AFX Capital Markets Ltd

DISCLOSURE AND MARKET DISCIPLINE

(PILLAR III Disclosures)

For the Year 2017

May 2018

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1. Introduction

AFX Capital Markets Ltd is an investment firm regulated by the Cyprus Securities Exchange Commission for the provision of investment services with respect to financial instruments.

AFX Capital Markets Ltd is authorized and regulated by the Cyprus Securities Exchange Commission on 9th of July 2010 with license number 119/10 and registration number 253014 and it is also regulated under the Market in Financial Instruments Directive (MiFID) in regards to other offices within the EU under the MiFID Passporting Regime. AFX details can be found on the CySEC website at http://www.cysec.gov.cy/en-GB/entities/investment-firms/cypriot/37715/. The office is 116, Gladstonos Street, M. Kyprianou House, 1st Floor, 3032, Limassol, Cyprus and its website is www.afxgroup.com .

AFX Capital Markets Ltd is licensed to carry out the following investment and ancillary services:

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients
- Dealing on own account
- Portfolio management
- Investment advice
- Safekeeping and administration of financial instruments, including custodianship and related services
- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings
- Foreign exchange services where these are connected to the provision of investment services
- Investment research and financial analysis

2. Pillar III Regulatory Framework

On June 26th, 2013, the European Parliament and the Council released a legislative package known as the "CRDIV" to strengthen the regulation of the financial sector. The "CRDIV" package replaces the previous European Capital Requirement Directives (2006/48 and 2006/49) and CySEC's Directives DI144-2007-05 and DI144-2007-06, commonly known as Basel II, in relation to capital requirements and large exposures, with a European Directive No. 2013/36/EU ("The Directive") and a European Regulation No. 575/ 2013 ("The Regulation").

The Regulation (EU) No. 575/2013 establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. Furthermore, the Regulation introduced significant changes in the prudential regulatory regime applicable to Investment Firms 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. The Regulation permits a transition period for certain enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018.

Together, the Regulation and the Directive form the legal framework governing the access to the activity, the supervisory framework and the prudential rules for credit institutions and investment firms. The Regulation should therefore be read together with the Directive. The Regulation is directly applicable as a Single Rule book by all Member State institutions whereas the Directive needs to be transposed by all member state regulatory authorities. The transposed Directives of CySEC are Directives DI144-2014-14 and DI144-2014-15. The main purpose of Basel III revisions was to make the framework more risk sensitive and representative of actual risk management practices.

The new regulatory framework consists of three Pillars:

- **Pillar I** sets out the minimum capital requirements firms are required to meet
- **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, those risks not taken into account by the Pillar I process and factors external to the firm. Pillar II connects the regulatory capital requirements to the Company's internal capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of the Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.
- **Pillar III** seeks to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management practices.

These disclosures have been prepared by AFX in accordance with Part Eight of the Regulation which provides that institutions shall disclose their risk management objectives and policies for each separate category of risk.

The Regulation provides that an investment firm may omit one or more of the disclosures if it believes that the information is immaterial, except for the disclosures laid down in Article 435(2)(c)[1], Article 437[2] and Article 450[3].
Information in disclosures shall be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making

[1] 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.
[2] Own funds
[3] Remuneration Policy

economic decisions.

The Regulation also permits investment firms to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. Information shall be regarded as proprietary to an institution if disclosing it publicly would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investment therein less valuable. Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality.

Frequency

The Company's policy is to publish the disclosures required on an annual basis. The frequency of the disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements. These disclosures shall constitute a report which will be published on the Company's website at www.stofs.com on an annual basis and where necessary. The Company shall proceed with amendments of the report, as approved by the Board of Directors.

All disclosures made, prior to being published, were reviewed and verified by the Company's Board of Directors.

3. Scope of Application

The management of AFX has an obligation to publish information relating to risks and risk management on an annual basis, in accordance with the provisions of Part Eight of the Regulation and paragraph 32(1) of the Directive.

