FINANCIAL SERVICES LIMITED

M|G|T|M

M.G.T.M. Financial Services Ltd

Regulated by the Cyprus Securities and Exchange Commission License no. 270/15

ANNUAL RISK MANAGEMENT REPORT FOR 2017

April 2018

Unless otherwise stated, values are presented in USD

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Disclosures in line with IFRS 7 and IAS 1

The following Risk Report provides qualitative and quantitative disclosures about credit, market and other risks in line with the requirements of International Financial Reporting Standard 7 (IFRS 7) Financial Instruments: Disclosures and capital disclosures required by International Accounting Standard 1 (IAS 1) Presentation of Financial Statements.

Disclosures according to Pillar III of the Basel III Capital Framework

Most disclosures according to Pillar III of the Basel III Capital Framework, which are implemented in the European Union by the Capital Requirements Regulation ("CRR") and supported by the European Banking Authority's ("EBA") Implementing Technical Standards, will be published in the 2017 Pillar III report.

Scope

The scope of this Report is to present to you the work and activities undertaken by the Risk Manager of M.G.T.M. Financial Services Ltd (hereafter "the Company") during the year under review, for the evaluation and management of the various risks faced by the Company.

The Report has been prepared in accordance with the relevant provisions of Law 144(I)/2007, (hereinafter, the "Law") and the requirements of the Directive DI144-2007-01, paragraph 6, on the requirements of Risk Management.

1. Introduction

Purpose

The purpose of the report is to assess the compliance of the Company with the requirements arising from the Investment Services and Activities and Regulated Markets Law of 2007 and the Directives issued from the Cyprus Securities and Exchange Commission pursuant to the Law, in relation to the procedures followed by the Company for ensuring Business Continuity.

The Annual Risk Management report (hereinafter "ARM") is designed to provide detailed disclosures regarding the policies, arrangements, processes and mechanisms which the Company (a Cyprus Investment Firm, hereinafter "CIF") uses to manage the various types of risk it was exposed to for the year ending 31st December 2017. This report is prepared in accordance with the Law and the European CRD IV/CRR package[1]. Additional relevant information may be found in the Audited Financial Statements.

Overview of the CIF

CIF Authorization date	26/03/2015
CIF License number	270/15
Company Registration Date	23/04/2014
Company Registration Number	HE331631
Investment 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	
Investment Advice	
Ancillary Services	
Safekeeping and administration of financial instruments, including custodianship and related services	
Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	
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	
Services Relating to Underwriting	

[1] Referring to the **Capital Requirements Directive IV (hereafter "CRD IV") – Directive2013/36/EU** of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and to **the Capital Requirements Regulation (hereafter "CRR") – Regulation (EU) 575/2013** of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

2. Executive Summary

The objective of the Risk Management Function for the year ended December 31, 2017 was to review all risk generating functions through its risk management policies and procedures as well as reviewing the arrangements, processes and mechanisms adopted by the Company to manage the risks relating to the Company's activities and the utilisation of its capital.

I. Risk and Capital Overview

The following selected key risk metrics form part of the Company's holistic risk management across individual risk types. Common Equity Tier 1 Ratio ("CET 1"), as a high level metric is fully integrated across strategic planning and the risk management framework which are both reviewed and approved by the Board of Directors at least annually. The following ratios and metrics are based on the fully loaded CRR/CRD IV rules.

Common Equity Tier 1 Ratio
2017: 21.01%
2016: 16.92%
2015: 43.04%

Total Risk-Weighted Assets
2017: $ 3,563thousand
2016: $ 4,568 thousand
2015: $ 2,026 thousand

Total Own Funds
2017: $ 749 thousand
2016: $ 773 thousand
2015: $ 872 thousand

II. Risk Profile

Quantitative profile (based on capital usage)

The table below shows the Company's overall risk position as measured by the capital usage calculated for credit, market and operational risk for the dates specified.

Overall risk position as measured by capital usage by risk type

In €	Dec 31, 2017 (Unaudited)	Dec 31, 2016 (Audited)	2017 increase (decrease) from 2016 Absolute Change	Percentage Change
Credit Risk	228,427	267,285	(38,858)	(14.54%)
Market Risk	36,240	54,720	(18,480)	(33.77%)
Operational Risk	20,354	43,425	(23,071)	(53.13%)
Total Capital Usage	**285,021**	**365,430**	**(80,409)**	**(22.00%)**

As of December 31, 2017, the Company's capital usage amounted to USD285,021, which was USD80,409 or 22.00% lower than the USD365,430 economic capital usage as at December 31, 2016. The lower overall risk position was driven by decreases in the capital usage of all three types of risk.

The capital usage for credit risk decreased to USD228,427 as at December 31, 2017, USD38,858, or 14.54% lower compared to the credit risk capital usage as at 31 December 2016.

The capital usage for market risk decreased to USD36,240 as at December 31, 2017, USD18,480, or 33.77%, lower compared to the market risk capital usage as at 31 December 2016.

The operational risk capital usage totalled USD20,354 as at December 31, 2017, USD23,071, or 53.13% lower compared to the operational risk capital usage as at 31 December 2016.

Qualitative profile (based on risk register analysis)

The table below shows the Company's overall risk position as measured by a qualitative analysis of the risks identified in 2016. More details can be found in "Risk and Capital Profile" section.

Qualitative risk profile for the year

Key Risk Category	Risk Grade[2]	Overall Comments
Liquidity (Own Funds)	● (red)	As at 31 December 2017, the Company submitted to the CySEC a Capital Ratio of 21.01%, 11.76% above the minimum capital adequacy ratio requirement (8% + capital conservation buffer of 1.25%), while the Company's actual own funds (as recalculated by the Risk Manager) were at USD748,610, USD171,414 below the minimum requirement of USD920,024 (USD875,489 plus the capital conservation buffer of USD44,535). The Company is expected to show a good profit for the year ending 31 December 2017, which once recognised as own funds, is expected to bring the Company's own funds to above the minimum regulatory capital requirement.
Credit Risk	● (amber)	Credit Risk mainly emanates from Concentration Risk at the Company's bank accounts. Credit Risk Weighted Assets saw a slight decrease of 14.54% during 2017. While Credit Risk is currently the most significant source of risk for the Company, it is not a cause for concern given the Company's own funds, since the Company maintains an adequate Capital Adequacy Ratio.
Market Risk	● (green)	The Company's Market Risk exposure is limited to Foreign Exchange Risk emanating from its holding denominated in EUR (75.05% of total FX exposure) – amount equivalent to USD336,067 and RUB (24.95% of total FX exposure) – amount equivalent to USD111,738. Market Risk is considered insignificant relative to the Company's Capital Adequacy Ratio.

[2] Please refer to Appendix I

Operational Risk	●	Operational Risk is generally medium with no significant issues as the Company monitors its major operations. Nonetheless, the Company needs to proceed with the recommendations of the Risk Manager in order to enhance the existing monitoring procedures.
Specific Risks	●	Specific Risk is generally medium with specific attention to Capital Adequacy requirements which were not fully in line with the legal framework.
Overall Risk Profile	●	The Overall Risk Profile of the Company can be described as medium as there are number of areas that need treatment.

Status on the mitigation of prior year issues

In relation to findings and issues identified in 2016, please refer to Appendix VII for their status. It should be noted that, the issues identified in 2016 have been integrated within the current year's risk appraisal through the detailed compilation of a Risk Register and they were monitored throughout the year.

3. Risk and Capital Framework

I. Business Model & Strategy

The Company's business model is designed to be dynamic and adaptive allowing its execution to create value through:

- Life-long customer relationships built in trust and confidence.
- Segment and value–led approach to new customer acquisition.
- Holistic balance sheet management approach, focus on sustainable growth within prudent risk appetite.
- Optimization of capital allocation within an approved risk management framework.
- Focus the business model on those products which the Company has sufficient knowledge of and the management capacity (systems, processes and resources).
- Centralized control. Risk control and management is conducted on an integrated basis through the organizational structure.
- Involvement of senior management in all decisions taken.
- Collective decision-making, which ensures a variety of opinions and does not make results dependent on decisions solely taken by individuals.

The Company's main business and strategic goal for the next 3 to 5 years is to expand its business in the EU markets.

Furthermore, corporate governance and client satisfaction remain key management objectives. The long-term objective is to build the brand and become a market leader through sound management.

