impact of the said risk.

3.6. Prior to the application of the ICAAP, the Risk Register is discussed and finalized during a Risk Management Committee's meeting whereby the Senior Management has the opportunity to elaborate on the identified risks and comment on their materiality, as well as the overall methodology of the risk assessment. The Risk Manager, the Risk Management Committee and the Senior Management review the Risk Register at least annually.

4. Adequacy of Risk Management Arrangements

4.1. The BoD is ultimately responsible for the risk management framework of the Company. The risk management framework aggregates the internal control systems, the structures, the policies, the procedures and the human resources within the Company that identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company's operations.

4.2. In accordance with the provisions of the CRR, the BoD must provide an annual declaration on the adequacy of the Company's risk management arrangements and assure that the risk management systems in place are adequate with regard to the Company's risk profile and strategy.

4.3. <u>Board Declaration</u>

The BoD accepts and acknowledges its ultimate responsibility for reviewing the effectiveness of the Company's risk management arrangements and internal control systems. Such arrangements and systems, as aggregated within the risk management framework, are designed to identify and to measure, monitor and manage the Company's exposures to financial and non-financial risks. The complete elimination of risks faced by the Company is impossible; thus, proper implementation of the Company's risk management framework offers reasonable but not absolute assurance against fraud, material misstatement, financial loss and reputational damage.

In general, the BoD considers that the Company has in place adequate systems and controls relevant to its risk profile and strategy and that an efficient set of risk management and internal control mechanisms are in place which assure, on a reasonable basis, the mitigation of exposures to risks, thus, avoiding loss and/or other damages.

5. Risk Profile Statement

5.1. In accordance with the provisions of the CRR, the BoD must provide a concise risk statement describing the Company's overall risk profile associated with its business strategy. It should include key ratios and it should show how the risk profile of the Company interacts with the risk tolerance set by the management body.

5.2. Risk Statement of the BoD

The principal activity of the Company is the provision of the following investment and ancillary services:

Investment Services and Activities:

(a) Reception and transmission of orders in relation to one or more Financial Instruments; and,
(b) Execution of orders on behalf of clients.

Ancillary Services:

(a) Safekeeping and administration of Financial Instruments for the account of clients, including custodianship and related services such as cash/collateral management;
(b) Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
(c) Foreign exchange services where these are connected to the provision of investment services; and,
(d) Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.

The aforementioned services are offered mostly with respect to CFDs on Spot Foreign Exchange, CFDs on Spot Precious Metals and a small number of other CFDs. At a later stage the Company is planning to enhance the offering of financial instruments via the introduction of additional currency pairs and metals on a CFD basis as well as via the introduction of CFDs on different types of Futures Contracts (Soft Commodities, Indices, Fixed Income Securities, Interest Rates etc.) and potentially CFDs on European, American and Asian Stocks.

The Company's business strategy is pursued within a defined risk appetite/tolerance. The BoD determines the Company's overall risk tolerance following the annual implementation of the Company's internal capital adequacy assessment process. The aim is to ensure that the Company implements and will continue to implement its strategic plans whilst honoring both its regulatory and internally determined risk limits. The only way to ensure that is to measure its capital requirements stemming from its current and future exposures to material risks and to make sure that the Company has adequate eligible own funds to cover its current and forecasted internal capital (i.e. the level of capital that the Company, after the application of its internal risk assessment procedures, considers as adequate for the coverage of all the risks that is, or could be, exposed to).

To this end, as described in section 10 "*Capital Management*", the Company uses its latest financial information as a starting point, and coupled with the Company's strategic plan, forecasts its financial performance for three (3) years ahead for the purpose of prudent, forward looking capital planning. The relevant forecasts are used to derive the Company's expected financial position over the same time period; such forecasts constitute the Base Case (i.e. the Expected) Scenario. In conjunction with the Company's current financial position and aforementioned financial projections, the Company's current and projected Internal Capital Requirements in comparison to the projected available capital (Regulatory Own Funds) are put down. Based on this comparison, the Company is able to observe whether its forecasted available capital base will be adequate to cover any future strategic actions that the Company's BoD and Senior Management intend to take (always in accordance with the base case scenario).

This process is implemented in order to assure the BoD that the Company currently operates and will continue to operate within its current and future aggregate risk limit as represented by its current and projected Internal Capital. In case such aggregate risk limit is expected to exceed the Company's expected risk tolerance (as represented by its projected regulatory own funds) the BoD plans ahead by securing the injection of additional capital and/or the establishment of additional risk controls.

Needless to say, the Company's base case scenario is stressed to identify whether the Company will be in a position to hold adequate capital to withstand strenuous and sometimes catastrophic incidents and/or circumstances. At this point it is crucial to note that the Company's updated risk tolerance and aggregate risk limit shall be estimated/measured during the upcoming internal capital adequacy assessment process which has been scheduled to take place within the summer months of 2016. As noted in the Annual Risk Management Report for 2015, from 2015 onwards the Company has decided to conduct the annual assessment process based on audited figures for the relevant year but also after the verification of the capital adequacy figures (based on audited results), which are included in the Disclosures but have not yet been verified by the Company's external auditors. Therefore, such annual assessment for 2015 is expected to be conducted within the summer months of 2016 and is expected to be repeated during such months at least every year. The latest ICAAP Report, which includes the results of the relevant stress testing, is of course always available for inspection at the Company's premises.

The BoD considers the Company's current risk profile as being moderately conservative. This is evident in the following key figures and ratios:

Risk Area	Metrics	Comment	Measure
Regulatory Capital	Core Equity Tier I - CET1	The Company's core objective is to always maintain regulatory ratios within the minimum thresholds imposed by CySEC. The Company targets to maintain a robust capital adequacy position which allows it, at any point in time, to efficiently absorb the potential losses stemming from its exposures to risks.	CET1 = Tier 1 Capital Ratio = 8.88%
Liquidity Risk	On Balance Sheet Current Ratio – CR	The Company's current assets excluding those of non-readily available nature such as prepayments, funds held at ICF, VAT receivables etc. are divided by the Company's total current liabilities. Off balance sheet, all liabilities are truly current in nature (clients' funds) whilst on the other side of the equation funds held to cover such liabilities are readily available upon demand, as such funds are held with credit and other financial institutions in current and other accounts of readily available nature; thus, off balance sheet liquidity risk is essentially non-existent.	CR = 3.29
Market (FX) Risk	Capital charge as a % of total capital charges - CC%, Euro Eq. Exposure as a % of T1 Capital - CC	Despite the fact that the Company is essentially immunized against other types of Market Risk such as Equity Risk and Interest Rate Risk (with the exemption of rollover/swap fees on open positions), it is exposed to Foreign Exchange Risk as foreign currency mismatches between assets and liabilities do exist. Foreign exchange risk in the Company is effectively managed by setting and controlling maximum foreign exchange (i.e.	CC% = 9.21% CC = 1.04