4. Risk Management Objectives and Policies

The Company's overall appetite for risk is low and it maintains effective policies and procedures for the identification, analysis and control of risk. For example, internal controls and management systems include:

- Board of Directors & Senior Management
- Risk Management Committee
- Internal Audit- Financial Associates International (FAI)
- Compliance & Anti-Money Laundering Officer (Head of Compliance & AML Officer and Compliance Assistant)

A. Board of Directors & Senior Management

The Company's Board of Directors and Senior Management are responsible for the establishment and oversight of the risk management framework. The Company has also established a Risk Management Function which operates independently and is assigned the monitoring of the following:

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

Board of Director	***Position with AFX Capital Markets Ltd***	***Directorship – Executive***	***Directorship- Non-executive***
Director 1	*CEO (CY-based)*	*1*	*0*
Director 2	*Executive Director (CY-based)*	*1*	*0*
Director 3	*Independent Non-Executive (CY-based)*	*0*	*1*
Director 4	*Independent Non-Executive (CY-based)*	*0*	*2*
Director 5	*Independent Non-Executive (CY-based)*	*0*	*3*

Four Eyes	***Director 1 – Director 2***

Risk Management Function:

The Risk Manager, an appointed officer by the BoD, leads the Risk Management function. The Risk Manager is responsible for the:

- Compliance with and implementation of the relevant provisions of the applicable legislation relating to risk management issues;
- Analysis of the markets and its trends from a risk management perspective
- Evaluation of how the introduction of any potential new services or activities by the Company could affect the risk management of the company and providing these evaluations to the Senior Management or the Board, as requested;
- Examination of the capital adequacy and the exposures of the Company
- Recommendation, providence and supervision policy description concerning information systems (including backup systems that can restore the smooth operation in case of failure); and
- Suggestion to the Senior Management to stop trading, if market conditions and credit risk make it necessary

Information and Reporting:

- Requirement of sufficient information from all the relevant Departments of the Company
- Examination of the financial results of the Company
- Draft of written reports to the Senior Management making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies, at least annually. These reports shall be presented to the BoD and discussed during its meetings, at least annually
- Monitor of the type and amount of information provided to the Clients regarding the nature and risks of financial instruments according to the Client classification

Dealing on own account:

- Monitor of the performance and overall actions of the Department, on a continuous basis

Market and Liquidity Risk

- Implementing stop-loss control limits where applicable
- Following up open positions within the approved limits

B. Risk Management Committee

The size of the Company, internal organisation, nature, scope and complexity of the activities performed led to the creation of a Risk Committee by the BoD. The Members of the Risk Committee have the appropriate knowledge, skills and expertise to fully understand the risk objectives and appetite of the Company.

The Risk Management Committee, inter alia, scrutinizes, and decides on various risks inherent with the operation of the Company with the view to formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company. Additionally, the Committee reviews the risk management procedures in place and is responsible for monitoring and controlling the Risk Manager in the performance of his duties.

The Risk Management Committee meets at least annually, unless it is otherwise required.

C. Internal Audit Function

The Internal Audit Function is performed by the appointed Internal Auditor who acts independently and separately from the other functions of the Company and reports to the Senior Management and the BoD through an annual internal report. The Internal Auditor has the following responsibilities:

- 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;
- Issue recommendations based on the result carried out in accordance with the point above;
- Verify compliance with the recommendations of the point above;
- Provide timely, accurate and relevant reporting in relation to internal audit matters to the BoD and the Senior Management of the Company at least annually;

D. Compliance and Money Laundering Officer

The Compliance and Money Laundering Officer is independent of all operational and business functions and reports directly to the Board of Directors. More specifically, this officer is expertise and follows the required processes as detailed in the Company’s IOM. Specifically, it is implementing compliance, monitoring program to ensure the overall compliance of the Company with laws and relevant directives imposed by the CySEC and any other regulatory authority having the following duties:

- To review changes in legislation and assess the implications for the Company
- To develop specific compliance procedures and provide guidance to management on compliance issues
- To assure that legal and regulatory responsibilities are understood and are taken into account when new activities or changes in the business are under consideration
- To perform ad-hoc projects or reviews as requested by the supervisory authorities, the General Manager or the Head Office
- To train and educate staff with regards to their and the Company’s responsibilities
- To advise management on the best way to achieve cost-effective compliance
- To report breaches of the rules to the related regulatory authorities and assist monitoring teams during inspection visits
- To invite and accept personnel reports prepared with relation to any suspicious issues that may arise
- To immediately report to the Board of Directors and the Internal Auditor once confirming the matter’s existence, providing solutions and/or recommendations

The Company’s risk policies, measurements and reporting methodologies are subject to regular review, particularly prior to the commencement of the provision of new services or products, or when there are significant changes to the products, services or relevant legislation, rules or regulations that might impact its risk exposure.