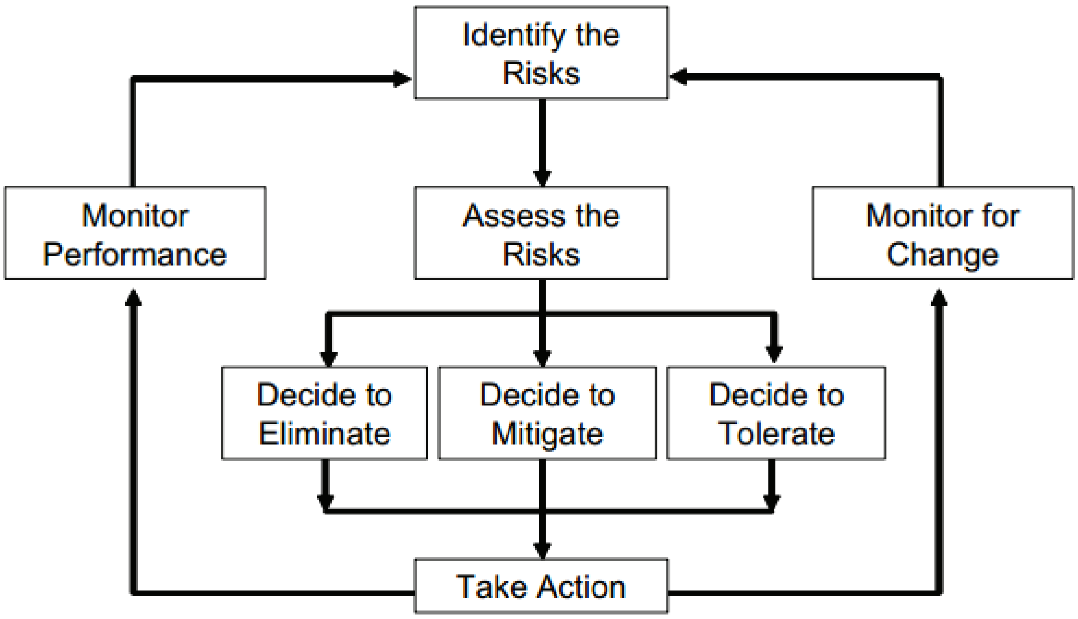
The Company's strategic priorities are to drive sustainable customer growth, improve efficiency and optimize capital.

II. Risk Management Approach

Risk exists in every aspect of the Company's business throughout its operating environment, and is a core consideration within the Company's Strategic Plan. The Board of Directors accepts that in its pursuit of its strategic and business goals, the Company will be exposed to risk. Some risks will be consciously taken in the pursuit of profits and other risks will be an indirect consequence of profit making activities. Although not all risks in the firm can be eliminated, risks identified will be measured and wherever possible mitigated. The Company's approach to risk management is based on the principle that risk management capability must be embedded within the businesses' front-line teams in order to be effective. This overriding principle embodies the following concepts:

- Senior Management, Senior Management and Risk Management Committee use the Risk Management Framework (hereafter "RMF"), which assists in the appropriate balancing of both the risk and reward components; and
- Employees are responsible for risk management in their day to day activities.

Figure 1 - Risk Management Framework



III. Risk Management Principles and Governance

The Company's business model requires the identification, assessment, measurement, aggregation and management of the risks, and the allocation of capital among the business. Risk and capital are managed via a framework of principles monitoring processes and constant measurement that are closely aligned with the Company's activities:

- Core risk management responsibilities are embedded in the Board of Directors ("BoD") and delegated to senior management responsible for execution and oversight. The BoD regularly monitors the risk and capital profile.
- The Company operates a Three Lines of Defence ("3LoD") risk management model. The 1st Line of Defence ("1st LoD") are all the business divisions and services who have responsibility for day to day risk management. The 2nd Line of Defence ("2nd LoD") are all the independent risk and control functions, who oversee, support, monitor and report risks. The 3rd Line of Defence ("3rd LoD") is Internal Audit, which assures the effectiveness of the risk governance framework. All 3LoD are independent of one another and accountable for maintaining structures that ensure adherence to the design principles at all levels.
- Risk strategy is approved by the Board of Directors on an annual basis and is defined based on the Risk Appetite and Strategic and Business Plan in order to align risk, capital and performance targets.

All material risk types are managed via risk management processes, including: credit risk, market risk, operational risk, liquidity risk, business risk, reputational risk and compliance risk. Measurement approaches for quantifying risk and capital demand are implemented across the material risk types. Non-standard risks (reputational risk, compliance risk) are implicitly covered in the risk management framework, primarily within operational and strategic risk. Systems, processes and policies are critical components of the risk management capability.

IV. Risk Governance

The Company's operations are regulated by CySEC with supervision focusing on licensing, capital adequacy, risk concentration, conduct of business as well as organizational and reporting requirements.

Several layers of management provide cohesive risk governance:

- The Board of Directors is informed regularly and – as necessary – on special developments in the Company's risk situation, risk management and risk controlling, as well as on reputation and material litigation cases.
- At the meetings of the BOD, the Risk Manager reports on credit, market, liquidity, business, compliance, operational as well as litigation and reputational risks. The Risk Manager deliberates with the Senior Management on issues of the aggregate risk disposition and the risk strategy and supports the Board of Directors in monitoring the implementation of this strategy.
- The Board of Directors is responsible for managing the Company in accordance with the law and the Articles of Association with the objective of creating sustainable value in the interest of the company, thus taking into consideration the interests of the shareholders, employees and other stakeholders. It is responsible for establishing a proper business organization, encompassing an appropriate and effective risk management.

The Risk Manager has responsibilities for the management of all credit, market and operational risks as well as for the comprehensive control of risk, such as liquidity risk, and continuing development of methods for risk measurement. In addition, the Risk Manager is responsible for monitoring, analysing and reporting risk on a comprehensive basis, including asset and liability gap, capital, liquidity, legal, compliance and regulatory risks, as well as other non-financial risks.

V. Risk Culture

The Company promotes a strong risk culture throughout the organization. The aim is to help reinforce the Company's resilience by encouraging a holistic approach to the management of risk and return throughout the organization as well as the effective management of the risk, capital and reputational profile. The Company actively takes risks related to its regular course of business and as such the following principles underpin the risk culture within the organisation:

- Risk is taken within a defined risk appetite;
- Every risk taken needs to be approved within the risk management framework;
- Risk taken shall be adequately compensated; and
- Risk should be continuously monitored and managed.

Employees at all levels are responsible for the management and escalation of risks. The Company expects employees to exhibit behaviours that support a strong risk culture. To promote this, the policies require that behaviour assessment is incorporated into the performance assessment and compensation processes of employees. The Company has communicated the following risk culture behaviours through various communication vehicles:

- Being fully responsible for their risks;
- Being rigorous, forward looking and comprehensive in the assessment of risk;
- Inviting, providing and respecting challenges;
- Trouble shooting collectively; and
- Placing the Company and its reputation at the heart of all decisions.

Throughout 2017, and into 2018, there has been increased focus on the effectiveness of employee training. Rather than introducing additional training modules, where feasible the Company embeds new messages into existing training courses to keep them up to date and timely, and to avoid 'learner overload'.

VI. Risk Appetite and Capacity

Risk appetite expresses the level of risk that the Company is willing to assume within its risk capacity in order to achieve the business objectives, as defined by a set of minimum quantitative metrics and qualitative standards. Risk capacity is defined as the maximum level of risk the Company can assume in both normal and distressed situations before breaching regulatory constraints and its obligations to stakeholders.

Risk appetite is an integral element in the business planning, to promote the appropriate alignment of risk, capital and performance targets, while at the same time considering risk capacity and appetite constraints from both financial and non-financial risks. Top-down risk appetite serves as the limit for risk-taking for the bottom-up planning from the business functions.

The Risk Appetite Statement ("RAS") articulates the Company's appetite thresholds. This is important as it provides the definitive view on the broad direction of risk taking activity the Board of Directors is comfortable that the CIF undertakes and allows decision makers (including those with delegated authority and also those providing oversight) to exercise judgment with greater confidence and speed. The RAS aligns to the risks identified and defined in the RMF. The design and structure of the RAS has taken into consideration best practice recently articulated by the European Central Bank, the objective of which is to ensure Boards are strongly involved in the validation process and monitoring of the RAS.

The Board of Directors reviews and approves the risk appetite and capacity on an annual basis, with the aim of ensuring that they are consistent with the Company's strategy, business and regulatory environment and stakeholders' requirements.

In order to determine the risk appetite and capacity, it is the Risk Manager's suggestion that different triggers and thresholds be set on a forward looking basis and define the escalation requirements for further action. The Company then assigns risk metrics that are sensitive to material risks, the Company is exposed to and able to function as key indicators of financial health. In detail, the metrics should be assessed under stress (such as CRR/CRD IV fully loaded CET 1 ratio) within the regularly performed benchmark and more severe Company-wide stress tests and compared to the Red-Amber-Green ("RAG") levels as defined in the table below.

Risk Appetite Thresholds for key metrics

Red-Amber-Green ("RAG") levels	CET 1 ratio	Total Ratio	Own Funds
● Normal	> 10%	> 12%	>800,000
● Critical	10% - 8%	12 % - 10%	730,000 – 800,000
● Crisis	< 8%	< 10%	<730,000

The Company's risk profile has remained in the normal levels with regards to its Capital Adequacy Ratios. The Company's own funds however have fallen below the threshold for the crisis level and the Company should ensure that this is rectified immediately. In the event that the desired risk appetite is breached under either normal or stressed scenarios, these breaches are highlighted to the Senior Management, and ultimately to the Board of Directors.