		currency) risk limits and also by eliminating or at least minimizing any foreign exchange mismatches through physical transactions and/or through hedging transactions using derivatives. Lastly, for the year under review, the Company has made a few proprietary trades in CFDs aiming to strengthen its revenue base. Needless to say, market risk relevant to such trades (which were all intraday trades) was carefully monitored, measured and managed by the Company's RM and the effects of such trading on the Company's capital adequacy was monitored and controlled at all times.	
Credit/Concentration Risk	Exposures to Institutions as a % of regulatory own funds - E% (calculated for the three largest exposures to institutions)	The Company has policies in place to ensure that proper diversification/dispersion of funds held with credit/financial institutions is assured subject to constraints imposed by the fact that the Company covers its clients' exposures with specific trading counterparties (with which it must maintain sufficient balances). The largest part of the Company's own funds are held with reputable European banks and other financial institutions (lower default risk) which are subject to regulatory supervision by the central banks and other relevant competent authorities in the jurisdictions where they are located.	E% HB = 20.36% E% AIB = 163.60% E% IFA = 36.79%
Operational Risk (certain types of operational risk: Systems Failure Risk, Information and Technology Risk, External Events Risk (force majeure events), Loss of key employees	The Company manages operational risk through a control-based environment in which procedures are documented and transactions are reconciled and monitored on a daily basis. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated. Further, the Company has in place documented policies and procedures whose implementation assists with the evaluation and management of any exposures to different types of operational risk. IT and Systems Policies, which include but are not limited to backup procedures, software/hardware maintenance, use of the internet and anti-virus procedures have been adequately		

	documented and put in place. Furthermore, the Company has prepared a comprehensive business contingency and disaster recovery plan with recovery procedures and actions to be followed in the case of damage to any vital part of the Company's headquarters. Lastly, the Company implements a comprehensive training program to ensure that staff can perform multiple activities.
AML Compliance Risk (as part of General Compliance Risk)	The Company has established policies, procedures and controls in order to mitigate Money Laundering and Terrorist Financing risks. Among others, these policies, procedures and controls include the adoption of a risk-based approach that involves specific measures and procedures in assessing the most effective way to identify and manage the Money Laundering and Terrorist Financing risk faced by the Company, the adoption of adequate Client Due Diligence and Identification Procedures, the establishment of minimum standards of quality and extent of the required identification data for each type of client, the receipt of additional data and information from clients for a better understanding of their activities and the on-going monitoring of high risk clients' transactions and activities.

6. Internal Governance

6.1. The Company has adopted a vigorous internal governance framework as part of its overall corporate governance, on the basis of which the Company's processes and procedures are governed on a daily basis and which, coupled with additional allocation of capital (where deemed necessary) and/or additional risk controls, ensures mitigation of risks. The Company considers that both its current Risk Management Framework and its Internal Control Mechanisms are sufficient and adequate, taking under consideration the principle of proportionality. A brief summary of the principal responsibilities of the Board, the Senior Management, the Internal Auditor, the Risk Management Committee and the Risk Management Function in relation to the management of the Company's risks is provided in the following subsections.

6.2. The Board of Directors, which carries the ultimate responsibility for the approval of the ICAAP, has unequivocal responsibilities as regards the management of the Company's risks, their internal control and the Company's capital adequacy. Particularly, the Board is, at all times, responsible for defining the Company's risk profile in terms of its risk tolerance and for making the necessary arrangements so as for the Company to operate within this predetermined profile at all times, as well as regarding the adequacy of the Company's capital allocated in proportion to the nature and level of material risks and the respective capital requirements.

6.3. The Board reviews and discusses, during its meetings, the written reports generated by the internal control functions of the Company (and approves the relevant Annual Reports), namely the Risk Management, the Internal Audit, the Compliance Department and the Money Laundering Compliance Department, so as to remain up to date with the Company's position as regards the aforementioned functions. Moreover, the BoD is responsible to address any deficiencies identified throughout the said reports at the soonest possible, especially where there is a breach of the regulatory framework which could potentially harm the Company (the BoD should seek to restore compliance and inform the regulatory body where required).

6.4. The Company's Senior Management also reviews the written reports prepared by the Risk Manager (and those generated by the other internal control functions of the Company), applies the decisions of the Board with respect to risk management and monitors whether all the Company's risk management procedures are followed.

6.5. The Internal Auditor evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures with respect to risk management.

6.6. The Risk Management Committee ensures efficient management of the Company's risks in the provision of the investment and ancillary services to clients, as well as the risks underlying the operation of the Company, in general. Furthermore, the Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of the 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 in addition to the Company's obligations stemming from the relevant laws, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

6.7. The Risk Manager (heading the Risk Management Function) identifies, quantifies (if applicable), monitors and manages the Company's financial and non-financial risks, and ensures that all the different types of risks taken by the Company are in compliance with its obligations stemming from applicable legislation and that all necessary risk management procedures are in place. Moreover, the Risk Manager is responsible for making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified.

7. Disclosures on Governance Arrangements

7.1. <u>Number of additional directorships held by members of the Board (Board's composition as at 31st December 2015)</u>

Name	Position within the Company	Directorships -Executive	Directorships - Non Executive
Samir Dbouk	Executive Director	1	1
Wael Dergham	Non-Executive Director	1	-
Nadi Abdallah	Executive Director	-	1
Ali Dbouk	Non-Executive Director	1	1

Stavros Petrakides	Independent, Non-Executive Director	1	2
Panayiotis Damianou	Independent, Non-Executive Director	1	-

7.2. Recruitment policy in relation to the selection of members of the Board of Directors

The Company follows a pre-specified procedure for carefully selecting the members of the BoD. In particular, the members of the BoD must be recognized in the industry for their integrity and ethos; they must also have the necessary academic/professional qualifications and/or relevant work experience, they must complement each other and they must have diverse skills and be competent enough in order to be able to effectively uphold their responsibilities and honor their duties. They also need to exhibit financial knowledge and risk management experience. Part of the duties of the members of the BoD is to identify and evaluate, based on the above criteria, candidates who would be able to respond to the requirements of the Company's BoD. Despite the fact that the Company had not officially documented its recruitment policy up to the date of preparation of this report, it is currently in the process of doing so. Upon finalization of the written policy, the BoD will approve it.

7.3. Diversity policy in relation to the selection of members of the Board of Directors

The Company recognizes the benefits of having a diverse BoD which includes and makes use of multiple and diverse skills, knowledge and applicable experience amongst its BoD members. Diversity is well taken into consideration in determining the appropriate composition of the BoD. The Company's diversity policy is included in the above-mentioned policy for the selection and appointment of the members of the Board of Directors.

7.4. Risk Management Committee

The Risk Management Committee of the Company is responsible for ensuring that efficient monitoring of the risks inherent in the provision of the investment and ancillary services to clients as well as the overall risks underlying the operations of the Company is in place and is constantly being redesigned in case of any changes occurring to the business/operational model of the Company.