4.1 Risk Inventory

The Company is primarily exposed to the following risks from its use of financial instruments

A. **Credit Risk**

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date.

AFX Capital Markets Ltd has no significant concentration of credit risk.

AFX Capital Markets Ltd has policies in place to ensure that services provided are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. In addition, the Company has policies to limit the amount of credit exposure to any financial institution.

The Company mitigates risk through diversification and by using institutions for holding of cash deposits for use in its day-to-day operations.

The credit assessment of the institution is provided by an Eligible Credit Assessment Institution.

The Company uses the standardized approach for assessment and assignment of capital with respect to credit risk. For other assets, the Company assigns a 100% risk weighting.

Exposure to Credit Risk

The determination of what is significant or prolonged requires judgment by management. The factors which are evaluated include the expected volatility in market prices. In addition, impairment may be appropriate when there is evidence that significant adverse changes have taken place in the technological, market, economic or legal environment in which the investee operates.

Credit Risk Monitoring and Mitigation

Credit risk is monitored by management and the risk committee on an ongoing basis. AFX Capital Markets Ltd addresses credit risk in a number of ways including:

(a) aiming to maintain a diversified client portfolio thus avoiding high concentration and exposure to a small number of clients,
(b) depositing the Group's own funds as well as client funds only in highly rated bank institutions,
(c) ensuring that clients cannot begin to trade unless money has been deposited into client's accounts,
(d) ensuring that the necessary margin is tied for any positions.

In addition, the credit risk that arises from client positions is further reduced by the Company's policies and tools, which include manual and automatic stop loss limits in order to prevent any open positions exceeding the Company’s pre-set margin.

Credit Risk calculation

The Company follows the Standardized Approach for the calculation the capital requirements for credit risk.

AFX manages the credit risk exposures 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 various subcategories of credit risk. To assess counterparty credit risk, the Company uses the ratings assigned by external rating agencies.

Categories	***Total Risk Weighted Exposure Value ‘000 EUR***	***Minimum Capital Requirements ‘000 EUR (8%)***
Institutions	*455*	*36*
Corporates	*895*	*33*
Others	*65*	*5*
Retails	*965*	*75*
Total	***2,381***	***190***

Exposure Class	***CY***	***EU***	***UK***	***NON-EU***	***Total***
Institutions	35	109	247	64	455
Corporates	482			413	895
Others	65				65
Total	**582**	**109**	**247**	**477**	**1,415**

B. **Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting payment obligations and potential payment obligations as and when they fall due without incurring unacceptable losses. Liquidity risk also arises from the inability to find buyers on the terms desired. Infrequently traded securities/assets bear higher liquidity risk. The imbalance between the number of buyers and sellers or because the securities/assets are not traded very often cause this liquidity risk. The liquidity risk is usually reflected in a wide bid-ask spread

AFX Capital Markets Ltd has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

C. **Market Risk**

AFX Capital Ltd defines Market Risk as the risk of adverse movements in the level of interest rates, in the rate of exchange between currencies and the current prices of securities, commodities and other financial instruments. Accordingly, these movements may affect the Company's profitability.

The Company monitors the market risk that arises on client positions against internally approved limits and hedges client positions on internally agreed strategies to manage the Company's net exposure.

Market Risk Mitigation

In order to manage its market risk, AFX Capital:

- applies a Market to Market valuation, for accounting purposes;
- sets the maximum loss that may be incurred (due to a Client's trading activity on FOREX and CFDs at a certain level whereupon full hedging procedures should commence;
- records, through its trading platform(s) and real time reporting tool, the Clients' trading activity including but not limited to the transactions that are executed; this gives the option to constantly monitor the Firm's exposure and take appropriate action, if required;
- it is the responsibility of the Head of the Dealing Department, or the supervisor of the Dealing Department in his/her absence, and the Risk Management Committee to ensure that AFX Capital maintains, at all times, sufficient funds in its multiple hedging accounts to offset, if required, any exposure, created from trading in FOREX and CFDs. The Head of the Dealing Department, or the supervisor of the Dealing Department, shall inform the Board accordingly;
- in case of an extraordinary event the Head of the Dealing Department, or the supervisor of the Dealing Department in his/her absence, is responsible for taking all required measures to ensure the safeguard of the best interests of AFX Capital and its Clients. The Head of Dealing Department, or the supervisor of the Dealing Department in his/her absence, shall oversee the implementation of a business continuity plan, if required; and
- Operates on a specific leverage model that adapts to a Client's trading by automatically reflecting a maximum leverage depending on the total number of lots traded or by a Client in a specific currency pair.