VII. Internal Capital Adequacy Assessment Process

Pillar II requirements of the Basel III framework require the preparation of the Internal Capital Adequacy Assessment Process report ("ICAAP") through which institutions should identify and assess risks not covered in Pillar I. Furthermore, institutions are required to maintain sufficient capital to face the identified risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward-looking basis, i.e., internal capital supply to exceed internal capital demand.

The Company plans to be compliant with the ICAAP as required under Pillar II of Basel III and its local implementation in Cyprus as per CySEC directives, through risk management and governance framework, methodologies, processes and infrastructure.

In line with the Basel III requirements, the key instruments to help the Company maintain adequate capitalization on an ongoing and forward-looking basis are:

- A strategic planning process which aligns risk strategy and risk appetite with commercial objectives;
- A continuous monitoring process against approved risk and capital targets set;
- Regular risk and capital reporting to management; and

- An economic capital and stress testing framework which also includes specific stress tests to underpin the Company's recovery monitoring processes.

4. Risk and Capital Management

I. Overall Risk Assessment

Risk Management governance is designed and established to promote oversight of all risks, effective decision-making and timely escalation to senior management. Risk Management defines and implements a framework to systematically identify, assess, monitor and report market risk. The Risk Manager identifies risks through active analysis.

During the year ended 31 December 2017, the following key risk categories have been identified

1) **Financial** risks such as credit risk (counterparty risk, industry risk and country risk), market risk (trading and non-trading risk), business risk (including strategic risk and regulatory risk).
2) **Non-financial** risks including reputational risk and operational risk (with important sub-categories including compliance risk, legal risk, information security risks, fraud risks, and money laundering risks).

The Company manages the identification, assessment and mitigation of top and emerging risks through an internal governance process and the use of risk management tools and processes. The Risk Manager's approach to identification and impact assessment aims to ensure that the Company mitigates the impact of these risks on the financial results, long term strategic goals and reputation of the Company.

As part of the Company's regular risk analysis, a risk register is completed and/or updated identifying any material risks.
Current risks which the Company continues to focus include, but are not limited to: the economic slowdown and financial market volatility around the globe and regulatory changes within the EU and other jurisdictions which the Company operates in. Global geopolitical risks also remain high and have intensified in recent months.

The assessment of the potential impact of the identified risks will be made through the ICAAP, which assesses the Company's ability to absorb the effects of events related to these risks should they occur. The results of these tests will show the Company's ability (in terms of capital adequacy and liquidity reserves) to absorb the impact of each risk if they were to materialize in line with the tests' parameters.

Consistent with prior years, the year 2017 continued to demonstrate the global trend of increasing regulation in the financial services industry, which the Risk Manager views very likely to persist through the coming years. The Risk Manager is focused on identifying potential political and regulatory changes and assessing the possible impact on the Company's business model and processes.

The latest developments regarding consumer Data Protection and in particular the imminent enforcement of the General Data Protection Regulation (hereinafter "GDPR") on the 25th of May 2018, have increased the regulatory compliance risk. As part of the Company's commitment to mitigate regulatory risks, the Company has proactively implemented processes and procedures to be fully compliant with the GDPR by the time of its enforcement. Due to the sensitive nature of the information held by the company, both as part of its operations as well as from its due diligence procedures, particular attention is given to data protection, since any breaches could possibly lead to severe regulatory penalties, potential lawsuit filings and reputational loss.

The overall focus of Risk and Capital Management throughout 2017 was on maintaining the Company's risk profile in line with the risk strategy, increasing the capital base and supporting the strategic management initiatives with a focus on balance sheet optimization. This approach is reflected across the different risk metrics summarized below.

II. Capital Requirements overview

			2017 increase (decrease) from 2016	
	December 31, 2017 (Unaudited)	**December 31,2016 (Audited)**	**Absolute Change**	**Percentage Change**
CAR Ratio	21.01%	16.94%	4.08%	24.07%
CAR Ratio surplus /deficit	11.76%	8.31%	3.45%	41.53%
Capital Adequacy (CET1) ratio	21.01%	16.94%	4.08%	24.07%
CET1 Capital	748,610	773,610	(25,000)	(3.23%)
Tier 1 Capital	748,610	773,610	(25,000)	(3.23%)
Tier 2 Capital	-	-	-	-
Total Own Funds	748,610	773,610	(25,000)	(3.23%)
Total Own Funds surplus /deficit	(171,414)	(24,433)	(146,981)	601.58%
Total Credit Risk exposure	2,855,340	3,341,066	(485,726)	(14.54%)
Total Market Risk Exposure	453,000	684,000	(231,000)	(33.77%)
Operational Risk	254,423	542,813	(288,390)	(53.13%)
Total Risk Exposure	3,562,762	4,567,879	(1,005,116)	(22.00%)
Leverage ratio	24.71%	20.21%	4.49%	22.22%
Capital Conservation Buffer	1.25%	0.63%		

Comparative Analysis

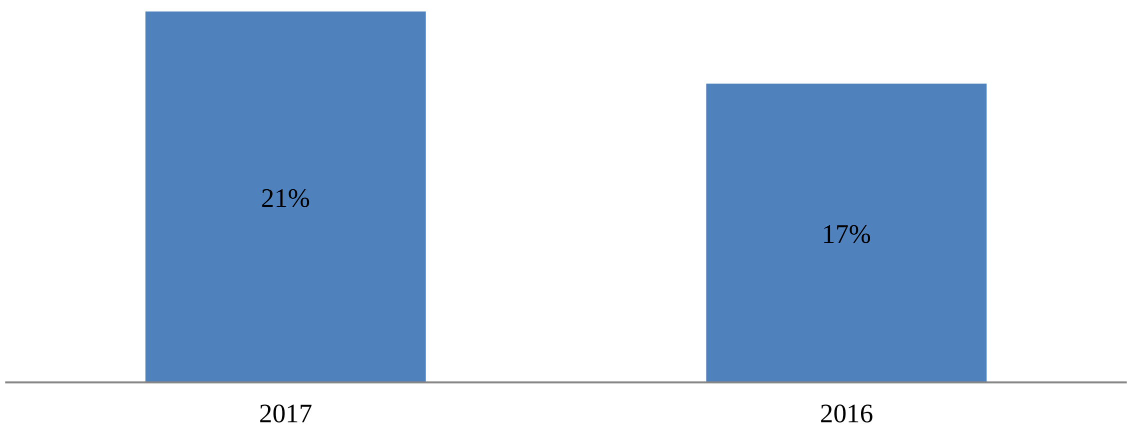


Figure 2 - Capital Adequacy ratio

As at 31 December 2017, the Company's capital ratio stood at 21.01%, an increase of 4.08% compared to the 16.94% capital ratio as at 31 December 2016. The increase in Capital Adequacy Ratio is driven by the 22% decrease in the Company's total risk exposures.

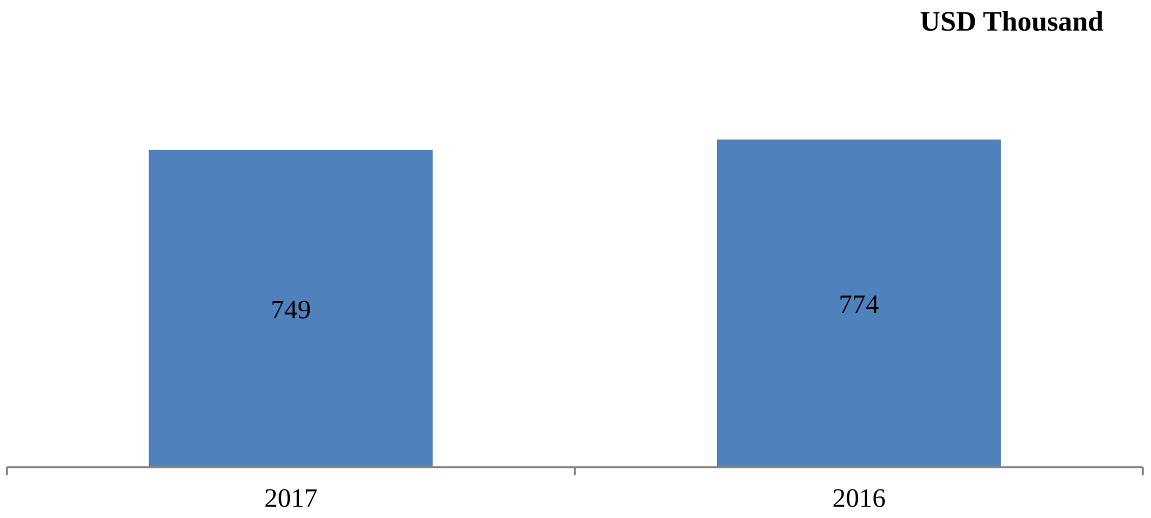


Figure 3 - Total Own Funds

The Company holds a capital base of USD748,610, net of applicable CRR adjustments. The Company's own funds decreased slightly compared to the 2016 audited own funds. The CIF's own funds cannot be determined in full as the external audit results are not yet finalised. The Company is expected to show a good profit for 2017 and therefore the audited own funds are expected to indicate a significant improvement compared to 2016.

