

ZEMBLANCO INVESTMENTS 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 on prudential requirements for credit institutions and investment firms

YEAR ENDED 31 DECEMBER 2015

April 2016

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1. Overview

1.1 CIF Information

Zemblanco Investments Ltd (hereinafter the ‘Company’) was incorporated in the Republic of Cyprus on 12/06/2012 as a private limited liability company with registration number HE 333296 and it is a Cyprus Investment Firm. The Company was licensed by the CySEC with number CIF 277/15 to provide financial services, on 28/05/2015 and the licence was activated on 19 February 2016.

Table 1 below illustrates the current licence information of the Company:

Table 1 - Company Licence Information (based on the Third Appendix of the Law 144(I)/2007-2014)

		Investment Services and Activities								Ancillary Services						
		1	2	3	4	5	6	7	8	1	2	3	4	5	6	7
Financial Instruments	1	✓	✓	-	✓	✓	-	-	-	✓	-	-	-	-	-	-
	2	✓	✓	-	✓	✓	-	-	-	✓	-	-	-	-	-	-
	3	✓	✓	-	✓	✓	-	-	-	✓	-	-	-	-	-	-
	4	✓	✓	-	✓	✓	-	-	-	✓	-	-	-	-	-	-
	5	✓	✓	-	✓	✓	-	-	-	✓	-	-	✓	-	-	-
	6	✓	✓	-	✓	✓	-	-	-	✓	-	-	-	-	-	-
	7	✓	✓	-	✓	✓	-	-	-	✓	-	-	-	-	-	-
	8	✓	✓	-	✓	✓	-	-	-	✓	-	-	-	-	-	-
	9	✓	✓	-	✓	✓	-	-	-	✓	-	-	-	-	-	-
	10	✓	✓	-	✓	✓	-	-	-	✓	-	-	-	-	-	-

The Company is authorised to provide the following **Investment Services**, in accordance with Part I of the Third Appendix of the Law 144(I)/2007-2014):

1. Reception and transmission of orders in relation to one or more financial instruments
2. Execution of orders on behalf of clients
3. Portfolio management
4. Investment advice

The Company is also authorised to provide the following **Ancillary Services**, in accordance with Part II of the Third Appendix of the Law 144(I)/2007-2014):

1. Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
2. Foreign exchange services where these are connected to the provision of investment services.

The Company is authorised 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)/2007-2014:

1. Transferable Securities
2. Money Market Instruments
3. Units in Collective Investment Undertakings

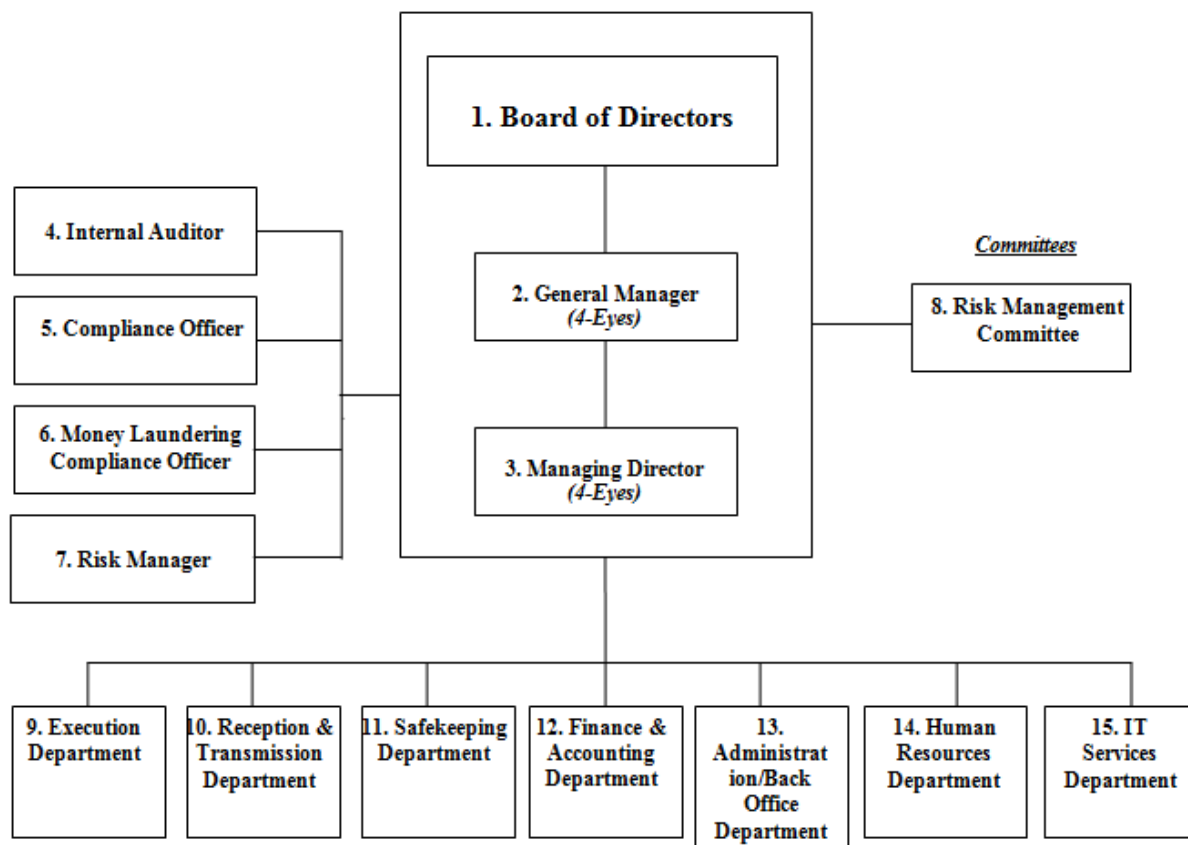
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forward 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 recognised 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 recognised clearing houses or are subject to regular margin calls.