The Company adopts and maintains (following approval by the RM Committee) risk management policies and procedures, which identify the risks relating to the Company's activities, processes, and systems and sets the level(s) of risk tolerated by the Company. The RM Committee bears the responsibility to monitor the adequacy and effectiveness of the 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 in respect to those policies and procedures, including failures by the Company's relevant persons to comply with such policies and procedures.

The composition of the Risk Management Committee as at 31st December 2015 was as follows:

- Mr. Stavros Petrakides, Independent, Non-Executive Director
- Mr. Panayiotis Damianou, Independent, Non-Executive Director
- Mr. Samir Dbouk, Executive Director and RM, Part of "4-Eyes"
- Mr. Nadi Abdallah, Executive Director

The RM Committee's members discharge their duties solely in the joint interest of the Clients and the Company, and exercise the level of care, skill, prudence and diligence that a prudent person, acting in a like capacity, would be expected to exercise in discharging such duties.

The RM Committee meets at least semiannually, and all committee decisions must be unanimous. A quorum constitutes three persons present either physically or through conference calls. Quorum must be achieved before meetings can be considered open. The decisions of the RM Committee are communicated to all relevant departments, in a timely manner relevant to their significance/urgency.

The RM Committee is dedicated primarily to managing the credit, concentration, market, liquidity and operational risks of the Company and as part of its responsibilities it has to set out, approve and regularly update the Company's risk management policies and procedures, which form the overall risk strategy, as well as to monitor all risks on an ongoing basis. In carrying out its duties the RM committee provides the BoD with status updates and recommendations on risk management policies and procedures.

As aforementioned, the RM Committee meets at least on a semiannual basis, except where the circumstances require extraordinary meetings, which can be called by the Risk Manager or by any member of the RM Committee. In general, the Risk Management Committee presents its findings to the BoD; however, the Company's BoD has taken a unanimous decision to grant permission to the RM Committee to approve the Company's risk management policies and procedures and to take decisions on risk management related matters, on its behalf. However, the Annual Risk Management Report and the Company's ICAAP Report are always separately presented to and approved by the Company's BoD.

The Risk Management Committee has met two (2) times during the year 2015.

8. Material Risks

8.1. Use of a Risk Register

Risks inherent in the Company are internally assessed using the Company's Risk Register, which is available upon demand. Within the Risk Register, the Company documents and categorizes all risks that it is currently exposed to, or to which it could potentially be exposed in the future. The risks are assessed based on the probability of risk occurrence as well as on the potential financial impact (cumulative and looking 1-year ahead) that they could have on the Company if they were to be crystallized. The product of the score of probability of risk occurrence and the score of potential financial impact gives the overall score of each risk, which determines its degree of materiality. The result of this assessment is the profiling of risks in different categories of severity i.e. I, L, M, H, and in the relevant sub-categories (M1, M2, M3, H1, H2, H3), as regards risks rated M and H (i.e. material risks).

8.2. Following its internal risk assessment, the Company considers as material the following risks:

- Credit/Concentration Risk
- General Operational Risk
- Market Risk (mostly in the form of Foreign Exchange Risk)
- Other Concentration Risk
- Business Risk
- General Compliance Risk
- Reputational Risk
- Chargeback Risk
- Capital Adequacy Risk

The analysis of the risks included in the following section of the *Disclosures* describes, among other risks, each type of material risk, the measures and policies taken by the Company to manage these risks and the status of the Company with respect to each risk, as applicable.

9. Analysis of Risks

9.1. Credit risk

Credit Risk arises when counterparties fail to discharge their obligations towards the Company, thus reducing the amount of future cash inflows from the financial assets at hand on the Company's statement of financial position.

The Company has policies in place to ensure that proper diversification/dispersion of funds held with credit/financial institutions is ensured. Specifically, the Company considers prudent that the maximum credit exposure to any counterparty is being set in line with the loss that, statistically (i.e. based on credit ratings where available), can be expected from the particular exposure but also in relation to the level of the Company's regulatory own funds (the Company continues to monitor such level despite the fact that it is no longer required to submit large exposures to institutions to CYSEC). The former helps the Company to limit its credit exposures within internally established counterparty limits. The Company has also policies in place to ensure that monitoring and frequent reassessment of the credit quality of credit/financial institutions and trading counterparties is performed and the relevant limits are updated.

At this point it is also crucial to mention that the Company has a very useful tool in mitigating credit concentration risk to which it was exposed up to mid-2015 as a result of the fact that it used (and still uses) a small number of execution venues/trading counterparties to transmit client orders for execution. This tool relates to credit lines received by such counterparties. These credit lines are used essentially on a continuous basis for the purpose of acting as margin for the execution of client orders whilst the settlement of resulting profit/loss is done in batches at a later stage. As a result, during the largest part of the second half of 2015, the Company's ability to ensure proper diversification/dispersion of funds was assured (especially with respect to off balance sheets items) and stopped being eroded by the small number of trading counterparties.

In addition to the above mentioned, counterparty specific, credit risk control tactics, the Company, acknowledging the interrelation between country and counterparty credit risk, also targets to diversify country risk across countries, to the best possible extent. In this respect, it should be noted that both counterparty limits and country risk mitigation policies are being reviewed regularly. The Company's exposure to on balance sheet concentration risk (such as credits granted to clients) is managed in a similar manner.

Despite the existence of the aforementioned credit/concentration risk methods, the Company's ability to diversify exposure(s) to such risk(s) is still eroded by the fact that it is obliged to execute client withdrawals through the same remitter and using the same transfer method as the one through which the Company had received such funds. As a result, the Company has to maintain at least an adequate level of balance with each credit/financial institution in order to maintain its ability to execute client withdrawal requests as fast as possible (a necessity imposed by the nature of a competitive industry). In any case, the Company explicitly informs its clients, through the relevant agreement for the provision of investment and ancillary services, that Client funds are held in the name of the Company on behalf of the Client (i.e. the funds are held in the name of the Company but under a Client denomination and such funds are segregated from the Company's own funds) and/or in the name of the Client directly, in account(s) with credits and/or other financial institutions and that the Company has the right to select such institutions from time to time and will exercise reasonable skill, care and diligence in doing so. In addition, the Company informs its clients that it will not be liable for any loss and/or damage suffered by the Client due to the insolvency, default, act and/or omissions of any credit and/or other financial institution with which Client funds are held, unless such loss and/or damage is the result of gross negligence or fraud by the Company in the appointment or monitoring of the institution.

The Risk Manager's recommendation is the establishment of additional relationships with credit/financial institutions to which clients can deposit funds in order to achieve a natural hedge against credit/concentration risk (the establishment of additional relationships with trading counterparties is also recommended but this is not as important due to the existence and usage of the aforementioned credit lines). This, along with the fact that the Company executes, when such necessity arises, transfers between client denominated accounts (aiming to keep balances held with each credit/financial institution within internally imposed limits or within reasonable limits when dictated by circumstances), is expected to mitigate even more the Company's exposure to credit/concentration risk.