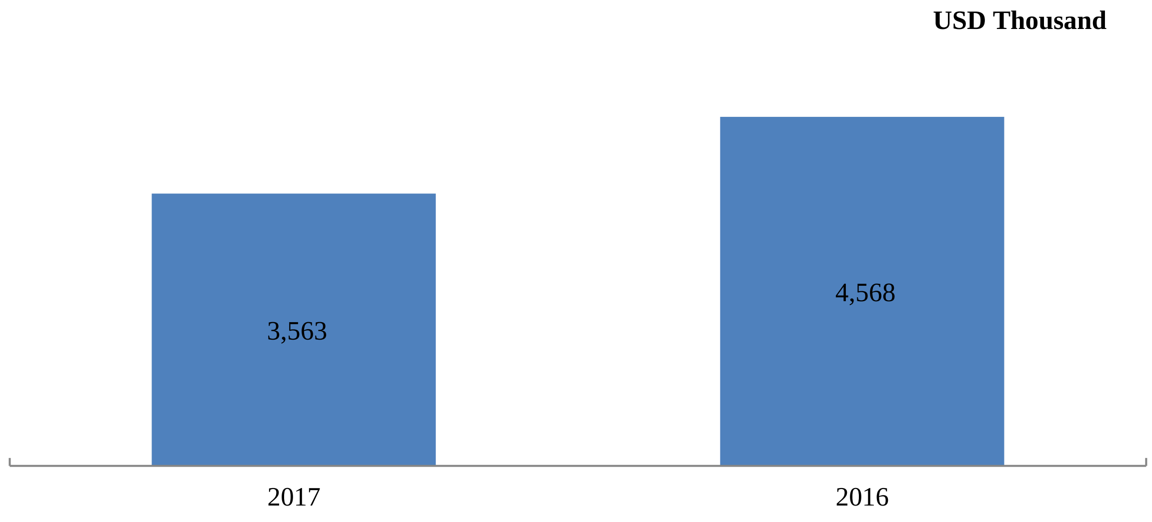


Figure 4 - Total Risk Weighted Assets

The Company's total risk weighted assets ("RWA") in 2017 were USD3,562,762, comprising of Operational Risk RWA (USD254,423), Credit Risk RWA (USD2,855,340) and Market Risk RWA (USD453,000). The Company calculates its RWA under the standardized approach.

Geographical Exposure

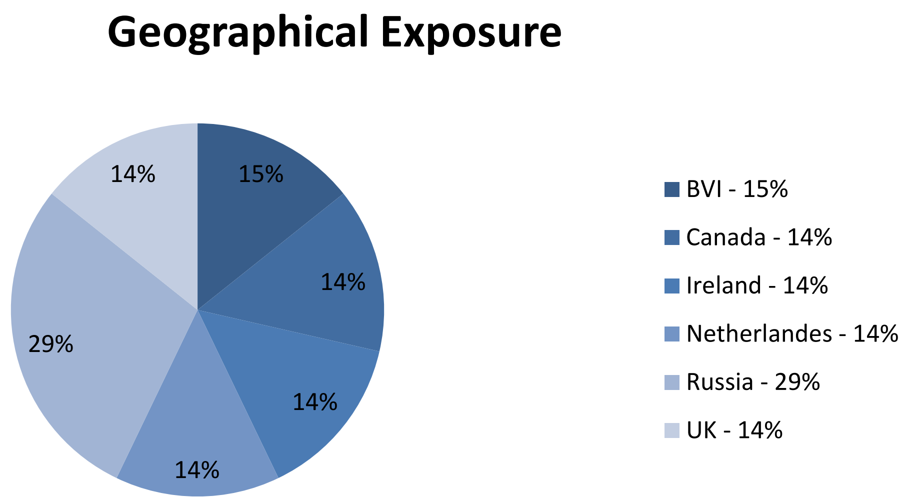


Figure 5 - CIF's Geographical exposures

Leverage ratio

Figure 6 - Leverage Ratio

The Company's current leverage ratio stands at 24.71%, remaining well above the regulatory minimum of 3%.

The increase in the leverage ratio is driven by the decrease in the Company's final credit risk exposure.

III. Credit Risk Management

Credit risk arises from all transactions where actual, contingent or potential claims against any counterparty, borrower, obligor or issuers (which are referred to collectively as “counterparties”) exist.

Based on the annual risk identification and materiality assessment, credit risk contains three material categories, namely default risk, industry risk and country risk.

- **Default risk**: the most significant element of credit risk, is the risk that counterparties fail to meet contractual obligations in relation to the claims described above;
- **Industry risk** is the risk of adverse developments in the operating environment for a specific industry segment leading to the deterioration of the financial profile of counterparties operating in that segment and resulting in increased credit risk across this portfolio of counterparties;
- **Country risk** is the risk that the Company may experience unexpected default or settlement risk and subsequent losses, in a given country, due to a range of macro-economic or social events primarily affecting counterparties in that jurisdiction including: a material deterioration of economic conditions, political and social upheaval, nationalization and expropriation of assets, government repudiation of indebtedness, or disruptive currency depreciation or devaluation.

The Company measures, manages/mitigates and reports/monitors the credit risk using the following philosophy and principles:

- Measure and consolidate all credit exposures to each obligor, in line with regulatory requirements.
- Manage credit exposures on the basis of the “one obligor principle”, under which all facilities to a group of borrowers which are linked to each other (i.e., by one entity holding a majority of the voting rights or capital of another) are consolidated under one group.
- Regularly monitor the credit rating of all obligors.

The credit rating is essential and is used as the basis for the risk appetite determination on a counterparty and portfolio level and credit decision as well as the determination of credit risk regulatory capital. Ongoing monitoring of counterparties helps keep ratings up-to-date.

The Company applies the standardized approach to assess its credit risk exposures. The standardized approach measures credit risk either pursuant to fixed risk weights, which are predefined by the regulator, or through the application of external ratings.

In 2017, the major asset classes that carried credit risk exposures were:

RWA	December 31, 2017 (Unaudited)	December 31, 2016 (Audited)	2017 increase (decrease) from 2016: Absolute Change	Percentage Change
Institutions	2,819,048	3,150,066	(331,018)	(10.51%)
Public Sector Entities	17,520	-	17,520	-
Other items	14,144	191,000	(176,856)	(92.59%)
Corporates	4,628	-	4,628	-
Equity	-	-	-	-
Retail	-	-	-	-
FX CCR	-	-	-	-

RWA	December 31, 2017 (Unaudited)	December 31, 2016 (Audited)	2017 increase (decrease) from 2016 Absolute Change	Percentage Change
Institutions	2,819,048	3,150,066	(331,018)	(10.51%)
Public Sector Entities	17,520	-	17,520	-
Other items	14,144	191,000	(176,856)	(92.59%)
Corporates	4,628	-	4,628	-
Equity	-	-	-	-
Retail	-	-	-	-
FX CCR	-	-	-	-

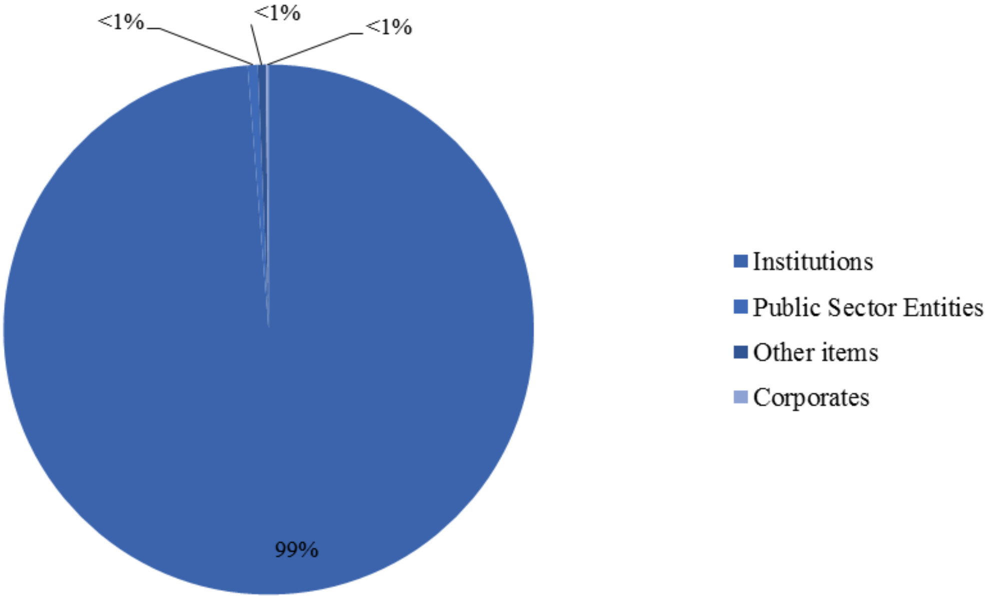


Figure 7 - Credit Risk Exposures

IV. Market Risk Management

A great part of the business is subject to market risk, defined as the potential for a change in the market value of the trading and invested positions. Market Risk arises from changes in interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices and other relevant parameters, such as market volatility and market implied default probabilities.

