CONOTOXIA LTD

PILLAR III DISCLOSURES

According to Directives DI144-2014-14 and DI144-2014-15 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and 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 and amending Regulation (EU) No 648/2012 (the "Regulation" or the "CRR")

YEAR ENDED 31 DECEMBER 2017

April 2018

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1. Overview

1.1 CIF Information

Conotoxia Ltd (hereinafter the "Company") was incorporated in the Republic of Cyprus on 15/01/2016 as a private limited liability company with registration number HE 351239. It is a Cyprus Investment Firm (hereinafter "CIF") and is authorized and regulated in Cyprus by the Cyprus Securities and Exchange Commission (license number 336/17) and the license was activated on 11/11/2017.

The Company is authorized to provide the following **Investment Services**, in accordance with Part I of the Third Appendix of the Law 144(I)/2007, as amended):

1. Reception and transmission of orders in relation to one or more financial instruments
2. Execution of orders on behalf of clients

The Company is also authorized to provide the following **Ancillary Services**, in accordance with Part II of the Third Appendix of the Law 144(I)/2007, as amended):

- Safekeeping and administration of financial instruments for the accounts of clients, including custodianship and related services such as cash/collateral management
- Foreign exchange services where connected to the provision of investment services
- Investment research and financial analyses or other forms of general recommendation relating to transactions in financial instruments

The Company is authorized to provide the aforementioned investment and ancillary services, as applicable for each service, for the following **Financial Instruments**, in accordance with Part III of the Third Appendix of the Law 144(I)/2007, as amended:

1. Transferable Securities
2. Money Market Instruments
3. Units in Collective Investment Undertakings
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls
8. Derivative instruments for the transfer of credit risk

9. Financial contracts for differences
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognized clearing houses or are subject to regular margin calls.

Moreover, based on the CRR, the Company has been categorized as an Investment Firm that falls under Article 95 (1). Given its categorization, the Company has adopted the Fixed Overheads Exposure Risk calculation method to calculate its total risk exposure amount.

1.2 Scope of application

The Company is publishing the disclosures on an individual (solo) basis.

Annual Reports and Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the provisions of the Cyprus Company Law, Cap. 113.

1.3 Regulatory framework overview

This report has been prepared in accordance with Section 4 (Paragraph 32) of the CySEC Directive DI144-2014-14 (the "Directive") for the prudential supervision of investment firms which implements the CRR and the European Directive 2013/36/EU (the "European Directive" or "CRD IV").

CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. Furthermore, CRR introduces significant changes in the prudential regulatory regime applicable to institutions including amended minimum capital ratios, changes to the definition of capital and the calculation or risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. Additionally, CRR permits a transition period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018. CRR is immediately binding on all EU member states. CRD IV governs access to internal governance arrangements including remuneration, Board of Directors (the "Board") composition and transparency.

The Regulatory framework consists of a three "Pillar" approach:

- **Pillar I** establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating RWA.

- **Pillar II** requires firms and supervisors to take a view on whether a firm should hold additional capital against risks considered under Pillar I that are not fully captured by the Pillar I process (e.g. credit concentration risk); those risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk); and factors external to the firm (e.g. business cycle effects). Pillar II 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 institutions on a continuous basis and to evaluate how well the institutions are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

- **Pillar III** - Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds.

According to the Directive, the risk management disclosures should be included in either the financial statements of the CIFs if these are published, or on their websites. The Pillar III disclosure requirements are contained in Articles 431 to 455 of the Regulation. In addition, these disclosures must be verified by the external auditors of the CIF. The CIF will be responsible to submit its external auditors' verification report to CySEC. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures has been made by the external auditors and sent to CySEC.

1.4 Disclosure Policy: Basis and Frequency of Disclosure / Location and verification

The following sets out the Company's Disclosure Policy as applied to Pillar III Disclosures, according to CRR requirements.

1.4.1. Information to be disclosed

The Regulation provides that institutions may omit one or more disclosures, if such disclosures are not regarded as material, except for the following disclosures:

- Regarding the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved (*Article 435 (2) (c)*of CRR)
- Own funds *(Article 437* of CRR)
- Remuneration policy *(Article 450* of CRR)

Materiality of Disclosures

Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, this was not included in the document.