Market Risk Calculation

AFX Capital Ltd uses the Standardised Approach to calculate the capital requirements of market risk.

D. **<u>Currency Risk</u>**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's measurement currency.

The Company is exposed to foreign exchange risk arising from various currency exposures as a result of the existence of open currency positions in the currencies in which it performs transactions with its customers.

AFX Capital management monitors the exchange rate fluctuations on a continuous basis and acts accordingly in order to mitigate these risks.

E. **<u>Interest Rate Risk</u>**

Interest Rate risk is the risk that arises from adverse movements in interest rates that affect the Company's on- and/ or off-balance sheet items.

The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly. The Company did not have any own position in securities meaning that its income and operating cash flows are substantially independent of changes in market interest rates. At the 31st December 2017 the Company had no other interest bearing financial assets or liabilities than cash at bank, with interest at normal commercial rates.

F. **<u>Operational Risk</u>**

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, inadequate internal controls, fraud or human error as below:

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

AFX Capital Markets Ltd established various techniques in order to mitigate the operational risk, through its culture and value system which is one of integrity and transparency. These techniques include the following:

- AFX Capital Markets Ltd mitigates these through its culture and value system which is one of integrity and transparency. This is reflected in its system of internal controls, back-up facilities, contingency planning and internal audit procedures, specifically:

- the Company benefits from 5 (five) directors, 3 (three) of whom are independent non-executive directors with a great deal of experience in the sector;
- 4-eyes approach: The Company is supervised by two senior members;
- The Company employs a compliance officer and anti-money laundering officer that ensure that proper information/reports are sent on time to CySEC. The compliance officer must ensure also the accuracy of any statements made during the marketing and advertising processes and ensure that the information addressed to the client is fair, clear and not misleading
- the Company uses Financial Associates International (FAI) for its internal auditor function. This adds greater level of independence than directly employing an internal account. Internal audit visits are implemented to ensure that employees comply with the Company's internal procedures;
- Management formally communicates duties and responsibilities to employees through regular meetings, seminars and trainings;
- the Company has in place a robust disaster recovery system;
- the Company has a conflicts of interest policy;
- the Company employees its own legal advisor and obtains legal advices for all its official documents before it enters into new markets.

Operational Risk Calculation

The Company must hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual net income. The figures for one year in which the annual gross income is negative or zero are excluded from both the numerator and denominator when calculating the average.

AFX adopted the Basic Indicator for Operational risk. The Basic Indicator approach calculates the average, on a three-year basis, of net income to be used in the risk weighted assets calculation. This includes the average over 3-year period of income earned.

	Year 2015 Eur'000	***Year 2016 Eur'000***	***Year 2017 Eur'000***	***Own Fund Requirement***
Operational Risk	*5,624*	*6,040*	*4,733*	*822*

G. **Capital Risk**

AFX Capital is exposed to capital risk; the legal and regulatory framework under which AFX operates stipulates that the Company must maintain a minimum capital adequacy ratio of 8%. The method of calculation is determined by CySEC based on the international capital standards set out in Basel III. AFX aims in maintaining, at all times, a higher capital adequacy ratio compared to the required minimum (8%).

The Company ensures that at all times complies with the imposed capital requirements and it maintains healthy capital ratios. This responsibility applies to all relevant organizational levels.

AFX Capital manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The objectives of AFX Capital when managing its capital are: (i) safeguarding the Company's ability to continue as a going concern and (ii) maintaining an optimal capital structure in order to reduce the cost of capital.