One of the primary objectives of Market Risk Management is to ensure that the business does not expose the Company to unacceptable losses outside of its risk appetite. To achieve this objective, the Risk Manager works closely together with the operational functions within the Company (i.e. the risk takers) in order to monitor any deviations from the current risk capacity and risk appetite.

The Company distinguishes between two substantially different types of market risk:

- **Trading market risk**, which arises primarily through the dealing on own account activities. This involves taking positions in debt, equity, foreign exchange and commodity derivatives.
- **Non-trading market risk,** which arises from market movements, in the banking book. This includes mainly foreign exchange risk.

The Company measures and mitigates its exposure to market risk with the following principles and philosophies:

- Low market risk appetite.
- Business model focused on the customer.
- Independent calculation of the results of market activities by the risk function.
- Strict control ex ante of products, underlying assets, currencies, etc., for which operations are authorised as well as of the corresponding valuation models.

The Company aims to accurately measure all types of market risks by a comprehensive set of risk metrics reflecting economic and regulatory requirements. The Company measures market risks by several internally developed key risk metrics and regulatory defined market risk approaches, in accordance with economic and regulatory requirements.

The Company is exposed to foreign exchange risk which arises mainly from positions held by the Company denominated in currencies other than the functional currency.

In 2017, the Company's market risk exposures were:

Risk Weighted Assets	Dec 31, 2017 (Unaudited)	Dec 31, 2016 (Audited)	2017 increase (decrease) from 2016 Absolute Change	Percentage Change
Foreign Exchange	448,000	684,000	(236,000)	(34.50%)
Traded Debt Instrument Risk	-	-	-	-
Equity Risk	5,000	-	5,000	-
Commodity Risk	-	-	-	-

V. Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal risk but excludes business and reputational risk.

During 2017, the Company further enhanced its capabilities in Operational Risk Management, in conjunction with the Three Lines of Defence ("3LoD") Program. Specifically, the Company enhanced the roles and responsibilities of the first and second line of defence in managing operational risk, strengthening governance and delivery of improved tools to support risk identification and assessment.

The Company takes decisions to manage operational risks, both strategically as well as in day-to-day business. It is suggested that the foundations of operational risk management to be based on the following two principles:

a) **Operational Risk Principle I**: Risk Owners should have full accountability for their operational risks and have to manage against a defined risk specific appetite.

Risk owners are accountable for managing all operational risks in their business/processes with an end-to-end process view, within defined operational risk specific appetite and for identifying, establishing and maintaining first level controls.

b) **Operational Risk Principle II:** The Board of Directors should establish the risk management framework and define the Risk Appetite.

The Company manages operational risk using the Risk Management framework which enables the determination of the operational risk profile in comparison to the risk tolerance, systematic identification of operational risk themes and concentrations, and to define risk mitigating measures and priorities.

The Company manages their operational risk through:

- **Operational Losses:** Measuring and tracking operational losses and incidents across the organization to identifying root causes, mitigating risks, and ensuring that losses are within acceptable levels.
- **Third-Party Management:** Outsourcing marketing and technology services to business partners and third-parties, while ensuring that high-risk third-party relationships are minimised.
- **IT Risk**: Managing IT infrastructure to ensure system availability, continuity and capacity to meet business requirements as well as to protect against natural and manmade threats, including cyber-attacks.
- **On-going Development**: The implementation of new technologies creates new opportunities, but also new risks. The Company has a low risk appetite for risks arising from IT system-related incidents which are generated by poor management practices.

In order to cover the broad range of risk types underlying operational risk, the risk framework contains a variety of operational risk management techniques. These aim to efficiently manage the operational risk in the Company's business and are used to identify, assess and mitigate operational risks:

- **Emerging Risk Identification:** The Company's assesses and approves the impact of changes on its risk profile as a result of new products, outsourcing activities, strategic initiatives, and divestments as well as material systems and process changes. Once operational risks are identified and assessed, they are compared to the relevant risk appetite metric and either mitigated or accepted. Risks which violate applicable national or international regulations and legislation are not accepted by default; once identified, such risks are always mitigated.
- **Risk Mitigation:** When the Company implements risk mitigating measures, it systematically monitors their resolution. Residual operational risks rated significant or above, need to be assessed and accepted by the Senior Management/Board of Directors.
- **Key Risk Indicators ("KRIs")** are used to monitor the operational risk profile and alert the organization to impending problems in a timely fashion. KRIs enable the monitoring of the Company's control culture and business environment and trigger risk mitigating actions. They facilitate the forward looking management of operational risks, based on early warning signals.
- **Fraud Risk** is managed based on the *Prevention and Suppression of Money Laundering and Terrorist Financing Laws of 2007, 2010, 2012, 2013 and 2018* (AML Law) as well as other legal and regulatory requirements via a risk based approach. In line with regulatory requirements, a risk assessment is performed on a regular basis.
- **Business Continuity Risk** is managed via the Business Continuity Plan which outlines core procedures for the relocation or the recovery of operations in response to varying levels of

disruption. Within this program, each of the core business functions set up, maintain and periodically test business continuity plans to promote continuous and reliable service.

- **The Operational Risk** in Technology is managed, following international standards for IT management.

In 2017, the Company's operational risk exposure was:

			2017 increase (decrease) from 2016	
	Dec 31, 2017 (Unaudited)	**Dec 31, 2016 (Audited)**	**Absolute Change**	**Percentage Change**
Risk Weighted Assets	254,423	542,813	(288,390)	(53.13%)

VI. Business (Strategic) Risk Management

Strategic Risk is the risk of a potential earnings downside due to revenues and/or costs underperforming planned targets. Strategic Risk may arise from poor strategic positioning, failure to execute strategy or lack of effective responses to material negative plan deviations caused by either external or internal factors (including macro, financial and idiosyncratic drivers). Strategic Risk has been defined as part of overall Business Risk.

The key aim of Strategic Risk Management is to strengthen the Company´s earnings resilience and protect it against undue earnings volatility to support overall risk appetite targets (especially Total Capital ratio). The Company aims to achieve this by identifying, assessing, limiting, mitigating and monitoring key strategic risks using the following techniques:

- **Corporate Diversification:** The Company's growth strategies will be formulated to achieve both economic value creation and diversification benefit.
- **Strategic Alignment and Core Competence Focus:** The Company will focus on business investments that are consistent with the overall strategy and core competencies.
- **Customer Experience:** The Company strives to offer a superior customer experience both online and in service-centres.

VII. Reputational Risk Management

Within the risk management process, the Company defines reputational risk as the risk of possible damage to the Company's brand and reputation, and the directly associated impact on earnings, capital or liquidity, arising from any association, action or inaction which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the firm's values and beliefs.

The Company aims to achieve this by identifying, assessing, limiting, mitigating and monitoring key reputational risks through:

- **Customer Perspective:** The Company will enhance its customers' experience when doing business with them and address any issues in a timely and effective manner.
- **Employee Perspective:** The Company will strive to be the employer of choice in its industry and maintain a high level of employee satisfaction.

- **Shareholder Perspective:** The Company will deliver superior shareholder returns and create significant shareholder value by allocating capital to the highest risk-adjusted return opportunities.
- **General Public and Media Coverage:** The Company will closely follow coverage in the press, social media, and other public forums to monitor reputational risk levels.

While every employee has the responsibility to protect the Company's reputation, the primary responsibility for the identification, assessment, management, monitoring and, if necessary, referring or reporting, of reputational risk matters lies with Senior Management. Each employee is under an obligation, within the scope of his/her activities, to be alert to any potential causes of reputational risk and to address them according to the Framework. If a potential reputational risk is identified, it is required to be referred for further consideration from the Senior Management. In the event that a matter is deemed to carry a material reputational risk, it must be reported to the Board of Directors.

VIII. Compliance Risk Management

Compliance Risk is defined as the current or prospective risk to earnings, capital and authorisation arising from violations or noncompliance with laws, rules, regulations, agreements, prescribed practices or ethical standards that can lead to fines, damages and/ or the voiding of contracts and can diminish an institution's reputation or lead to the Company's license suspension.

The Compliance Manager manages compliance risk using the following techniques:

- **Ethics Policy:** The Company has zero tolerance for violations of its corporate ethics policy.
- **Open Regulatory Findings:** The number of open regulatory findings will be maintained within a predetermined acceptable level.
- **New Legal Matters Opened:** The number of new legal matters opened will be maintained within a predetermined acceptable level.
- **Legal and Compliance Cost:** The Company will monitor and control the direct cost for resolving legal and compliance issues, including fines, settlements, penalties, and outside legal and regulatory advisory expenses and will ensure it is maintain within acceptable levels.