Disclosures and Confidential Information

The Regulation also provides that institutions may omit one or more disclosures, if such disclosures are regarded as confidential or proprietary. The CRR defines proprietary as if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investments therein less valuable.

Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding the institution to confidentiality. Under the light of the above, the Company avoided to disclose such confidential information in this report.

1.4.2. Frequency

The Company's policy is to publish the disclosures required on an annual basis. The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

1.4.3. Medium and location of publication

Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements. In this respect, the Company's Pillar III disclosures are published on the Company's website:

- https://conotoxia.com/forex

1.4.4. 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 approved by the Board. In addition, the Remuneration disclosures have been reviewed and approved by the Board of Directors.

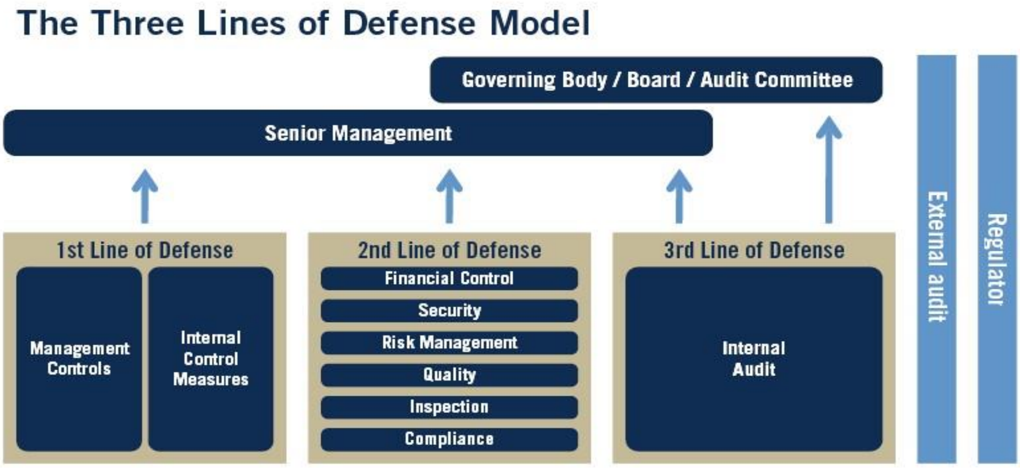
1.5 Risk Management objectives and policies

To ensure effective risk management, the Company has adopted the Three Lines of Defense model, with clearly defined roles and responsibilities.

First Line of Defense: Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organizational risk appetite and are fully compliant with Company's policies and where appropriate defined thresholds. First Line of Defense acts as an early warning mechanism for identifying (or remedying) risks or failures.

Second Line of Defense: – The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company's risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. The Risk Management Function will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them. Integral to the mission of Second Line of Defense is identifying risk areas, detecting situations/activities, in need of monitoring and developing policies to formalize risk assessment, mitigation and monitoring.

Third Line of Defense - Comprises by the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of design and operational effectiveness of the systems of internal controls. Internal Audit undertakes on-site inspections/visits to ensure that the responsibilities of each Function are discharged properly (i.e. soundly, honestly and professionally) as well as reviews the Company's relevant policies and procedures. Internal Audit works closely with both the First and Second Lines of Defense to ensure that its findings and recommendations are taken into consideration and followed, as applicable.



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

1.5.1.Risk Management Framework

Managing risk effectively in a continuously changing risk environment, requires a strong risk management culture. As a result, the Company has established an effective risk oversight structure and the necessary internal organizational controls to ensure that the Company undertakes the following:

- The adequate risk identification and management
- The establishment of the necessary policies and procedures
- The setting and monitoring of the relevant limits and
- Compliance with the applicable legislation

The Board meets on a regular basis, and receives updates on risk and regulatory capital matters from management. The Board reviews regularly (at least annually) written reports concerning compliance, risk management and internal audit policies, procedures and work as well as the Company's risk management policies and procedures as implemented by Management.

As part of its business activities, the Company faces a variety of risks, the most significant of which are described further below. The Company holds regulatory capital against all three main types of risk: credit risk, market risk and operational risk.

1.5.2.Risk Appetite Statement

Risk Appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the Board and management confidence to avoid risks that are not in line with the strategic objectives.