Further to the above, the Company has policies in place to ensure that, when necessary, investment and/or ancillary services are provided to Clients with an appropriate credit history and to monitor on a continuous basis the ageing profile of its receivables (if any). In case credits or loans are granted to creditworthy clients in accordance with the relevant ancillary service (which the Company is licensed to provide), the associated credit risk involved is managed through additional credit risk mitigation tools such as monitoring of the trading activity of the trading account of the client to which temporary credit has been granted (in order to monitor the level of usage of the temporary credit as margin and also to prevent instances where such temporary credit is used to absorb trading losses in cases where no previous confirmation has been received by the Company in relation to the upcoming settlement of the credit due and/or no other credit mitigation tool exists) and netting arrangements (when applicable). Lastly, the Company follows the requirements of Circular IF (2006-07) when granting credits to clients for conducting transactions and, in accordance with the requirements of the Company's Statutory Auditors and the recommendations of the Company's Risk Manager, such credits are included in the statement of financial position (thus taken into consideration in its capital adequacy calculations). Despite the aforementioned, the Company has not yet officially documented its credit granting policy, something which is recommended to be done the soonest possible.

By applying the requirements of Regulation (EU) 575/2013 (the "Regulation") when identifying and measuring its credit risk exposures, the Company has identified and measured specific credit risk exposures (capital charges), using the Standardized Approach, arising from the following:

- Accounts with financial/credit institutions
- Exposures to Regional Government/local Authorities
- Exposures to Public Sector Entities
- Exposures to Corporates
- Other Exposures

Other Credit Risks

The Pillar I capital charge, in relation to the Company's total exposure to credit risk as at 31st December 2015, of EUR 19,840 is decomposed as follows:

Risk Weighted Assets (RWAs)	31/12/2015
Institutions	€123,000
Regional Gov. & Local Author.	€1,000
Public Sector	€43,000
Corporates	€6,000
Other Exposures	€75,000
Total RWAs	**€248,000**
Credit Risk (8% of RWAs)	**€19,840**

9.2. Market risk (mostly in the form of FX risk)

Market Risk in the form of Foreign Exchange (FX) Risk is defined as the impact that adverse exchange rate changes may have on the financial position of the Company (i.e. on the Company's equity). In the ordinary course of business, the naturally created foreign exchange mismatches (assets vs. liabilities) between the on and off balance sheet amounts of foreign currencies, expose the Company to foreign exchange (i.e. translation) risk. Such exposure(s) is/are monitored through various control mechanisms, imposed through the Company's Risk Management Framework. The foreign exchange risk in the Company is effectively managed by setting and controlling maximum foreign exchange (i.e. currency) risk limits and also by eliminating or at least minimizing any foreign exchange mismatches through physical transactions and/or through hedging transactions using derivatives.

At this point it should be highlighted that the Company is, currently, essentially immunized against other types of Market Risk such as Equity Risk and Interest Rate Risk. The Company neither maintains a proprietary portfolio of equity investments nor a portfolio of investments in fixed income (i.e. debt) securities. With the exemption of cash at bank, which has the potential of attracting interest at normal commercial rates, the Company has no other significant interest bearing assets or liabilities. As a result, such risks are practically non-applicable for the Company. However, as aforementioned, during the year under review, the Company has made a few proprietary trades in CFDs aiming to strengthen its revenue base. Needless to say, market risk relevant to such trades (which were all intraday trades) was carefully monitored, measured and managed by the Company's RM and the effects of such trading on the Company's capital adequacy was monitored and controlled at all times.

For CAR reporting purposes, the Company implements the Standardized Approach to quantify the relevant capital requirements corresponding to the market/foreign exchange risk that it faces. The said capital requirement for the year under review was EUR 14,200 corresponding to a net foreign exchange exposure of EUR 177,490.

9.3. General Operational risk

Operational risk means the risk of loss resulting from inadequate or failed internal procedures, people and systems or from external events. Operational risk includes legal risk.

The following list presents the most important types of operational risks to which the Company is exposed, with some examples for each category:

- Control Failure Risk - data entry errors, accounting errors, failed mandatory reporting, negligent loss of Client assets, product defects;
- Internal or external Fraud Risk - misappropriation of assets, account churning, tax evasion, intentional mismarking of positions, bribery, theft of information, hacking
- Policy Violation Risk;
- Third Party dependency Risk (e.g. internet provider);
- Outsourcing Risk;
- Information and Technology Risk;
- Physical Security Risk (i.e. personnel security);
- Personnel issues/ loss of key employees Risk;
- Loss of data Risk;
- Systems Failure Risk (software and/or hardware failures);
- External Events Risk (e.g. natural disasters, utility disruptions, power-cuts etc.); and,
- Margin Risk (the risk of insufficient amount of eligible collateral to support Client open positions with counterparties).

The Company manages operational risk through a control-based environment in which procedures are documented and transactions are reconciled and monitored, on a daily basis. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

Further, the Company has in place well-documented policies and procedures whose implementation assists with the evaluation and management of any exposures to different types of operational risk. There is a general adherence to best practices in relation to managing the Company's exposure to Information Technology (IT) Risk and Systems Failure Risk, one of the most important types of Operational risk, which include but are not limited to backup procedures, software/hardware maintenance, use of the internet and anti-virus procedures. The IT Policy of the Company has been well documented.

In addition to the aforementioned, it must be noted that the Company has made arrangements relevant to the preservation of an alternate physical location where operations can resume in the event of business disruption of any kind (i.e. as a result of the Company's exposure to External Events Risk). To this end, the Company has officially documented a Disaster Recovery/Business Continuity Plan which is of course interlinked with the Company's IT Policy. The coordinator of such plan is the IT Department of the Company.

In accordance with the guidelines issued by the Cyprus Securities and Exchange Commission (Guide-to-CRD4-01-09-2015), the Company is no longer obliged to report capital charges stemming from Operational Risk. Nevertheless, taking a conservative approach, the Company has decided to continue using the Basic Indicator Approach for calculating Capital requirements/charges related to the Company's exposure to Operational Risk, whilst the result of its internal risk assessment is used for comparisons. These figures are of course always included in the relevant ICAAP Report.

9.4. Other Concentration Risk

Concentration risk is the risk imposed to a financial institution by any single or group of exposures which have the potential to produce losses large enough to threaten the ability of the institution to continue operating as a going concern. In other words, it's the opposite of a diversified portfolio.