IX. Risk Concentration and Risk Diversification

Risk concentrations refer to clusters of the same or similar risk drivers within specific risk types (intra-risk concentrations in credit, market, operational, liquidity and other risks) as well as across different risk types (inter-risk concentrations).

These risk types could occur within and across counterparties, businesses, regions/countries, industries and products. The management of concentrations is integrated as part of the management of individual risk types, they are monitored on an ongoing basis and diversification takes place where such concentrations pose regulatory risks. The key objective is to avoid any undue concentrations, which is achieved through a quantitative and qualitative approach, as follows:

- Intra-risk concentrations are assessed, monitored and mitigated by the individual risk disciplines (credit, market, operational risk management and others).

Inter-risk concentrations are managed through quantitative and qualitative assessments, identifying and assessing risks and providing a holistic view across the Company.

5. Risk and Capital Performance

I. Regulatory Capital

The calculation of the Company's regulatory capital incorporates the capital requirements following "Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms" (Capital Requirements Regulation or "CRR") and "Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms" (Capital Requirements Directive IV or "CRD IV").

The total regulatory capital pursuant to the effective regulations as of December 31, 2017 comprises of Tier 1 Capital only (only Common Equity Tier 1).

Common Equity Tier 1 capital consists primarily of common share capital including related share premium accounts, retained earnings (including losses for the financial year, if any) and accumulated other comprehensive income, subject to regulatory adjustments (i.e. deductions).

CET 1 capital deductions comprise mostly of (i) intangible assets, and (ii) specific deductions subject to CySEC's discretion (during 2016, the deduction of funds in the Investor's Compensation fund was enforced).

II. Minimum capital requirements and additional capital buffers

The CET 1 minimum capital requirements applicable to the Company increased from 4 % of risk-weighted assets (RWA) in 2014 to 4.5 % of RWA from 2015 onwards. The total capital requirement of 8 % demands further resources that may be met with up to 2 % Tier 2 capital from 2015 onwards. Failure to meet minimum capital requirements, can result in supervisory measures such as restrictions of profit distributions or other limitations.

In addition to the minimum capital requirements, CET1 and total Capital Requirements, full-Scope investment firms are also expected to comply with a Capital Conservation Buffer. This buffer was introduced in 2016, and required full-scope companies to maintain additional capital of 0.625% of Total Risk Weighted Assets above the minimum requirements. The capital conservation buffer increased to 1.25% in 2017 and is set to increase gradually to 1.875% and 2.5% in 2018 and 2019 respectively. As a full-scope investment firm, all calculations on capital surpluses/deficits were calculated in accordance with the Capital Conservation Requirements.

III. Development of regulatory capital

The CRR/CRD IV Tier 1 capital as at December 31, 2017 amounted to USD748,610, consisting only of Common Equity Tier 1 (CET 1). The CRR/CRD IV Tier 1 capital was USD25,000 lower than the audited Tier 1 capital as at 31 December 2016. The Company's Tier 1 capital is expected to significantly improve and outperform the corresponding figure as at 31 December 2016, once the audited financial statements for 2017 are released and the Company's profits are recognised as Tier 1 Capital.

	Dec 31, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Absolute Change	Percentage Change
Common Equity Tier 1 (CET 1) capital: instruments and reserves				
Capital instruments and the related share premium accounts	1,007,741	1,007,741		
Retained earnings	(136,132)	(136,132)		
Accumulated other comprehensive income (loss), net of tax	-	9,000	(9,000)	(100.00%)
Other	-	-		
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	871,610	880,610	(9,000)	(1.02%)
Common Equity Tier 1 (CET 1) capital: regulatory adjustments				
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	-	-	-	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities where the conditions in Art. 38 (3) CRR are met) (negative amount)	-	-	-	-
Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 15 % threshold and net of eligible short positions) (negative amount)	-	-	-	-
Other regulatory adjustments	(123,000)	(107,000)	(16,000)	14.95%
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	(123,000)	(107,000)	(16,000)	14.95%
Common Equity Tier 1 (CET 1) capital	748,610	773,610	(25,000)	(3.23%)
Additional Tier 1 Capital				
Tier 1 Capital	748,610	773,610	(25,000)	(3.23%)
Tier 2 Capital	-	-		
Total Capital	748,610	773,610	(25,000)	(3.23%)
Total risk-weighted assets	3,562,762	4,567,879	(1,005,116)	(22.00%)
Capital Ratios				
Common Equity Tier 1 (CET 1) capital ratio	21.01%	16.94%	4.08%	24.07%
Tier 1 Capital ratio	21.01%	16.94%	4.08%	24.07%
Total Capital ratio	21.01%	16.94%	4.08%	24.07%

IV. Development of risk-weighted assets

The RWA according to CRR/CRD IV were USD3,562,762 as at December 31, 2017, compared to USD4,567,879 as at 31 December 2016. The overall exposure decrease is the results of decreases in all three risk types, namely Credit Risk, Market Risk and Operational Risk with decreases of 14.54%, 33.77% and 53.13% respectively.

	December 31, 2017 (Unaudited)	**December 31,2016 (Audited)**	**Absolute Change**	**Percentage Change**
CAR Ratio	21.01%	16.94%	4.08%	24.07%
CAR Ratio surplus /deficit	11.76%	8.31%	3.45%	41.53%
Capital Adequacy (CET1) ratio	21.01%	16.94%	4.08%	24.07%
CET1 Capital	748,610	773,610	(25,000)	(3.23%)
Tier 1 Capital	748,610	773,610	(25,000)	(3.23%)
Tier 2 Capital	-	-	-	-
Total Own Funds	748,610	773,610	(25,000)	(3.23%)
Total Own Funds surplus /deficit	(171,414)	(24,433)	(146,981)	601.58%
Total Credit Risk Exposure	2,855,340	3,341,066	(485,726)	(14.54%)
Total Market Risk Exposure	453,000	684,000	(231,000)	(33.77%)
Operational Risk	254,423	542,813	(288,390)	(53.13%)
Total Risk Exposure	3,562,762	4,567,879	(1,005,116)	(22.00%)
Leverage ratio	24.71%	20.21%	4.49%	22.22%
Capital Conservation Buffer	1.25%	0.63%		

- Credit Risk RWA decreased by 14.54% or USD485,726, reflecting the decreases in the Company's Institutional and other exposures.
- Market Risk RWA decreased by 33.77% or USD231,000, reflecting the significantly decreased foreign currency denominated exposures.
- Operational Risk RWA significantly decreased by 53.13% or USD288,390.

Figure 8 - Risk exposure breakdown in 2016

6. Risk and Capital Profile

I. Risk Register

As per the Risk Management Framework, the Company firstly identifies and then assesses the various internal and external risks that it faces. Then, all risks identified and addressed are ranked[3] in order to decide the priority order for mitigation or elimination or tolerance. Lastly, a risk register is constructed which clearly shows:

- The Company's risk exposures
- Description of each risk
- Risk Grade
- Risk Owner
- Risk Treatment
- Mitigation Strategy

The Company has in place a comprehensive risk register which forms part of this year's risk appraisal (section below).

[3] Please refer to Appendix I

II. Risk Appraisal

In line with the coverage of the risk framework, management of risks and capital and the 2017 risk performance, below the Risk Manager having assessed the risks and mitigation actions with the input from each risk owner will present the key risks for the year.

Credit Risks

Risk Category[4]	Current Activity	RAG	Risk Treatment	Mitigation Strategy
Concentration risk (Large Exposures)	Monitoring of concentration risk on a quarterly basis. The Company has institutional large exposures to Hellenic Bank and Gambit Securities which as at 31 December 2017 stood at 28.85% and 14.95% of own funds respectively.		Reduce	Even though the percentage of own funds of the Hellenic Bank exposure is expected to decrease with the release of the audited financial statements, the Company should consider establishing new relationships with other credit institutions in order to diversify the risk.
Concentration risk (Country)	Monitoring of concentration risk on a quarterly basis. The Company's activities are concentrated in Cyprus (operations) and Russia (business activities).		Reduce	The Company should assess whether it accepts this risk due to the nature of its business model or otherwise it is advised to consider marketing in other countries as well in order to diversify this risk.
Concentration risk (Industry)	Monitoring of concentration risk on a quarterly basis.		Reduce	The Company is planning to draft its risk appetite statement and define its overall risk strategy.
Country risk	Monitoring of geopolitical news in the areas of operations		Reduce	The Company needs to diversify its country risk, by opening bank accounts and commence marketing in other countries.
Cyclical risk	Monitoring through Capital Requirements calculation every quarter		Reduce	More frequent random checks in areas that the Company has identified deficiencies.
Documentation risk	Compliance and legal advice prior to every important agreement		Accept	-

[4] Please refer to Appendix II

Settlement risk	The Company is currently not significantly exposed to settlement risk due to the limited operations in place.	●	Accept	The Company should periodically perform appraisals in regards to settlement issues in order to confirm that it still remains in low level.