The Company has established a robust Risk Appetite Framework. The Board approves the Risk Appetite which defines the type and amount of risk that the Company is prepared to accept to achieve its objectives. Risk Appetite covers three primary areas:

Table 2 - Risk Appetite areas

Risk Area	Risk Types
Financial	• Credit Risk • Market Risk • Liquidity Risk
Reputational	• Conduct Risk • Customer Risk • Regulatory Risk • External reputational Risk

Operational & People	The risk associated with the failure of key processes or systems and the risks of not having the right quality and quantity of people to operate those processes

The Risk Appetite framework has been designed to create links to the strategic long term plan, capital planning and the Company's risk management framework.

1.5.3.Risk Culture

Risk culture is a critical element in the Company's risk management framework and procedures. Management considers risk awareness and risk culture within the Company as an important part of the effective risk management process. Ethical behavior is a key component of the strong risk culture and its importance is also continuously emphasized by the management.

The Company is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to take accountability for them. The Company embraces a culture where each of the business areas is encouraged to take risk–based decisions, while knowing when to escalate or seek advice.

1.6 Declaration of the 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 – as such – offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

2. Corporate Governance and Risk Management

The Company's systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness.

The risk management and internal control systems are embedded in the operations of the Company and are capable of responding quickly to evolving business risks, whether they arise from factors within the Company or from changes in the business environment.

2.1 The Board of Directors

The Board has the overall responsibility for the establishment and oversight of the Company's Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust. The Board comprises of two executive directors and two independent non-executive directors.

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff of the Company.

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

2.2 Number of Directorships held by members of the Board

All members of the Board commit sufficient time to perform their functions in the Company. The number of directorships which may be held by a member of the Board at the same time shall take into account individual circumstances and the nature, scale and complexity of the Company's activities. Unless representing the Republic, members of the Board of a CIF that is significant in terms of its size, internal organization and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- one executive directorship with two non-executive directorships;
- four non-executive directorships.

For the purposes of the above, the following shall count as a single directorship:
- Executive or non-executive directorships held within the same group.

Directorships in organizations which do not pursue predominantly commercial objectives such as non-profit or charitable organizations shall not count for the purposes of the above guidelines.

The table below discloses the number of directorships held by members of the management body.

Table 3 - Number of Directorships of the members of the Board of Directors

Director	Function	Number of Executive Directorships	Number of Non-Executive Directorships
Lukasz Bednarski	General Manager	1	0

Bogumil Nurkiewich	Chief Executive Officer	1	0
Miroslaw Skiba	Chief Executive Officer (from 27/10/2017)	1	0
Monika Kowalewska	Executive Director	1	0
Charalambos Savvides	Independent, Non-Executive Director	6	2
Sabine Smite	Independent, Non-Executive Director	1	1
Marcin Pioro	Non-Executive Director	13	1

2.3 Policy on Recruitment

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework.

Members of the Board possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board reflects an adequately broad range of experiences to be able to understand the CIF's activities, including the main risks to ensure the sound and prudent management of the Company as well as sufficient knowledge, of the legal framework governing the operations a CIF.

2.4 Policy on Diversity

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organization.

For this purpose, the Company takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age, cultural and educational background, for the Board appointments.

2.5 Other Governance Functions

Internal Audit

The Company, 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, establishes and maintains

an internal audit function through the appointment of a qualified and experienced Internal Auditor. The Internal Auditor is appointed and reports to the Senior Management and the Board of the Company.
The Internal Auditor is separated and independent of the other functions and activities of the Company. The Internal Auditor bears the responsibility to:

(a) establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements (b) issue recommendations based on the result carried out in accordance with point (a)
(c) verify compliance with the recommendations of point (b)
(d) provide timely, accurate and relevant reporting in relation to internal audit matters to the Board 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 confirms the accuracy of the reported data and information. Furthermore, the role of the Internal Auditor is 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 shall be taken. The Board ensures all issues are dealt with and prioritized according to the Board's assessment.

Compliance and Money laundering Officer

The Board ensures regulatory compliance through a comprehensive and pro-active compliance strategy. To this end, the Board appoints a Compliance and Anti Money Laundering Officer in order to establish, implement and maintain adequate and effective policies and procedures, as well as appropriate systems and controls designed to detect any risk of failure by the Company to comply with its obligations. Further to this, the Compliance and Anti Money Laundering Officer is responsible to put in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively. The Compliance and Anti Money Laundering Officer reports to the Senior Management and the Board of the Company.