Moreover, based on Article 95 (1) of the Regulation (EU) 575/2013, the Company is categorised as “**Limited Licence**” CIF with minimum/initial capital requirement of €125,000.

1.2. Scope of application

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

1.3. Organisational Structure



1.4. Regulatory framework overview

This report has been prepared in accordance with Section 4 (Paragraph 32) of the Cyprus Securities and Exchange Commission (hereinafter the “CySEC”) Directive DI144-2014-14 of 2014 (the ‘Directive’) for the prudential supervision of investment firms which implements the Regulation (EU) 575/2013 (the “Regulation” or 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 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 of 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 composition and transparency.

The Regulation 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 procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.
- **Pillar III - Market Discipline** 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 investment firms 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 investment firm. The investment firm will be responsible to submit its external auditors' verification report to CySEC. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures has been made by the external auditors and sent to CySEC.

1.5. 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 CRDIV requirements.

1.5.1. Information to be disclosed

Institutions may omit 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

The Regulation provides that the Company may omit one or more of the disclosures if it believes that the information is immaterial. 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 permits the Company to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The Directive 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 investment firm's investments therein less valuable.

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

1.5.2. 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.

1.5.3. 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: www.zemblanco.com

1.5.4. 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 by the Risk Management Committee.

1.6 Risk Management objectives and policies

To ensure effective risk management, the Company has adopted three levels of control, with clearly defined roles and responsibilities.

First Level Control: 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 organisational risk appetite and are fully compliant with Company policies and where appropriate defined thresholds. First Level controls act as an early warning mechanism for identifying (or remedying) risks or failures.

Second Level Control – 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 Level Controls is identifying risk areas,

detecting situations/activities, in need of monitoring and developing policies to formalise risk assessment, mitigation and monitoring.

Third Level Control- 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 Level of Controls to ensure that its findings and recommendations are taken into consideration and followed, as applicable.

1.6.1 Risk Management Framework

Managing risk effectively in a Company operating 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 organisational 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 of Directors 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 three all-encompassing main types of risk: credit risk, market risk and operational risk.

1.6.2 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	<ul style="list-style-type: none"> • Credit Risk • Market Risk • Liquidity Risk
Reputational	<ul style="list-style-type: none"> • 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.

1.6.3 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 behaviour is a key component of the strong risk culture and its importance is also continuously emphasised 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.

1.7. 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 minimise 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 of Directors 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 2 executive directors and 2 independent non-executive directors.

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the BoD, 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

The table below discloses the number of directorships held by members of the management body. Directorships in organisations which do not pursue predominantly commercial objectives, such as non-profit or charitable organisations, are not taken into account

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

Director	Function	Number of Directorships
Mrs Sabina Smite	Executive Director	1
Mr Andreas Kililis	Executive Director	1
Mrs Inna Vasilevich	Independent, Non-Executive	3
Mr George Ioulianos	Independent, Non-Executive	2

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 Cyprus investment firm'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 Cyprus investment firm.

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 organisation.