In accordance with CySEC's relevant Directives and as set out in the applicable Basel Accord and as implemented in the European Union through the applicable Capital Requirements, a "three pillar" concept is applied:

- Minimum capital requirements (addressing risk)
- Supervisory review
- Market discipline- to promote greater stability in the financial system;

In 2017, AFX Capital fulfilled its obligations by successfully submitting, on a monthly basis, the Capital Adequacy Reports, providing the capital adequacy ratio 11.64%

H. **<u>Mitigation of Capital Risk</u>**

In order to manage its capital risk, AFX Capital monitors, at all the time, its capital adequacy ratio to ensure that this remain at a level.

I. **<u>Other Risks</u>**

i. **<u>Legal & Compliance Risk</u>**

AFX Capital is exposed to legal risk that arises from uncertainty in the interpretation of contractual clauses, laws and/ or regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews performed by the Compliance Officer. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

Mitigation of Legal Risk

In order to manage its legal risk, AFX employs, on a full-time basis, legal advisor to act as the Company's legal advisor, responsible for among other things preparing any documentation including but not limited to contractual agreements that the Firm engages in.

ii. **Reputational Risk**

AFX is exposed to reputational risk that arises due to a number of factors including but not limited to negative publicity, pending or concluded litigation, lost revenue and decline in the value of the Company's shares.

AFX, in this respect, employs the following mitigation strategies:

- Strive to keep its customers satisfied. The Company has a well-implemented customer complaint handling-policy;
- Information provided to customers is ensured to be fair, clear and misleading. The Company reviews and approves any advertising and other material before they are being published;
- Prioritizes compliance with applicable regulations;
- Maintains good relationships with counterparties.

Mitigation of Reputational Risk

In order to manage its reputational risk, AFX ensures that the Company is responsive to market changes and that policies and procedures are adhered to.

iii. **Strategic Risk**

AFX is exposed to strategic risk that could result due to poor strategic business decisions taken and implemented by the Company.

Mitigation of Strategic Risk

In order to manage its strategic risk, AFX:

- assesses, as often as required, the Company's strategic direction taking into account its objectives and updates the Company's budget, accordingly;
- requests the approval of the Board of Directors to initiate any projects that might have an

impact to the Company's short and long term-business plans and require people and other resources in order to be completed; and

- reports, as often as required, to the Board milestones and other goals achieved/not achieved so that actual results can be measured n comparison to forecasts;

5. Internal Capital Adequacy Assessment Process ("ICAAP")

The ICAAP is a set of processes, procedures and measures implemented by the Company to ensure:

- Appropriate identification and measurement of risks;
- Appropriate level of internal capital in relation to their risk profile; and
- Application and further development of suitable risk management and internal control systems

ICAAP overview:
In accordance with Directives DI144-2014-14 and DI144-2014-15 of the CySEC:

- The Company shall have in place the appropriate processes and strategies to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that it considers adequate to cover the nature and the level of the risks to which it is, or might be exposed. For this reason, the company must adopt the relevant Guidelines issued by CySEC.
- These strategies and processes shall be subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexicity of the Company's activities.

The Internal Capital Adequacy Assessment Process is the result of the aforementioned requirements. The ICAAP is an internal tool which allows the Company to assess its position and determine the amount of internal capital it needs to hold in order to be covered against all risks it is facing or to which it may be exposed in the future.

The ICAAP falls under the scope of Pillar II, which can be described as a set of relationships between CySEC and the Investment Firm, the objective of which is to enhance the link between an investment firm's risk profile, its risk management, risk mitigation systems and its capital. Pillar II establishes a process of prudential interaction that complements and strengthens Pillar I by promoting an active dialogue between the regulator and the investment firm such that, any inadequacies or weaknesses of the internal control framework and also other important risks, the fulfillment of which may entail threats for the investment firm, are identified and managed effectively with the enforcement of additional controls and mitigating measures.

The ICAAP is clearly owned and approved by the Company's Board of Directors.

Methology and Profile

The Planning of the ICAAP is related to the size of the Company and the complexicity of its operations, taking into consideration the proportionality principle. Moreover, the connection between the ICAAP and the Supervisor's Review Process ("SREP"), which is going to be carried out by CySEC, is also influenced by the size and complexicity of the Company's operations.

The Company, taking in consideration the Company's size and complexicity of operations, utilizes the minimum capital requirement approach for the calculation of the additional capital for Pillar II.