The Compliance and Anti Money Laundering Officer is independent and has the necessary authority, resources, expertise and access to all relevant information. The objectives of the officer are:
a) to prohibit the realization for the Customers of Company of any operations which may infringe the existing legislation
b) to decrease the probability of appearance of any problem situations connected with any tax and legal limitations of the Customers of the Company

c) to ensure compliance with the current and any new laws, regulations and directives at times issued by CySEC
d) The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income
e) To decrease the probability of appearance among the Customers of the Company of any persons/organizations engaged in illegal activity and/or related with such persons/organizations
f) To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing
g) To ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities

2.6 Information flow on risk to the management body

Risk information flows up to the Board directly from the business departments and control functions. The Board ensures that it receives on a frequent basis, at least annually written reports regarding Internal Audit, Compliance ,Money Laundering and Terrorist Financing and Risk Management issues and approves the Company's ICAAP report as shown in the table below:

Table 5 - Information flow on risk to management body

	Report Name	Reporting Officer	Recipient	Frequency
1	Risk Management Report	Risk Manager	CySEC, Board of Directors	Annual
2	ICAAP	Risk Manager	CySEC (upon request), Board of Directors	Annual or more frequent upon management request
3	Compliance Report	Compliance Officer	CySEC, Board of Directors	Annual
4	Internal Audit Report	Internal Auditor	CySEC, Board of Directors	Annual or more frequent upon management request
5	Anti-money laundering report	Anti-money laundering Compliance Officer	CySEC, Board of Directors	Annual

3. Own Funds

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

The Company throughout the year under review managed its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities. The Company fulfilled its obligations by successfully submitting, on a quarterly basis, the CRD IV CoRep Forms.

During the year under review, the Company's own funds dropped once below the minimum initial capital requirement (i.e. €125,000) on December 31st, 2017. Specifically, the Own Funds of the Company were €112,000. The Company's shareholder proceeded with two Capital Injections during the first 4 months of 2018. Firstly, a Capital Increase of €150,000 on 06/02/2018. Finally, the Shareholder of the Company proceeded on a further Capital Increase of €300,000 on 26/04/2018. The second Capital Injection was added as a buffer in order to avoid falling below the minimum threshold again in the future.

Furthermore, the Total Capital Adequacy Ratio was below the minimum Requirement of 8% on December 31st, 2017 since it was 5.15%. This issue was rectified by the first Capital Injection mentioned above since it more than covered the €62,000 deficit of total capital.

Additionally, it should be noted that the Total Capital Adequacy ratio is significantly affected by the Fixed Overheads that in this case were recorded from the Projected Financial Statements as the Company did not complete business for a full year in 2016 as per Article 97 (3) of the CRR. The Projected Fixed Overheads materially deviate from the actual Fixed Overheads of the Company. This will no longer be an issue as of the first quarter of 2018 since the Fixed Overheads that will be used will be €219,000 instead of €696,000 as per the Audited Financial statements of 2017.

3.1 Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information in relation to their own funds. Furthermore, institutions shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution. In this respect, the Company's total capital is wholly comprised of Common Equity Tier 1 capital.

The composition of the capital base and capital ratios of the company is shown in the following table:

Table 6 - Composition of the capital base and capital ratios

	Current period	**Full impact**
	€000	**€000**
Common Equity Tier 1 (CET1) capital: instruments and reserves		

Capital instruments and the related share premium accounts	405	405
Accumulated losses	(222)	(222)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**183**	**183**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional deductions of CET1 Capital due to Article 3 of the CRR (*)	(43)	(43)
Other intangible assets before deduction of deferred tax liabilities	(23)	(23)
Intangible assets	(6)	(6)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(71)**	**(71)**
Common Equity Tier 1 (CET1) capital	**112**	**112**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**112**	**112**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**112**	**112**
Risk weighted assets		
Credit risk	48	48
Market risk	-	-
Additional Risk Exposure amount due to Fixed Overheads	2126	2126
Total risk weighted assets	**2174**	**2174**
Capital ratios		
Common Equity Tier 1	**5.15%**	**5,15%**
Tier 1	**5.15%**	**5.15%**
Total Capital	**5.15%**	**5.15%**