For example, an institution may have a concentration of exposures in a certain geographic area. If that area experienced an economic downturn an unexpected volume of defaults might occur, which could result in significant losses to or failure of the institution. Or an institution may face concentration risk arising from its heavy reliance on a small group of clients. In general, concentration risk does not only arise with respect to credit exposures (as mentioned under subsection credit/concentration risk) but also with respect to other types of concentrated exposures which have the potential of damaging the company's business in case something goes wrong.

The Company targets to offer its services to a large number of countries/markets, targeting mostly retail but also institutional clients. However, mostly due to its young age, it currently bears some degree of concentration risk as a result of its current concentration both to a small group of countries and to a small group of clients. Such exposure to concentration risk is expected to be mitigated as the Company's online marketing campaigns and sales promotion mechanisms attract an increasing number of clients from different regions/countries.

9.5. Liquidity Risk

Liquidity Risk is the risk that a company although solvent, either does not have available sufficient financial resources to enable it to meet its current and prospective obligations as they fall due or can secure such resources only at excessive cost. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. Lastly, foreign exchanges mismatches have the potential of exposing a company to liquidity risk. Needless to say, the latter is highly applicable to investment firms providing foreign exchange related investment and ancillary services, such as the Company; however, as discussed, the efficient implementation of the above mentioned policies and procedures mitigates the Company's exposure to foreign exchange risk and, as a result, foreign exchange risk is not considered a factor that can materially affect the Company's exposure to liquidity risk. In general, the Company is always exposed to liquidity risk, albeit minimally.

Based on the Company's internal risk assessment, Liquidity Risk is currently assigned (and is expected to continue being assigned) a risk category of L (i.e. low risk). The profile assigned to such risk is fully justified by the fact that the overwhelming majority of the Company's liabilities are current in nature (clients' funds) whilst on the other side of the equation assets/funds held to cover such liabilities are readily available upon demand, as such funds are held with credit and other financial institutions in current and other accounts of readily available nature. To the extent that the maturity gap between such assets and liabilities is essentially non-existent, clustered withdrawal requests can be fully met almost instantly at insignificant cost. Further to the above, the aggregate amount of other short term liabilities/obligations such as payables, accruals, and other liabilities, is relevantly small and can be met using funds held in credit and other financial institutions, which, as aforementioned, are readily available upon demand. Lastly, it is worth mentioning that the Company does not owe money to third parties and its total long term debt was held by the Company's major shareholder, Mr. Samir Dbouk, up to mid-March 2016; such debt was actually converted into Common Equity Tier I through the issuance of shares at a premium, within March 2016.

The Company's risk management framework, as embedded in the ICAAP, provides room for the Company to implement additional controls, where and if necessary, in order to mitigate the effect of an unexpected occurrence of liquidity risk in the future. Thus, the Company, by taking into consideration the nature of this risk, has the following in place:

- Ability for instant increase of share capital/premium in case such necessity arises;
- Assurance that funds held with credit and other financial institutions, such as liquidity providers (i.e. trading counterparties), are diversified to the best possible extent and mainly kept in accounts of readily available nature;
- Regular review of credit ratings of all counterparties;
- Regular assessment of day-to-day cash inflows/outflows under different market scenarios; and,
- Daily review and reconciliation of the level of clients' equity (and sources of deposits) vs. funds held in credit/financial institutions against such equity level.

9.6. <u>Business Risk</u>

Business Risk refers to the possibility of reduced profits or even the incurrence of losses that might be incurred by the Company as a result of unfavourable conditions in the business environment, thus having a current and/or future adverse impact on the Company's financial performance and/or financial position. The continuous attention of the Company's Board of Directors and Senior Management who have the knowledge and technical expertise to implement goals, objectives and strategic initiatives ensures mitigation of the Company's exposure to Business Risk.

9.7. <u>General Compliance Risk</u>

General Compliance Risk arises from violations of or non-conformance with, the Law, Regulations, Directives and Circulars, regulatory guidelines, prescribed practices, internal policies and procedures, and/or ethical and professional standards. This risk exposes the Company mainly to financial losses due to imposed fines from regulators. Compliance incidents may also lead to impaired reputation, diluted company value, limited business opportunities, reduced potential for expansion, and possible inability to enforce contracts.

General Compliance Risk includes the Company's exposure to Money Laundering and Terrorist Financing risk, which mainly refers to the risk that the Company may be used as a vehicle to launder money and/or finance terrorism. The Company has established policies, procedures and controls in order to mitigate Money Laundering and Terrorist Financing risks. Among others, these policies, procedures and controls include the following:

(a) The adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing risk faced by the Company;

(b) The adoption of adequate Client Due Diligence and Identification Procedures in line with the Clients' assessed Money Laundering and Terrorist Financing risk;

(c) Setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents from independent and reliable sources, third party information, documentary evidence);

(d) Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction; and,

(e) On-going monitoring of high risk Clients' transactions and activities, as applicable.

During the period under review, the Company has reviewed its policies and procedures with respect to general compliance and has updated its Internal Operations Manual. The Company also reviewed its policies and procedures with respect to money laundering and terrorist financing to ensure compliance with applicable legislation and incorporate, as applicable, any new information/regulatory requirement. The Company's Prevention of Money Laundering and Terrorist Financing Manual, which lays down the Company's internal practices, measures, procedures and controls relevant to the prevention of Money Laundering and Terrorist Financing, fully complies with the provisions of Directive DI144-2007-08, as amended, and provides, inter alia, details and further information with respect to the abovementioned policies, procedures and controls. The Company has already submitted its Annual Money Laundering Compliance Report to CYSEC within March 2016.

During March 2016, the Company's outsourced Internal Auditor undertook the annual internal audit inspection in order to assess the Company's general compliance (including anti-money laundering compliance) with the regulatory framework. The Annual Report of the Internal Auditor for the year under review along with the minutes of the meeting of the Company's Board of Directors have been submitted to CYSEC within April 2016. The Company's senior management and Board of Directors have stressed the importance of taking all necessary remedy measures/actions, acting upon the recommendations of the Internal Auditor, in order to ensure an adequate level of compliance with the regulatory framework. Moreover, the Company's Compliance Officer/Money Laundering Compliance Officer, having carefully reviewed the Annual Report of the Internal Auditor with respect to all deficiencies identified, will promote the establishment and implementation of appropriate course of action in order to address all relevant deficiencies, propose remedial measures/actions and provide the relevant training to the Company's personnel, as and when required.

Further to the aforementioned, the Company's management, acting upon recommendations received from the Company's Compliance Officer, has already developed and implemented a plan designed to supervise and examine the level of compliance of certain areas of the Company with the relevant legislation, propose remedy measures/actions and provide the necessary training to employees of the Company when required.

During the internal assessment of general compliance risk, the Company takes under consideration the possibility of incidents of non-compliance occurring and of subsequent possible penalties from regulators. Based on the Company's latest internal risk assessment, General Compliance Risk has been assessed as a material one and is expected to continue being assessed as such. At this point it should be highlighted that for the estimation/approximation of the range of the potential financial impact that the said risk may have, the Company, in addition to possible sanctions from regulators, takes also under consideration possible fees to external consultants, the services of whom may be needed, as well as time and resources utilized for the efficient resolution of such situations.