2.5. Governance Committees

In order to support effective governance and management of the wide range of responsibilities the Board has established the *Risk Management Committee*. The role of the Committee is to provide oversight, review and challenge of the material risks both current and future affecting the business whilst ensuring that there is effective management and control of all key risks and issues facing the Company. The members of the Risk Management Committee are shown in the table below:

Table 4 – Risk Management Committee

Member Name	Function
Mr Andreas Kililis	Managing Director
Mrs Sabina Smite	General Manager
MAP S.Platis	Risk Manager (ex officio and without any voting rights)
Mr George Ioulianos	Independent, Non-Executive Director

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. Moreover, the Risk Management Committee reviews the risk management procedures in place (monitors and controls the Risk Manager in the performance of his duties and the effectiveness of the Risk Management Department).

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify. The Investment Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.

The Risk Management Committee meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager.

2.6 Other Governance Functions

Internal Audit

The Company, where appropriate and proportionate, taking into account the nature, the scale and the complexity of its business activities, as well as the nature and the range of its investment services and activities, shall establish and maintain an internal audit function which is separate and independent from the other functions and activities of the Company.

The Internal Audit Department's functions will be outsourced. It is a separate and independent, from the other functions and activities of the Company, unit reporting directly to Senior Management and the Board of Directors. The person in charge of the Internal Audit function will be appointed once the permission is granted by CySec, subject always to its approval.

The scope and objectives of the Internal Audit unit are the following:

- a) Safeguarding of the assets of the Company from loss or improper or unauthorized use
- b) Safeguarding of third parties' assets including clients' assets from misuse or loss, including the proper and clear separation from its own funds
- c) Evaluation of the manner of conduct of the Company operations in the proper and lawful manner in compliance to the relevant laws and regulations and the internal procedures as set out in the Procedures Manual
- d) Continuous monitoring and evaluation of the internal audit procedures and the submission of proposals for the more efficient performance of the Department's operations
- e) The monitoring and evaluation of the risks inherent in the Company operations
- f) To recommend, in case of detection of any weakness or failure by the firm to comply with its obligations under the Law, specific remedial measures
- g) Monitoring and evaluation of the implementation of the Company's corporate strategy as formulated by the Board of Directors
- h) Transactions are executed in accordance with management's authorization and are accurately and completely recorded to permit, inter alia, the preparation of financial statements

Compliance & Prevention of Money Laundering and Terrorist Financing Procedures

The Company taking into account the nature, scale and complexity of its business, and the nature and range of investment services and activities undertaken in the course of that business shall establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations under the Law, as well as the associated risks, and put in place adequate measures and procedures designed to minimise such risk and to enable CySec to exercise its powers effectively.

The Company will establish and maintain a permanent and effective Compliance Function (Compliance Officer) and Anti-Money Laundering Compliance function (MLCO) which will operate independently.

The Company will employ on a full time basis or outsource the position of Compliance officer and Anti-Money Laundering Compliance Officer or the General Manager will perform the duties of Compliance officer and MLCO subject to CySec approval. The Compliance officer and the MLCO will belong to the management of the Financial Organisation so as to command the necessary authority.

The objectives of the Compliance 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

Scope and objectives of the MLCO:

- a) The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income
- b) 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
- c) 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
- d) 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

2.7 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 of Directors 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 (please refer to Appendix I for more details).

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.

During the year under review, the Company's own funds never dropped below the minimum initial capital requirement (i.e. €125,000) and the Company fulfilled its obligations by successfully submitting, on a quarterly basis, the CRD IV CoRep Forms.

In this respect, the minimum Total Capital Adequacy Ratio (i.e. 8%) was maintained by the Company during the year 2015. The Company's Capital Adequacy Ratio as at 31 December 2015 was 9.29%.

3.1. Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information to own funds of the institution. 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 Tier 1 capital is wholly comprised of Core Tier 1 Own Funds.

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

Table 5 – 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	255	255
Retained earnings	(122)	(122)
Common Equity Tier 1 (CET1) capital	133	133
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	133	133
Tier 2 (T2) capital	-	-
Total capital (TC = T1 + T2)	133	133
Risk weighted assets		
Credit risk	88	88
Market risk	-	-
Additional Risk Exposure Amount Due to Fixed Overheads	1,342	1,342
Total risk weighted assets	1,430	1,430
Capital ratios and buffers		
Common Equity Tier 1	9.29%	9.29%
Tier 1	9.29%	9.29%
Total Capital	9.29%	9.29%

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, Additional Tier 1 and Tier 2 instruments, the company discloses the capital instruments' main features as outlined below:

Table 6 – Main features of capital instruments

Capital Instruments Main Feature	CET1
Issuer	Zemblanco Investments Ltd
Regulatory Treatment	
Eligible at Solo/(sub-)consolidated/solo	Solo
Instrument type	Common Equity
Amount recognized in regulatory capital	€254,500
Nominal amount of instrument	€254,500
Issue Price	€1
Accounting classification	Shareholders' Equity
Original date of issuance	€1k 12/06/2012 €124k 29/07/2015 €129.5k 30/09/2015
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 CET1 Capital. No additional Tier 1 or 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 7 – Balance Sheet Reconciliation

	2015
	€000
Equity	
Share capital	255
Accumulated losses	(122)
Total Equity	133
Total Own funds	133
Difference	-

4. Compliance with the Regulation and the overall Pillar 2 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 minimum risk asset ratio which will ensure there is sufficient capital to support the Company during stressed conditions. The Company has adopted the Standardised Approach to the calculation of Pillar I minimum capital requirements for Credit Risk.

4.2 Approach to assessing adequacy of Internal Capital

The Company is in the process of establishing an Internal Capital Adequacy Assessment Process (hereinafter, the “ICAAP”), document it in an ICAAP Manual and produce in this regard an ICAAP Report, as per the Circular 26 (Guidelines GD-IF-02) & Circular 27 (Guidelines GD-IF-03). 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 1 risks) faced by the Company.

5. Pillar I Capital Requirements

The following tables show the overall Pillar I minimum capital requirement and risk weighted assets for the Company under the Standardised Approach to Credit Risk, Market Risk and the Fixed Overheads requirements (new requirement as per the Regulation for Limited Licence CIFs).

5.1 Credit Risk

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises when counterparties fail to discharge their obligations and this could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The Company has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Directive. The Company continuously monitors the fair value calculations, forecast and actual cash flows, and cost budgets so that to ensure that the carrying level of Company’s own funds and consequently the Capital Adequacy ratio meet the regulatory requirements at all times.

No concentrations of credit risk with respect to trade receivables existed at year end. Trade receivables are shown net of any provision made for impairment. The management believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in the trade receivables. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

5.1.1. Credit Risk Adjustments

The Company assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. For those trading receivables that are 90 days or more past due, in non-accrual status, the Company classifies them as "in default", thus an impairment test will emerge.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a receivable is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income. None of the derivative financial instruments is either past due or impaired.

5.1.2. Credit Risk – Risk Weighted Assets

The Company shall disclose the total number of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes. The Company's total exposure was as follows:

Table 8 – Exposures by Exposure class as at 31 December 2015

	Risk Weighted Assets	Capital Requirements
	€000	€000
Exposure class		
Public Sector Entities	68	5
Institutions	17	1
Other Items	3	-
Total	88	7

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.

5.1.3. Credit Risk – Analysis of Average exposures and total amount of exposures after accounting offsets

The Company shall disclose the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposures as follows:

Table 9 – Analysis of Average Exposures

	Original exposure amount, net of specific provisions	Average Exposure
	€000	€000
Exposure class		
Public Sector Entities	68	46
Institutions	86	123
Other Items	3	1
Total	157	170

5.1.4. 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:

Table 10 – Geographical distribution of the exposure classes

31 December 2015			
Geographical Distribution of the Exposures			
€000			
Exposure class	Cyprus	Other	Total
Public Sector Entities	68	-	68
Institutions	86	-	86
Other Items	3	-	3
Total	157	-	157

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.

5.1.5. 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 11 – Exposures by industry

	Banking/Financial services	Private Individuals	Other	Total
	€000	€000	€000	€000
Exposure class				
Public Sector Entities	-	-	68	68
Institutions	86	-	-	86
Other Items	-	-	3	3
Total	86	-	71	157

5.1.6 Residual maturity broken down by exposure classes

The Company shall disclose the residual maturity breakdown of all the exposures, broken down by exposure classes, as follows:

Table 12 - Residual maturity broken down by exposure class

	Residual Maturity ≤ 3 months	Residual Maturity > 3 months	Total
Exposure	€000	€000	€000
Public Sector Entities	-	68	68
Institutions	86	-	86
Other Items	-	3	3
Total	86	71	157

5.2. Use of ECAIs

The Company shall disclose the names of the nominated ECAIs and the exposure values along with the association of the external rating with the credit quality steps. In determining risk weights for use in its regulatory capital calculations, the Company uses Moody's as External Credit Assessment Institution (ECAI) and the exposure values with their associated credit quality steps are as follows:

The general ECAI association with each credit quality step is as follows:

Table 13 - ECAI Association with each credit quality step

Credit Quality Step	Moody's Rating	Corporate	Institutions		Sovereign	
			Sovereign method	Credit Assessment method		
				Maturity > 3 months		Maturity 3 months or less
1	Aaa to Aa3	20%	20%	20%	20%	0%
2	A1 to A3	50%	50%	50%	20%	20%
3	Baa1 to Baa3	100%	100%	50%	20%	50%
4	Ba1 to Ba3	100%	100%	100%	50%	100%
5	B1 to B3	150%	100%	100%	50%	100%
6	Caa1 and below	150%	150%	150%	150%	150%

Exposures to unrated institutions are 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, as specified in Article 121 of CRR. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favourable risk weight of 20% if specific conditions are met.