The Company has implemented the minimum capital requirement approach in four stages:

1. The Pillar I minimum capital requirement was used as the foundation, since it reflects the Company's exposure to Pillar I risks (i.e. Credit Risk, Operational Risk and Market Risk).
2. The adequacy of the minimum capital required under Pillar I was then assessed, in relation to risks arising from the following three categories:
   I. Risks covered in Pillar I;
   II. Risks not fully covered in Pillar I (e.g. Concentration Risk which is part of Credit Risk);
   III. Risks not covered in Pillar I (e.g. Liquidity Risk, Strategic Risk, Reputational Risk)
3. A comprehensive risk assessment was carried out for all three groups of risks, during which a profile was determined for each risk (high/ medium/ low), based on the anticipated impact and the likelihood of occurrence. All high-profile risks were further analyzed and mitigation measures were set in order for the Company to better control and mitigate them.
4. The additional measures set for the mitigation of these risks are considered over and above the capital allocated for Pillar I purposes and can take the following forms:

I. Provision of additional capital corresponding to the risks not covered, either fully or partially, by Pillar I;

II. Enhancement of internal procedures to reduce the likelihood of these risks materializing and/ or the impact of those risks to the Company.

6. Reporting and Control

In order for the Company to have in place procedures which will allow it to monitor its exposure in risky areas, it undertakes certain reporting requirements towards the top management where the decision making is being carried out

The supervisory functions of the Company have an open line of communication with the board in order to communicate any findings and/ or deficiencies they indentify in a timely manner and ensure that those will be resolved through the guidance of the management body. Additionally, the Risk Management Committee is communicating its suggestions and findings to the BoD if it is necessary.

Report Name	Preparer	Recipient	Frequency
Risk Report	Risk Manager	BoD, CySec	Annual
ICAAP	Risk Manager	BoD, CySec	Annual
AML Report	Compliance Manager	BoD, CySec	Annual

Compliance Report	Compliance Manager	BoD, CySec	Annual
Internal Audit Report	Internal Auditor	BoD, CySec	Annual
Audited Financial Statements	External Auditor	BoD, CySec	Annual

7. Own funds

Own funds is the type and level of regulatory capital that must be held in order to enable the Company to absorb losses. It is the sum of Tier 1 Capital and Tier 2 Capital. The own funds of an institution may not fall below the amount of initial capital required at the time of authorisation.

Capital (Original Own fund)	**Euro'000**
Tier 1 Capital	2,150
Tier 2 Capital	0
Total Own Funds	***2,150***

Subject to Articles 93 and 94 of Regulation No.575/2013, institutions shall at all times satisfy the own funds requirements:

- Common Equity Tier 1 capital ratio of 4,5%
- Tier 1 capital ratio of 6%
- Total capital ratio of 8%

YEAR	**CET 1 Capital Ratio**	**Tier 1Capital Ratio**	**Total Capital Ratio**
2017	11.64%	11.64%	11.64%

8. Leverage Ratio

According to CRR, Article 429, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposure measure and is expressed as a percentage.

As at the 31st of December 2017, the leverage ratio of the Firm was equal to 39.82%, well above the 3% minimum ratio set by the Basel Committee.

9. Remuneration Policy

The Company has adequate remuneration policies and practices in place for those categories of staff whose professional activities have a material impact on the firms' risk, for example information concerning the decision-making process used for determining the remuneration policy, information on link between pay and performance, the criteria used for performance measurement, aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investment firm, etc.

The criteria that the Company followed when drafting such policies are as follow:

1. The scope and purpose of the remuneration policies which take into consideration categories of staff which include senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on their risk profile.

2. The responsibility for their implementation and periodic review.

3. The remuneration of staff in control functions and senior officers in the risk management and compliance functions specifically, staff engaged in control functions are independent from the business units they oversee, have appropriate authority and be remunerated according to the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

4. Performance-related remuneration.

5. Fixed and variable remuneration (e.g. bonuses).

Categories of Employees	***Remuneration for the YEAR 2017, EUR'000***
Directors' Remuneration	50
Remuneration of Senior Management	284
Other	820

10. FAQs/Enquiries

This report is published in our website **www.stofs.com** . For any questions and enquiries regarding this report and its content please feel free to contact our Compliance Department.

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