** Treatment pursuant to Circular C162 (Capital adequacy requirements - Change in the treatment of the Investors Compensation Fund ("ICF") Contribution) on 10 October 2016, according to which the contribution to ICF will no longer be risk weighted as an "exposure to public sector entities" pursuant to paragraph 13(3) of Directive DI144-2014-15. The said ICF exposure was deducted from CET1 Capital pursuant to Article 3 (Application of stricter requirements by institutions) of the CRR. The aforementioned Article gives the member states the power to request from the institutions to hold own funds in excess of those required by the CRR.*

3.2 Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

In order to meet the requirements for disclosure of the main features of Common Equity Tier 1, Additionally, Tier 1 and Tier 2 instruments, the company discloses the capital instruments' main features as outlined below:

Table 7 - Main features of capital instruments

Capital Instruments Main Feature	CET1
Issuer	Conotoxia Limited
Regulatory Treatment	
Eligible at Solo/(sub-)consolidated/solo	Solo
Instrument type	Common Equity
Amount recognized in regulatory capital	€405k
Nominal amount of instrument	€405k
Issue Price	Various
Accounting classification	Shareholders' Equity
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	No
Coupons / dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	N/A

The Company's capital resources consist of Tier 1 Capital only. No additional Tier 1 and Tier 2 available.

3.3 Balance Sheet Reconciliation

Institutions shall disclose a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions and the balance sheet in the audited financial statements of the institution as follows:

Table 8 - Balance Sheet Reconciliation

	2017
	€000
Equity	
Share capital	405
Share premium	0
Accumulated Losses	(222)
Total Equity as per Audited Financial Statements	**183**
Additional deductions of CET1 Capital due to Article 3 of the CRR	71
Total Own funds as per CoRep Forms	**112**

4. Compliance with the Regulation and the overall Pillar II Rule

4.1 Internal Capital

The purpose of capital is to provide sufficient resources to absorb unexpected losses over and above the ones that are expected in the normal course of business. The Company aims to maintain a total capital adequacy ratio which will ensure there is sufficient capital to support the Company during stressed conditions. The Company has adopted the Standardized Approach to the calculation of Pillar I minimum capital requirements for Credit and Market Risk.

4.2 Approach to assessing adequacy of Internal Capital

The Company is in the process of establishing an ICAAP, document it in a Manual and produce in this regard an ICAAP Report, as per the Guidelines GD-IF-02 (Circular C026) & GD-IF-03 (Circular C027). Upon CySEC's request the ICAAP Report shall be submitted to CySEC.

The ICAAP report will describe how the Company implemented and embedded its ICAAP within its business. The ICAAP will also describe the Company's Risk Management framework e.g. the Company's risk profile and the extent of risk appetite, the risk management limits if any, as well as the adequate capital to be held against all the risks (including risks other than the Pillar I risks) faced by the Company.

5. Pillar I Capital Requirements

The following sections describe the overall Pillar I minimum capital requirement and risk weighted assets for the Company under the Standardized Approach to Credit Risk, Market Risk and the Fixed Overheads requirement (requirement as per the Regulation for "Limited License" CIFs).

5.1 Credit Risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. Generally, credit risk can be derived from the following areas:

- Cash and cash equivalents
- Debt securities
- Receivables
- Derivatives

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 and mainly Cyprus. In order to mitigate risks related to cash and cash equivalents, the Company tries to utilize local 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 cash counterparties based on current ratings and outlook, taking into account analysis of fundamentals and market indicators.

Exposures to institutions of a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight that is one category less favorable than the preferential risk weight assigned to exposures to the central government in which the institution is incorporated in accordance with Table 9 below, as described in Article 114(4) to (7) of the CRR.

Table 9

Credit Quality Step	1	2	3	4	5	6
Risk Weight	0%	20%	50%	100%	100%	150%

Exposures to Member States' central governments and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk weight of 0%.

Until 31 December 2017, the same risk weight shall be assigned in relation to exposures to the central governments or central banks of Member States denominated and funded in the domestic currency of any Member State as would be applied to such exposures denominated and funded in their domestic currency.