In general, the Company's exposure to Compliance Risk is limited to a significant extent due to the supervision applied by the Compliance Officer/Money Laundering Compliance Officer, as well as due to the general monitoring controls applied by the Company.

9.8. Reputational risk

This risk is crystallized after an incident urges the Company's stakeholders (e.g. clients, partners/associates, counterparties, regulators etc.) to adopt a negative perception about the Company and its image. In most cases, such risk is materialized as a result of poor client service, inefficient handling of client complaints and/or from potential sanctions imposed by CYSEC. In addition, Reputational Risk may arise following the loss of a key director, the loss of a large client, fraud or theft, legal actions against the Company and from negative publicity relating to the Company's operations, irrespective of whether such fact is true or false.

The Company is fully aware that operating in a highly competitive industry, having to face competitors who may sometimes act unethically, may introduce risks of reputational nature. The possibility of having to deal with serious incidents is limited as the Company exerts its best efforts in providing high quality services to its clients. The offering of premium client service is actually included in the Company's strategic plans as means for enhancing its current clientele. In addition, the Company's BoD and Senior Management are comprised of competent professionals who are recognized in the industry for their integrity and ethos, and, as such, add value to the Company.

9.9. Chargeback Risk

Chargeback Risk occurs when a credit card holder contacts its credit card-issuing bank to file a claim in order to initiate a refund for a purchase made through its credit card. A chargeback can arise for a variety of reasons but generally constitutes the result of a cardholder changing its mind, being dissatisfied with the purchase or a case of fraud. The fraud can result from the unauthorized use of the credit card (stolen card) or the credit card holder purposely seeking to dispute a legitimate purchase that was previously made ("friendly fraud"). In the majority of cases, as a result of international legislation relevant to consumer protection, a consumer claim leads to the return of the purchase cost to the consumer.

To the extent that the Company is accepting credit card deposits through its online credit card processing system (a necessity dictated by today's vigorous competitive environment), it is not unusual for Chargeback Risk to occur in its day to day business. In most cases, clients deceitfully file unjustified claims aiming to obtain a monetary benefit from the Company, by targeting to recover trading losses incurred following a legitimate deposit made through their credit cards.

Unfortunately, apart from maximum limits on deposits received through credit cards, the Company cannot efficiently avoid Chargeback Risk. As previously discussed, the possibility of having to deal with a refund following a claim settled in favour of a client is high, irrespective of whether the claim was legitimate or not.

Based on the latest internal risk assessment calculations, Chargeback Risk has been assessed as a material risk and is expected to be assessed as such in the future.

9.10. Capital Adequacy Risk

Capital Adequacy Risk is crystallized when the Company finds itself in a situation where regulatory own funds (i.e. its total eligible funds) are inadequate to cover the material risks to which it is exposed (i.e. Pillar I and Pillar II risks). Despite the fact that such risk is mitigated through prudent and forward-looking capital planning and irrespective of whether the Company, within the context of its ICAAP, applies specific stress testing methodologies (sensitivity and scenario analyses) through which it targets to obtain a forward looking view of the potential adverse impact that extraordinary but possible events may have on the Company's eligible funds, the Company is obliged to take a conservative approach by quantifying and incorporating in its calculations an additional amount which reflects instances where the Company's capital adequacy can be unexpectedly hurt as a result of regulatory changes/amendments (e.g. new, stricter requirements when calculating capital charges) and/or impositions imposed by regulators and/or statutory auditors based on current legal framework and applicable IFRSs.

Notwithstanding the Company's aim to maintain adequate eligible capital sufficient to cover capital requirements stemming from both Pillar I and Pillar II, the primary objective of the Company with respect to Capital Adequacy risk is to ensure that the Company complies with the imposed capital requirements of Section 67 of the Law with respect to its own funds and that the Company maintains healthy capital adequacy ratios in order to be able to support its business. The Company must have own funds which are at all times more than or equal to the sum of its capital requirements. In addition, such funds must not fall below the level of its initial capital in no case.

As aforementioned, Capital Adequacy Risk is mitigated and controlled through prudent, forward-looking capital planning and relevant application of stress testing methodologies. Needless to say, the Company manages its capital structure and makes adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

Based on the Company's internal risk assessment process and the relevant calculations, Capital Adequacy Risk has been assessed as a material risk and is expected to continue being assessed as such in the future.

The Company's Regulatory Own Funds, Capital Requirements and Capital Adequacy Ratio as at 31st of December 2015 (based on audited figures) were the following:

	31/12/2015
	EUR '000
Eligible Own Funds*	170.489
Capital Requirements for Pillar I**	153.665*
Capital Adequacy Ratio (Pillar I)	8.88%

*The figure is broken down in the sections that follow
**The figure includes a capital charge of Euro 116,261 as additional charge arising from fixed overheads, and also a charge of Euro 3,489 which corresponds to the 250% risk weighted portion of Deferred Tax Assets as at 31/12/2015 (in accordance with the transitional provisions of the relevant regulation).

10. Capital Management

10.1. The Company manages its capital to ensure that it will be able to continue as a going concern whilst maximising shareholder value. However, the Company also has a regulatory obligation to monitor and implement policies and procedures for capital management. Specifically, the Company is required to test its capital against specific regulatory requirements and has to maintain a minimum level of capital in accordance with the provisions of the Regulation. CySEC has adopted the rules established by the Basel Committee in relation to the adequacy of an investment firm's capital. Currently, there are three (3) pillars:

- Pillar I - Minimum Capital Requirements

  The Company adopted the Standardized approach for Credit and Market risk.

  In accordance with the provisions of the Standardized approach for calculating the minimum capital requirements with respect to credit risk, risk weights are assigned to exposures (after taking into consideration various risk mitigating factors) according to the exposure class to which they belong. For certain exposures, the risk weight also depends on the term and maturity of the exposure. For the categories of exposures to which the Company is exposed with respect to credit risk, please refer to section 9, "Analysis of Risks".

  The Standardized approach for calculating the minimum capital requirements with respect to market risk adds up the long and short foreign exchange positions per currency in order to arrive at the net exposure per currency. Subsequently, in accordance with predefined models, the capital requirements with respect to market risk are calculated.

The Company was also obliged to calculate capital requirements with respect to other forms of risk arising from the deferred tax assets related transitional provisions of the CRR for the year under review. It also calculated additional capital requirements based on fixed overheads.

- <u>Pillar II - The Supervisory Review and evaluation Process (SREP)</u>

  The SREP (Supervisory Review and Evaluation Process) and the ICAAP (Internal Capital Adequacy Assessment Process) fall within the scope of the second pillar, which aims at providing the regulatory authorities with a tool to assess the completeness and adequacy of each CIF's capital adequacy vis-à-vis the risks that it faces. The SREP provides rules designed to ensure that adequate capital is in place in order to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting, and efficient internal governance structures.