Market Risks

Risk Category	Current Activity	RAG	Risk Treatment	Mitigation Strategy
Foreign Exchange Risk	Monitoring through Capital Requirements calculation every quarter. The Company, as at 31 December 2017 the Company has foreign exchange exposures at the EUR and RUB, with long net positions equivalent to USD336,067 and USD111,738 respectively.	●	Accept	The Company does not intend to reduce FX risk as it is part of the Company's operational strategy.

The Company is not exposed to any other market risks.

Operational Risks

Risk Category	Current Activity	RAG	Risk Treatment	Mitigation Strategy
Reputational Risk (arising from interactions around clients activities)	The Company currently holds all clients' funds in RUB and EUR denominated accounts (USD485,800) in Gambit Securities BC.	●	Reduce	As per the provisions of the law the Company is obligated to hold clients' funds to any of the below: a) central bank, b) credit institution, c) bank authorized in third country, d) qualifying money market fund. The Company **must** take immediate action in order to ensure the safeguarding of these funds. In particular, the Company should ensure that any clients' funds maintained with Gambit shall be limited to the amount of funds

				required for the clients' transactions to be executed and open positions to be maintained. In line with the above, the Company aims to put in place sufficient and appropriate procedures and controls to mitigate operational and compliance risks regarding the safekeeping arrangements and safeguarding of clients' assets.
Business Continuity Risk	The Company has implemented a Business Continuity Plan which is amended / updated once a year.		Reduce	The Company is planning to proceed with regular testing of its Business Continuity Plan.
Internal Fraud	The Company safeguards against internal fraud risk by: 1. Client files are stored in a separate room. Only the responsible colleagues have access to clients' files. 2. Employees in the near future will have an electronic card for entering the Company's premises		Reduce	The Company intends to also add CCTV and enhance telephone recording system.
External Fraud	The Company has password protection on its database and an alarm system on its premises.		Reduce	In order to further reduce this risk the Company will set up an alarm System, CCTV, Physical Security protection and enhance its Internet Security systems, in case the clients' volume increases.
Systems & Database Unauthorized Access Risk	The Company currently outsources its IT department to UpravDom, a Russian IT Company. The Company on a weekly basis performs back-ups in order not to lose any important data and information.		Reduce	The Company can enhance its monitoring of this risk with the assistance of the Compliance officer.
Personnel issues	The Company currently maintains in its records documents regarding the training seminars attended by employed personnel.		Accept	-

Third Party Dependency	The Company currently outsources: a) IT department, b) Compliance Department c) Risk Management.	●	Accept	The Company needs to ensure that outsourcing to service providers is performed after careful due diligence and that the providers are reputable regulated firms. It is advisable to perform due diligence on the service providers on an annual basis.
Accounting & Data Processing Risk	The Company mitigates the Accounting and Data Processing Risk by establishing an Internal Audit Department and also verifies the adequacy of the controls in place by the External Auditors on a yearly basis.	●	Accept	It is recommended to request from External Auditor to perform additional tests on the accounting system to ensure compliance with the law.
Control & Management Risk	As part of the Company's quarterly capital adequacy submissions, it was noticed that the Company had incorrectly recognised its unaudited profits as own funds. This indicates that the Company has inadequate controls in place to ensure that its regulatory reporting requirements are performed in accordance with the appropriate regulations and directives. The Company has established and implemented an Internal Operations Manual ("IOM") which describes in detail all the Company's services and activities.	●	Reduce	The Company shall ensure that any regulatory reporting obligations are monitored with the appropriate care and in accordance with relevant regulations and directives, in order to avoid any possible penalties from the regulatory authorities. The Company is advised to update its policies on a semi-annual basis to reflect the current needs and procedures of the Company. It has also been noticed that the Company's IOM has not been kept up to date. More specifically, the Company's IOM included procedures for services which have lapsed during 2017. The Company needs to assess whether it is necessary to have such committee established (significant CIFs) or dissolve it and update its policies accordingly.
Availability of Data	The Company follows all regulatory data retaining procedures and has in place a	●	Accept	The Company shall ensure that frequent back-ups take place as to safeguard against loss of valuable data.

	record of data since the date of incorporation.			
Systems Failure	The Company keeps most of its records electronically but also retains in hardcopy valuable documents.		Accept	The Company shall ensure that frequent back-ups take place as to safeguard against loss of valuable data.
Legal and Compliance Risk	The Compliance Officer is monitoring on an ongoing basis all regulatory requirements and acts in line with the internal policies, promoting others in the Company to do the same. The Company currently outsources its Compliance Department to K. Treppides & Co Ltd		Accept	Implement all recommendations made in the Compliance report for all the areas within the Company.
Employment practices and workplace safety risk	Company takes all the appropriate by law measures in regards to the employment of its personnel (social insurance, proper employment agreements in place, annual leaves in line with the law) and ensures a safe environment within its premises.		Accept	Enhance health and safety procedures and add adequate information in Company's manual in regards to all employment related topics.
Clients, products and business practices	From the BoD, to the Compliance officer and further to the Back office and Dealing Room the Company has in place adequate polices in order to ensure that the best service for each customer.		Reduce	The Company is considering to proceed with a client survey in order to identify any problems in relation with the client service and proceed with relevant changes in order to reduce the risk of having issues in this crucial for business section.
Damages to physical assets	The Company has safety measures and procedures in place in order to keep this risk in control.		Accept	The Company can periodically perform assessments and based on the results enhance its policy about safety procedures. Another recommendation it's to insure the Company's most valuable assets.
External Events	The Company monitors the global market and follows the legal frameworks.		Accept	The Company needs to assess and identify the most adverse scenarios and draft contingency plans to mitigate the risk. It is our recommendation that the Company apply an ERM framework to minimize the risk of adverse external events that would affect Company's profile.

Specific Risks

Risk Category	Current Activity	RAG	Risk Treatment	Mitigation Strategy
Group Risk	The Company has a parent entity. (Does not affect M.G.T.M's activities and services offered.)	●	Accept	The Company is advised to monitor the liquidity and financial performance of its holding Company.
Low Capital Adequacy	The Company as at December 2017 is below the minimum capital requirements of USD920,024 (USD875,489 plus the capital conservation buffer of USD44,535), by USD171,414.	●	Reduce	The Company should monitor its capital adequacy on a more frequent basis to avoid mitigating any adverse events and also should always be up to date with the new requirements in order to avoid any regulatory issues.

III. Suggestions of the Risk Manager

The Risk Manager, during its continuous assessment of the risks faced by the Company, occasionally identifies areas which could potentially be improved. As such during the final risk assessment for the year the following points can be considered as suggestions to be implemented going forward:

- Monitoring, stress testing tools and escalation processes can be put in place for key capital and liquidity thresholds and metrics.

- Recovery planning can be set as it can provide an escalation path for crisis management governance and supply senior management with a list of actions designed to improve the capital and liquidity positions in a stress event.

- To aid with the holistic assessment of risk culture, it is suggested that the Company develops a Risk Culture Framework. The Framework should define the levers that contribute to the evolution of a strong risk culture, as well as the minimum criteria which should be met.

- To reinforce and strengthen the risk culture, the Company can conduct a number of Company-wide activities.

- The Board of Directors and senior management should frequently communicate the importance of a strong risk culture to support a consistent tone from the top.

- In order to determine the risk appetite and capacity, it is our suggestion that different triggers and thresholds be set on a forward looking basis and define the escalation requirements for further action.

- The Company's management should be dedicated and committed on taking all the required actions so as to establish adequate and effective risk management policies and procedures that facilitate the monitoring and mitigation of the risks to which it is exposed.

- The Company should maintain adequate actions in order to monitor and maintain its Capital Ratio at a health and within the levels state as well as take any required action as to always be in line with the regulatory requirements both in regards to ratio and Own Funds (including capital conservation buffer).

- The risk management function of the Company should aim in operating with due care for the identification of any weaknesses and to take the necessary measures to remedy any issues identified.

- The Company should ensure that it restores compliance to the regulatory reporting procedures/treatment and ensure that all reporting is performed without any further deficiencies.

- The Company should start drafting its ICAAP report for 2017 and Risk Appetite Statement within 2018 in order to enhance its Risk Management monitoring tools.

7. Concluding Remarks

In conclusion, the Risk Manager would like to inform the Board of Directors that the Company's procedures and controls have been reviewed and any issues identified have been communicated for rectification and implementation of recommendations provided.

The Risk Manager urges the Board of Directors to set a remediation plan for rectifying any weaknesses identified and a follow up program.