According to Article 119 of the CRR, exposures to institutions for which a credit assessment by a nominated ECAI is available shall be risk-weighted in accordance with the Tables 10 and 11 below.

Table 10 - Exposures to institutions with a residual maturity of more than three months:

Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	50%	50%	100%	100%	150%

Table 11 - Exposures to an institution of up to three months residual maturity:

Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	20%	20%	50%	50%	150%

Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned in accordance with Table 12.

Table 12

Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	100%	150%

Given the above, the Company uses a nominated ECAI to derive to the following Risk weighted exposure on Cash and cash equivalents of residual maturity of less than 3 months and of residual maturity of more than 3 months (both rated and unrated).

Credit Quality Steps	**Risk Weight**			**Moody's Credit Rating**	**Exposure amount**			**Risk weighted**
					2017			**2017**
					€000	**€000**	**€000**	**€000**
	Less than 3 months maturity	**More than 3 months Rated**	**More than 3 months Unrated**		**Less than 3 months maturity**	**More than 3 months Rated**	**More than 3 months Unrated**	
CQS1	0%	20%	20%	AAA to Aa3	-	-	-	-
CQS2	20%	50%	50%	A1 to A3	198	-	-	40
CQS3	50%	50%	100%	Baa1 to Baa3	-	-	-	-
CQS4	100%	100%	100%	Ba1 to Ba3	-	-	-	-
CQS5	100%	100%	100%	B1 to B3	-	-	-	-
CQS6	150%	150%	150%	Caa1 and below	-	-	-	-
Total risk weighted cash exposure					**40**			**40**

5.1.1 Maximum exposure to credit risk

Table 13 – maximum exposure to credit risk

	Maximum exposure to credit risk	**Risk weight on**	**Capital Requirement**

	2017	2017	2017
	€000	**€000**	**€000**
Risk weighted assets:			
Cash Deposits	198	40	3.2
Central Government	-	-	-
Fees Receivable & Other Assets	8	8	0.6
Fixed Assets	-	-	-
Total risk weighted assets	**206**	**48**	**3.8**

Geographical Distribution of the Exposures

5.1.2 Credit Risk – Risk Weighted Assets by Geographical distribution of the exposure classes

The Company shall disclose the geographical distribution of the exposures, broken down in significant areas by material exposures classes. The geographical distribution of the exposure classes of the Company are as follows(The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.):

Table 14 - Geographical distribution of the exposure classes

31 December 2017			
Geographical Distribution of the Exposures			
€000			
Exposure class	**Cyprus**	**Poland**	**Total**
Institutions	0	198	**198**
Corporates	0	0	**0**
Retail	0	0	**0**
Other Items	8	0	**8**
Total	**8**	**198**	**206**

Exposure by industry

5.1.3 Credit Risk – Distribution of exposures by industry

The Company shall disclose the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate as follows:

Table 15 - Exposures by industry

	Banking/Financial services	Private Individuals	Other	Total
	€000		€000	€000
Exposure class				
Institutions	198	0	0	**198**
Corporates	0	0	0	**0**
Retail	0	0	0	**0**
Other Items	0	0	8	**8**
Total	**198**	**0**	**8**	**206**

5.2 Market Risk

Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. From a regulatory perspective, market risk stems from all foreign exchange risk positions in the whole balance sheet.

As a "Limited License" CIF, the Company does not deal for its own account. Market risk is therefore limited to movements in foreign exchange rates.

5.2.1 Foreign Exchange Risk

The Company's reporting currency is Euro. Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

If the sum of the Company's overall net foreign-exchange position and its net gold position exceeds 2% of its total own funds, the Company calculates own funds requirements for foreign exchange risk. The own funds requirement for foreign exchange risk is the sum of its overall net foreign-exchange positions and its net gold position in the reporting currency, multiplied by 8%.

For the period as at 31 December 2017, the overall net foreign-exchange position and its net gold position was less than 2% of its total own funds and therefore no capital requirements were attributed for foreign exchange risk.

The Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

5.2.2 Interest Rate Risk

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

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

5.3 Fixed Overheads

Following the CRDIV implementation, Operational Risk is replaced by Fixed Overheads requirements for CIFs that fall under Article 95 (1) of the CRR and pursuant to Article 97 of the CRR.