  Pillar II covers any risk not fully addressed in Pillar I, such as liquidity risk, reputational risk et cetera. It connects the regulatory capital requirements to the Company's internal capital adequacy assessment process (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.

  The purpose of the ICAAP is the alignment of three (3) parameters within the Company:

  1. The Company's strategic plan;
  2. The risks inherent in its strategic plan; and,
  3. The capital needs for the implementation of its strategic plan based on the risks born.

  In other words, the Company must have adequate capital in order to be able to cover all the risks (actual and potential) inherent in its strategic plan. Put it simply, the Company's Regulatory Own Funds (i.e. Total Eligible Funds), as defined within the legal framework, must be equal or less to the Company's Internal Capital (i.e. to the level of capital that the Company, after the application of its internal risk assessment process, considers as adequate for the coverage of all the risks, both Pillar I and II, that is, or could be, exposed to).

In accordance with the requirements of Pillar II, the Company determines the level of capital required in order to cover itself for actual and potential risks (it determines its Internal Capital Requirements by estimating the level of capital that is considered adequately sufficient to cover the Company's exposures to Pillar I and Pillar II risks). As aforementioned, in order to determine the amount of capital it needs to cover such risks, the Company follows the "Pillar I minimum capital requirement approach". In particular, the Company, taking into consideration the principle of proportionality, uses simple methods to quantify its capital requirements over and above the Pillar I minimum requirements, as more advanced approaches are considered unsuitable for the Company's size and complexity. The allocation of capital for Pillar II takes into consideration the risks that have been assessed internally by the Company as "material", through the internal risk assessment process (according to which a risk scoring methodology that uses two [2] ratings for each identified risk, one [1] rating related to the risk's potential financial impact and one [1] rating related to each risk's probability of occurrence, is followed). All risks falling outside the, internally determined, levels of risk tolerance are considered to be threats to the Company and are covered with additional capital and/or additional risk controls.

As part of the ICAAP, the Company uses its latest financial information, as a starting point, and coupled with the Company's strategic plan, forecasts its financial performance for three (3) years ahead for the purpose of prudent, forward looking capital planning. The relevant forecasts are used to derive the Company's expected financial position over the same time period; such forecasts constitute the Base Case (i.e. the Expected) Scenario. In conjunction with the aforementioned financial projections, the Company's projected Internal Capital Requirements in comparison to the projected available capital (Regulatory Own Funds) are put down. Based on this comparison, the Company is able to observe whether its forecasted available capital base will be adequate to cover any future strategic actions that the Company's BoD and Senior Management intend to take (always in accordance with the base case scenario). Needless to say, the Company's base case scenario is stressed to identify whether the Company will be in a position to hold adequate capital to withstand strenuous and sometimes catastrophic incidents and/or circumstances.

The capital plan and the budget are reviewed and approved by the BoD at least on an annual basis or more frequently in case such necessity arises.

- 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 the minimum capital requirements based on audited figures, together with concise information as to the composition of original own funds. In addition, as aforementioned, the results and conclusions of the ICAAP are disclosed upon demand from the competent authority.

  In accordance with the requirements of the CySEC, the risk management disclosures should be published on the Company's website. Further, these disclosures must be verified by the statutory auditors of the investment firm. The statutory auditors of the Company will be responsible to submit their verification report to CySEC by end of May each year. The Company, which is a private firm, has included its risk management disclosures (i.e. the *Disclosures*) on its website. Verification of these disclosures will be sent by the statutory auditors to CySEC in full conformity with applicable legislation.

10.2. Capital Adequacy Ratio

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

The Company manages its capital structure and makes adjustments to it taking under consideration expected changes in business environment, changes in general economic conditions and the risk profile of its activities.

CySEC currently requires investment firms of this type to maintain a minimum ratio of regulatory capital to risk weighted assets of 8%. CySEC has the right to impose additional capital requirements for risks not covered by Pillar I. During 2015 the Company had fully complied with all externally imposed capital requirements as shown in the table below.

Category (year 2015)	€ in 1000's
Eligible Own Funds (Common Equity Tier I Capital)	170.49*
Additional Own Funds (Additional Tier I Capital)	0
Tier II Capital	0
Total Eligible Own Funds	170.49

Credit risk capital requirements	19.84
Foreign Exchange risk capital requirements	14.20
Risk charges arising from portion of deferred tax assets weighted at 250%	3.49
Additional capital requirements stemming from fixed overheads	116.15
Total Capital Requirements	153.68
Minimum C.A Ratio	8%
Capital Adequacy Ratio	**8.88%****

*A full reconciliation is provided in the section that follows

** The formula is as follows: [170.49k/153.68k]*8% = 8.88%

10.3. <u>Reconciliation of CET1, AT1, T2 items and filters and deductions applied to the Company's own funds and disclosure of the nature and amount of each prudential filter, each deduction and items not deducted from the Company's own funds</u>

In accordance with the provisions of the Regulation, own funds of investment firms (i.e. the Regulatory Capital) constitute of Common Equity Tier I Capital, Additional Tier I Capital and Tier II Capital.

Items such as paid up capital (plus the related share premium), profits and losses brought forward as a result of the application of the final profit or loss (retained earnings), accumulated other comprehensive income, other reserves and funds for general investment firm risks (which the investment firm decides to put aside to cover such risks) less items such as own shares at book value held by the investment firm, intangible assets, losses for the current financial year, deferred tax assets that rely on future profitability subject to transitional provisions, defined benefit pension fund assets on the balance sheet etc. constitute CET1 Capital. The CET1 Capital of investment firms is also subject to certain prudential filters that are mentioned in separate paragraphs of the Regulation.

The Company's regulatory capital consists of CET1 Capital only and no prudential filters (as stated in articles 32-35 of the Regulation) were applied.

A full reconciliation of the Company's CET1 Capital and relevant deductions made to the Company's own funds along with a description of the nature and amount of each deduction and items not deducted from the Company's own funds are provided below:

Category	Component	Amount (€ in 1000's)	Nature
Capital Instruments	Paid Up Capital Instruments	206	206,000 ordinary shares of 1 Euro nominal value each
	Share Premium	629	206,000 ordinary shares issued at a premium of approximately 3.053 Euro each
	Retained Earnings	(691)	691,000 Euro of previous years' audited losses brought forward (including this year's audited losses)
	Other Reserves	77	Initial fair value of Company's trading system (the prevailing amortized value of which is deducted as intangible asset)
Deductions	Intangible Assets	47	Prevailing amortized value of intangible assets (trading system and other application software)
	Deferred Tax Assets that rely on future profitability after application of transitional provisions	4	The portion of Deferred Tax Assets that rely on future profitability that is over and above the exempted threshold amount as calculated in accordance with the provisions of Article 38, 470 and 478 of the CRR
Total Regulatory Capital	CET1 Capital	170 (= 206 + 629 – 691 + 77 -47 - 4)	Calculation of CET1 Capital in accordance with the provisions of the CRR
Items not deducted	Deferred Tax Assets that rely on future profitability	17	The exempted portion of Deferred Tax Assets, which is instead risk weighted at 250%

As far as the Company is concerned, no other restrictions apply relevant to the calculation of own funds in accordance with the provisions of the Regulation.