The Other Items category includes property, plant and equipment, and other prepayments. A risk weight of 100% was applied to Other Items.

The Public sector entity includes the Company's exposure to Investors' Compensation Fund as per paragraph 13(3) of Directive DI144-2014-15 on the national discretions of CySEC.

Exposure values pre- and post-credit risk mitigation, by credit quality step.

Table 14 - Exposures before and after credit risk mitigation as at 31 December 2015

Credit Quality Step	Exposure values before credit risk mitigation €000	Exposure values after credit risk mitigation €000
CQS 6	86	86
Unrated	71	71
Total	157	157

5.3. 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 the positions included in banks' trading book as well as from commodity and foreign exchange risk positions in the whole balance sheet.

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

5.3.1. 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%.

As at 31/12/2015 the Company had no exposure to currencies other than the reporting currency.

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

5.3.2. 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.

5.4. Fixed Overheads

Following the CRDIV implementation, Operational Risk is replaced by Fixed Overheads requirements for "Limited Licence" CIFs 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, investment firms 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 an investment firm 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. In this respect, the total eligible capital is €146k which is greater than €114k, the fixed overheads requirement.

CIFs have to calculate their total risk exposure based on fixed overheads. The Total Risk Exposure Amount for Limited Licence CIFs 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%).

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

Table 15 – Fixed Overheads Risk Exposure amount analysis

Fixed Overheads (as per projected expenses)	Fixed Overheads Requirements	Fixed Overheads Risk Exposure Amount	Additional Exposure Amount	Total Risk Exposure Amount
€000	€000	€000	€000	€000
458	114	1,430	1,342	1,430

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.

In this respect, the Fixed Overheads risk exposure amount is €1,430k which is more than the sum of the Credit Risk and Market Risk Capital Requirements which is €88k.

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 Licence 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 clients, 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 clients.

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 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.

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 employees, 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 of Directors 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 of Directors; 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 organisation 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 of Directors level while the remuneration policy is periodically reviewed.

The total remuneration of staff currently consists of a fixed 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 an employee to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/competitors.

Furthermore there is no variable remuneration component while no remuneration is 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. Performance Appraisal

The Company implements a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit. These Indicators include quantitative as well as qualitative criteria. The appraisal is being performed as follows:

- a. Objectives are set in the beginning of each month, quarter and/or year (each department is being appraised on different periods) defining what the Company functions, departments and individuals are expected to achieve over an upcoming period of time.
- b. Performance checks and feedbacks: managers provide support and feedback to the concerned staff during the time periods decided, during the daily activities or during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.
- c. Annual performance evaluation: takes place annually, usually at the end of each year.

7.3. Remuneration of Senior Management Personnel and Directors

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

Table 16 – Remuneration analysis split by Senior Management and other risk takers / other staff

2015	Senior Management (Executive Directors) and Key Management personnel	Non - Executive Directors
Fixed reward	€9,068	€7,500
Variable reward	-	-
Total	€9,068	€7,500
Number of beneficiaries	1	2

Companies are required to disclose the number of natural persons that are remunerated Euro 1 million or more per financial year, in pay brackets of Euro 1 million, 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 Euro 1 million 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 2015, while no severance payments were paid during the year.

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

Table 17 – Aggregate remuneration analysis by business area

	Aggregate Remuneration
	€
Control Functions	9,068
Total	9,068

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

Appendix I – Information flow on risk to management body

	Report Name	Owner of Report	Recipient	Frequency
1	Risk Management Report	Risk Manager	CySEC, BoDs	Annual
2	Internal Capital Adequacy Assessment Process	Risk Manager	CySEC (upon request), BoDs	Annual or more frequent upon management request
3	Compliance Report	Compliance Officer	CySEC, BoDs	Annual
4	Internal Audit Report	Internal Auditor	CySEC, BoDs	Annual or more frequent upon management request
5	Anti-money laundering report	Anti-money laundering Compliance Officer	CySEC, BoDs	Annual