The purpose of this new requirement is to enable CIFs to protect their investors in case of winding down or restructuring their activities and to hold sufficient financial resources to withstand operational expenses over an appropriate period of time. In this respect, CIFs are required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year based on the most recent audited annual financial statements, or projected fixed overheads in the case where a CIF has not completed business for one year.

In addition to holding eligible capital of at least one-quarter of the fixed overheads of the previous year, CIFs have to calculate their total risk exposure based on fixed overheads.

CIFs have to calculate their total risk exposure based on fixed overheads. The Total Risk Exposure Amount for CIFs that fall under Article 95 (1) of the CRR, is the greater of the Total risk exposure amount (excluding Operational Risk) and the Fixed Overhead of the preceding year (or projected expenses as applicable) (x 12.5 x 25%).

Fixed Overheads that are recorded for year 2017 are from the Projected Financial Statements as the Company did not complete business for a full year in 2016 as per Article 97 (3) of the CRR. The Projected Fixed Overheads were overestimated and materially deviate from the actual Overheads of the Company.

The Fixed Overhead Requirement (25% x Fixed Overheads) was €174,000 which was considerably higher than the eligible capital of €112,000. This will no longer be an issue as of the first quarter of 2018 since the Fixed Overheads that will be used will be €219,000 instead of €696,000. The Fixed Overhead Requirement will decrease to €55,000 in 2018.

Furthermore the Shareholder proceeded with two Capital Injections over the first 4 months of 2018. Firstly, a Capital Increase of €150,000 on 06/02/2018. Finally, the Shareholder of the Company proceeded on a further Capital Increase of €300,000 on 26/04/2018. This Capital Injection was added as a buffer in order to avoid falling below the minimum threshold again in the future.

The Company's Fixed Overheads Risk Exposure amount is provided by the table below:

Table 16 - Fixed Overheads Risk Exposure amount analysis

1.	Total expenses (after distribution of profits) (please refer to Note (iv))	1537.60
2.	*Less:*	
(a)	fully discretionary staff bonuses	
(b)	employees', directors' and partners' shares in profits, to the extent that they are fully discretionary	
(c)	other appropriations of profits and other variable remuneration, to the extent that they are fully discretionary	
(d)	shared commission and fees payable which are directly related to commission and fees receivable, which are included within total revenue, and where the payment of the commission and fees payable is contingent upon the actual receipt of the commission and fees receivable	201.00
(e)	fees, brokerage and other charges paid to clearing houses, exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions	586.00
(f)	fees to tied agents as defined in paragraph 1, Section 2 of Part I of Law 144(I)/2007, where applicable, notwithstanding the provisions of Note (i)	
(g)	interest paid to customers on client money	
(h)	non-recurring expenses from non-ordinary activities	55.00
3.	Other Additions (please refer to Note (i))	0
4.	**Fixed Overheads**	696
5.	**Fixed Overheads Requirement (25% * Fixed Overheads)**	174
6.	**Fixed Overheads risk exposure amount**	2174
7.	Total risk exposure amount (as per Article 92(3), excluding item (e))	48

The Company has not completed one year of trading and as such the fixed overheads calculation will be based on the projected expenses as per the submitted business plan.

6 Other Risks

6.1 Concentration Risk

For the purposes of calculating large exposures, exposures means any asset or off-balance sheet item without application of the risk weights or degrees of risk there provided for.

The Company is not subject to the Large Exposures regime, in accordance with Article 388 of the CRR due to the fact that it is a “Limited License” CIF (under Articles 95(1) of the CRR). Nevertheless, according to Directive DI144-2014-14 for the Prudential Supervision of Investment Firms, Paragraph 61, Limitations on exposures to directors and shareholders, a CIF is not allowed to have exposures to a director more than 1% and to a shareholder that is not an institution, more than 2% of its eligible capital. Exposures to shareholders and directors are monitored and kept within the limits.

6.2 Reputation Risk

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large customers, poor customer service, fraud or theft, customer claims and legal action, regulatory fines.

The Company has transparent policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company provides high quality services to customers.

6.3 Strategic Risk

Strategic Risk could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

6.4 Business Risk

Business Risk 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 analyzed and taken into consideration when implementing the Company's strategy.

6.5 Capital Risk Management

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

The Company is further required to report on its capital adequacy quarterly and has to maintain at all times a minimum total capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets.
Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of management accounts to monitor the financial and capital position of the Company.