10.4. Terms and conditions of own funds

As aforementioned, the Company's regulatory capital consists of CET1 Capital only. The capital instruments comprising CET1 Capital fully qualify as Common Equity Tier 1 instruments as they meet all conditions set out in the CRR. Specifically:

- They have been issued directly by the Company with the prior approval of its owners;

- They have been fully paid up and their purchase was not funded directly or indirectly by the Company;

- They meet the following conditions as regards their classification:
  (a) They qualify as capital within the meaning of Article 22 of Directive 86/635/EEC;
  (b) They are classified as equity within the meaning of the applicable accounting framework; and,
  (c) They are classified as equity capital for the purposes of determining balance sheet insolvency;

- They are clearly and separately disclosed on the statement of financial position of the Company;

- They are perpetual in nature;

- Their principal amount may not be reduced or repaid, except in either of the following cases:
  (a) The liquidation of the Company; and,
  (b) Following discretionary repurchases of the instruments or other discretionary means of reducing capital, where the institution has received the prior permission of the competent authority in accordance with Article 77 of the CRR;

- The provisions governing the instruments do not indicate expressly or implicitly that the principal amount of the instruments would or might be reduced or repaid other than in the liquidation of the institution, and the institution does not otherwise provide such an indication prior to or at issuance of the instruments, except in the case of instruments referred to in Article 27 of the CRR where the refusal by the institution to redeem such instruments is prohibited under applicable national law;

- The following conditions apply as regards distributions:
  (a) There is no preferential distribution treatment regarding the order of distribution payments, including in relation to other Common Equity Tier 1 instruments, and the terms governing the instruments do not provide preferential rights to payment of distributions;

(b) Distributions to holders of the instruments may be paid only out of distributable items;
(c) The conditions governing the instruments do not include a cap or other restriction on the maximum level of distributions;
(d) The level of distributions is not determined on the basis of the amount for which the instruments were purchased at issuance;
(e) The conditions governing the instruments do not include any obligation for the Company to make distributions to their holders and the Company is not otherwise subject to such an obligation;
(f) Non-payment of distributions does not constitute an event of default of the Company; and,
(g) The cancellation of distributions imposes no restrictions on the Company;

- Compared to all the capital instruments issued by the Company, the instruments absorb the first and proportionately greatest share of losses as they occur, and each instrument absorbs losses to the same degree as all other Common Equity Tier 1 instruments;

- The instruments rank below all other claims in the event of insolvency or liquidation of the Company;

- The instruments entitle their owners to a claim on the residual assets of the Company, which, in the event of its liquidation and after the payment of all senior claims, is proportionate to the amount of such instruments issued and is not fixed or subject to a cap;

- The instruments are not secured, or subject to a guarantee that enhances the seniority of the claim by any of the following:
    (a) The Company or its subsidiaries;
    (b) The parent undertaking of the Company or its subsidiaries;
    (c) The parent financial holding company or its subsidiaries;
    (d) The mixed activity holding company or its subsidiaries;
    (e) The mixed financial holding company and its subsidiaries; and,
    (f) Any undertaking that has close links with the entities referred to in points (a) to (e);

- The instruments are not subject to any arrangement, contractual or otherwise, that enhances the seniority of claims under the instruments in insolvency or liquidation.

11. Remuneration Policy and Practices

11.1. In accordance with the provisions of the Regulation, the Company is required to disclose to the public its remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile.

11.2. The Company's decision-making process used for determining the remuneration policy in relation to such categories of staff is very simple; such determination is made during ad-hoc meetings of the Company's Board of Directors. Relevant decisions are based on simple majority rule. For the time being (and for the year under review) there is no remuneration committee and no external consultants are used for determining such policy.

11.3. The Company's remuneration policy targets to support the Company's objectives of long term sustainable business growth and success, sound and responsible risk management and efficient corporate governance. Further, the said policy targets to ensure that remuneration practices are fair, simple, transparent, competitive and easy to understand and implement, that remuneration is applied in consideration of and in alignment with the Company's strategic business targets but always in conjunction with the Company's overall risk management framework, that performance is risk-adjusted, where applicable, before being appraised and evaluated and that remuneration policies and practices as well as systems and controls support the fair treatment of clients and mitigate conflicts of interests.

11.4. In general, the Company offers its employees basic/fixed salaries (the levels of which are decided by the Board of Directors upon appointment of new employees), payable on a monthly basis (the last business day of each month) net of any social insurance contributions, fees, impositions or taxes. The basic salaries are reviewed by the Company (i.e. by the Board of Directors) at such intervals as it shall at its sole discretion decide. In addition, the Company may decide to pay bonuses to some of its employees (i.e. the variable portion of total remuneration), the payment of which is made on the last business day of the month that follows a three (3) month evaluation period. The amount of the bonus depends on each employee's motivation and achievement during the evaluation period, on the amount of total bonus allocated to the relevant department and on the Company's performance during the period.

11.5. With respect to the link between pay and performance, it goes without saying that the two variables are positively correlated. Depending on the nature of the work of each department and each employee, departmental and individual qualitative and/or quantitative risk-adjusted performance measures and targets (relevant to the nature of the work) are pre-agreed and set at the beginning of each quarter. The backbone for such pre-agreement is a feedback loop between officers (i.e. individual employees) and relevant heads/managers. Performance appraisal and evaluation takes place at the end of each quarter based on aforementioned qualitative and/or quantitative risk-adjusted benchmarks. Such appraisal and performance evaluation guides both salary adjustments and bonus determination decisions taken by the Board.

11.6. The Company decided not to provide any amounts breakdown by business area as it considers such kind of information proprietary and confidential.

11.7. The table below shows aggregate quantitative gross figures (for 2015) related to the remuneration of members of key management (i.e. Departmental Managers) whose actions have a material impact on the risk profile of the Company. The aggregate remuneration of executive directors is also presented. The aggregate remuneration of other members of the Board of Directors was zero for the period with the exemption of independent non-executive directors, the remuneration of which is presented. No other members of staff are considered of having material impact on the risk profile of the Company.

Type	Number of Beneficiaries	Fixed Remuneration (Euro)	Variable Remuneration (Euro)	Total (Euro)
Key Management	1	17,467	395	17,862
Executive Directors	2	121,065	Zero	121,065
Independent Directors	2	10,000	Zero	10,000