8. APPENDICES

I. Appendix I – Risk Explanations

Risk Grade explanation (RAG - Red Amber Green)

● (green)	**LOW**	It is acceptable as per Company's general governance framework
● (amber)	**MEDIUM**	It is acceptable or it needs to be minimized as per Company's general governance framework
● (red)	**HIGH**	It is not acceptable and it needs to be minimized as per Company's general governance framework

Risk Treatment

Transfer	It needs be **transferred** wholly or the majority to a third party.
Avoid	It needs to be **avoided**.
Reduce	It needs to be **reduced** to limit exposure in a particular area or decrease the consequences of adverse effects.
Accept	It is **accepted** as it cannot be avoided.
Increase	It needs to be **increased** in order to increase the positive exposure on the Company.

II. Appendix II – Credit Risk Subcategories

Risk Category	Definition
Issuer Risk	Issuer risk refers to the possibility that the issuer of a security will default.
Residual Value Risk	Residual risk refers to the type of risk that arises after other known risks have been factored in, countered and eliminated. It is simply seen as the risk that remains after safeguards have been implemented.
Concentration Risk - Country	Concentration risk is the risk that occurs due to lack of diversification, or as the definition states, the concentration of assets on one sector or geographical area.
Concentration Risk - Industry	Concentration risk is the risk that occurs due to lack of diversification, or as the definition states, the concentration of assets on one sector or geographical area.
Concentration Risk - Large Exposures	Concentration risk is the risk that occurs due to lack of diversification, or as the definition states, the concentration of assets on one sector or geographical area.
Counterparty Risk	Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
Documentation Risk	This includes the probability of loss that a legal agreement may turn out to be incomplete or insufficient or otherwise unenforceable
Country / Transfer Risk	Country risk is the probability of loss due to currency conversion (exchange) restrictions imposed by a foreign government that make it impossible to move money out of the country. It is a type of political risk and it should consider allocating capital as a mitigation of this risk.
Collateral Risk	The risk of loss arising from errors in the nature, quantity, pricing, or characteristics of collateral securing a transaction with credit risk
Securitisation Risk	This could include an assessment of the effect on a company's financial position of a securitization arrangement failing or of the values and risks transferred not emerging as expected.
Settlement Risk	This risk occurs if, as part of the trade, a company delivers an asset or cash value to counterparty and does not receive the corresponding cash value or asset as expected

Cyclicality	The risk of business cycles or other economic cycles adversely affecting the returns of an investment, an asset class or an individual company's profits. Cyclical risks exist because the broad economy has been shown to move in cycles periods of peak performance followed by a downturn, then a trough of low activity. Between the peak and trough of a business or other economic cycle, investments may fall in value to reflect the uncertainty surrounding future returns as compared with the recent past.

III. Appendix III – Market Risk Subcategories

Risk Category	Definition
Foreign Exchange Risk	Foreign exchange risk depends on the proportion of assets held in foreign currency denominations other than the one used for the Company's operations.
Interest Rate Risk in the trading book	The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.
Equity Risk	Equity risk is the financial risk involved in holding equity in a particular investment
Commodity Risk	Commodity risk is the financial risk involved in holding commodity in a particular investment

IV. Appendix IV – Operational Risk Subcategories

Risk Category	Definition
Internal Fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/ discrimination events, which involves at least one internal party.
External Fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party (theft, hacking damage, etc.)
Systems & Database Unauthorized Access Risk	Unauthorized disclosure of information: disclosure of confidential, sensitive or embarrassing information can result in loss of credibility, reputation, market share and competitive edge.
Accounting & Data Processing Risk	The quality of data contained in accounting information systems has a significant impact on both internal business decision making and external regulatory compliance. Risk of manipulation of account due to the demand of the client, director bonus shame, or tax avoidance.
Reputational Risk	A threat or danger to the good name or standing of the Company. Reputational risk can occur through a number of ways: directly as the result of the actions of the company itself, indirectly due to the actions of an employee or employees, or tangentially through other peripheral parties, such as joint venture partners or suppliers. In addition to having good governance practices and transparency, companies also need to be socially responsible and environmentally conscious to avoid reputational risk.
Control & Management Risk (BoD structure & meetings)	Risk of losses due to inadequate or insufficient internal control measures directly linked to Company's operations.
Third Party Dependency	Number of outsourced services
Legal & Compliance Risk	Company must ensure that is compatible with its outside regulatory requirements and internal policies.
Employment practices and workplace safety	Losses arising from acts inconsistent with employment, health or safety lows or agreements, from payment of personal injury claims, or from diversity/ discrimination events diversity.

Clients, products and business practices	Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or form the nature or design of a product.
Business Risk - Business Continuity Policy	Cost and time needed for recovery. The cost recovery time trade off will not be linear as the cost to shorten recovery time critical activities processes and systems, within minutes will require significant investment in replication of systems, mirroring of data, redundancy of communication and infrastructure, and an alternate site that is quickly activate.
Business Risk - Other Policies & procedures	Cost and time needed for recovery due to lack of establishment and continuous monitoring of Other Policies & procedures
Business Risk - Company's operational manual & BoD periodically review of effectiveness	Cost and time needed for recovery due to lack of establishment and continuous monitoring of Company's operational manual & BOD's periodically review and effectiveness
Business Risk - Company's Bonus term	Cost and time needed for recovery due to lack of establishment and continuous monitoring of Company's Bonus term
Audit Trail Risk	An audit trail (also called audit log) is a security-relevant chronological record, set of records, and/or destination and source of records that provide documentary evidence of the sequence of activities that have affected at any time a specific operation, procedure, or event.
Personnel Issues	Risk of losses due to agency theory problems, self-interest, conflict of interest, competence, method of reward and personnel overall satisfaction.
Availability of data	Creating a highly available data system means taking steps to prevent outages and mitigate potential risk. The areas of potential availability risk include: people, process, technology and information.
Systems Failure	Losses arising from disruption of business or system failures (hardware, software, telecommunications).

Damages to physical assets	Losses arising from loss or damage to physical assets from natural disaster or other events (terrorism, vandalism).
External Events	Company's external event risk includes all the external environmental parameters and factors that influence how it manages risk and tries to achieve its objectives. It includes its external stakeholders, its local, national and international environment, as well as key drivers and trends that influence its objectives. It includes stakeholder values, perceptions, and relationships, as well as its social, cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment.

V. Appendix V – Credit Assessment under the standardised approach

For the purpose of calculating the capital requirements of the Company mainly under the credit risk requirement, for the exposure classes listed below, the external credit ratings from **Moody's Analytics** have been applied.

- Exposures to central governments or central banks
- Exposures to public sector entities
- Exposures to institutions
- Exposures to corporates

The general ECAI association with each credit quality step complies with the standard association published by CySEC as follows:

ECAI association with CQS and Risk Weights

Credit Quality Step	Moody's Rating	Institution (Below 3 months)	Institution (Above 3 months)	Sovereigns	Corporate
1	**Aaa to Aa3**	**20%**	**20%**	**0%**	**20%**
2	**A1 to A3**	**20%**	**50%**	**20%**	**50%**
3	**Baa1 to Baa3**	**20%**	**50%**	**50%**	**100%**
4	**Ba1 to Ba3**	**50%**	**100%**	**100%**	**100%**
5	**B1 to B3**	**50%**	**100%**	**100%**	**150%**
6	**Caa1 and below**	**150%**	**150%**	**150%**	**150%**

For exposures to regional governments or local authorities, public sector entities and institutions, the ECAIs are applied in the following priority:

1. Issue/Exposure
2. Issuer/Counterparty
3. Sovereign

For exposures to central governments or central banks and corporates the ECAIs are applied in the following priority:

1. Issue/Exposure
2. Issuer/Counterparty

The ECAIs are not taken into account where exceptions or discretions as per the CRR apply.

VI. Appendix VI – Legal Framework

The Laws and Regulations that govern the functions under risk management in the Cyprus Capital Markets, together with the Directives and Circulars issued by CySEC, which governs the operations of the CIFs and sets out the obligations and requirements that shall be met, is comprised by the following:

- Law 144(I)/2007: Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereafter "the Law");
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV
- Directive DI144-2014-14: For the prudential supervision of Investment Firms;
- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013
- Directive DI144-2007-01 and 01(A) and 01(B), regarding authorisation and operating conditions of Cyprus Investment Firms

VII. Appendix VII – Status of prior year issues

Prior year finding	Mitigation	Overall Comments
In prior year's report, it was identified that the Company had a large exposure to Hellenic Bank amounting to 81% of own funds. It was advised that the Company should diversify this exposure.	**Partly**	During 2017, the Company managed to substantially decrease this exposure to 28.85% of its own funds as at December 31 2017.
In the 2016 Annual Risk Management report it was identified that the Company held its clients' funds with Gambit Securities and it should take immediate action in order to safeguard those funds.	**Pending**	The Company indicated that it has initiated the procedures necessary to mitigate this, and it is expected that this will be finalised in 2018.
As at 31 December 2016, it was noticed that the Company's own funds were below the minimum capital requirement (including the capital conservation buffer) and the Company was advised to monitor its regulatory capital more frequently to ensure that it remains compliant.	**No**	The Company has not maintained compliance with the regulatory capital requirements, with own funds as at 31 December 2017 also being below minimum regulatory capital requirements.