6.6 Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Procedures 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.

6.7 Legal and Compliance Risk

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

6.8 IT Risk

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

6.9 Risk Reporting

The Company maintains a system in place to record any risk event incurred on a special form duly completed by personnel of each department and is submitted to the Compliance officer and Risk manager when such event occur.

6.10 Liquidity Risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses.
The Company has policies and procedures with the object of minimizing such losses.

6.11 Leverage Ratio

The leverage ratio is a new monitoring tool which will allow the competent authorities to assess the risk of excessive leverage in their respective institutions. According to the CRR, the investment firms have to report all necessary information on the leverage ratio and its components.

According to the CRR, the requirement for institutions to start disclosing the leverage ratio from 1 January 2016, depends on the category of the institution. Please refer to table 17 below.

Table 17

ANNEX VI – Summary of reporting requirements

Category	Minimum initial capital	Form 144-14-06.1	Form 144-14-07	Form 144-14-08.1	Form 144-14-08.2	Form 144-14-08.3	Form 144-14-09
Full scope [1]	€730.000	submit	submit	submit	submit	submit	Submit
Under art. 95(1) of CRR[2]	€125.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	exempted
Under art. 95(2) of CRR [3]	€50.000	Submit (calculation based on FOH)	exempted	exempted	exempted	exempted	exempted
Under art. 96(1) (a) of CRR	€730.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	submit
Under art. 96(1) (b) of CRR	€730.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	submit
Exempted under art. 4(1) (2) of CRR [4]	€50.000	exempted	exempted	exempted	exempted	exempted	exempted

7 Remuneration policy

The Company has established a remuneration policy, which its purpose is to set out the remuneration practices of the Company taking into consideration the salaries and benefits of the staff, in accordance with the provisions of Directive as well as the Circular 031 (Circular 031 has been issued in place of Guidelines GD-IF-07 for the correct filing purposes) on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Company’s size, internal organization and the nature, scope and complexity of its activities.

The design of the Policy is approved by the people who effectively direct the business of the Company, after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance. The people who effectively direct the business should be responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks that remuneration policies and practices can create. The Board discusses remuneration policy matters at least annually.

Furthermore, the Policy should also benefit from the full support of senior management or, where appropriate, the supervisory function, so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures.

Finally, the Policy should also adopt and maintain measures enabling them to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

7.1 Remuneration System

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management and members of the Board; the said practices are established to ensure that the rewards for the "executive management" are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long term success.

The remuneration mechanisms employed are well known management and human resources tools that take into account the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives.

The Company's remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

It is noted that the Company has taken into account its size, internal organization and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee. Decisions on these matters are taken on a Board level while the remuneration policy is periodically reviewed.
The total remuneration of staff, whose professional activities have a material impact on the risk profile of the Company currently, consists of a fixed and a variable component. The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for a staff member to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

During the year under review, there was no remuneration payable under deferral arrangements (with vested or unvested portions). Finally the Company did not pay any non-cash remuneration for the year under review.

7.2 Remuneration of Senior Management Personnel and Directors

The remuneration of the senior management personnel of the Company, including Board are shown in the following tables:

Table 17 - Remuneration analysis split by Senior Management and key management personnel

2017	Senior Management (Executive Directors)	Key Management personnel	Non-Executive Directors
Fixed reward	32,054	49,447	17,340
Variable reward	-	-	-
Total	32,054	49,447	17,340
Number of beneficiaries	1	4	2

Companies are required to disclose the number of natural persons that are remunerated €1mln or more per financial year, in pay brackets of €1mln, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. Nevertheless, currently there are no natural persons at the Company that are remunerated €1mln or more per financial year and as such the above disclosure is not applicable to the Company. No sign-on payments have been awarded during 2017, while no severance payments were paid during the year.

Furthermore, aggregate remuneration analyzed by business area is presented below:

Table 18 - Aggregate remuneration analysis by business area

	Aggregate Remuneration
	€
Control Functions	57,280
Administration/Back Office Department	25,922
Marketing Department	19,513
Brokerage Department	11,212
IT Services Department	-
Total	113,927

*Control functions include the Compliance Department, the AML Department the Risk Manager, and the Managing Director.