



R CAPITAL SOLUTIONS LTD

Regulated by the Cyprus Securities and Exchange Commission License no. 246/14

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR THE YEAR 2016

APRIL 2017



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1. INTRODUCTION – ABOUT THE MARKET DISCIPLINE REPORT

R Capital Solutions Ltd (the “Company”) is an Investment Firm authorized and regulated by the Cyprus Securities and Exchange Commission (the “CySEC”) under license number 246/14 and operates under the Markets in Financial Instruments Directive (EU Directive 2004/39/EC).

The Company is licensed to provide the following services:

Investment Services

- Reception & Transmission of Clients Orders
- Execution of Clients Orders
- Portfolio Management

Ancillary Services

- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
- Granting credits or loans to an investor to allow him to carry out a transaction in one or more Financial Instruments where the Company is involved in the transaction
- Foreign exchange services where these are connected to the provision of investment services.

The Basel III Accord has been implemented in the European Union through the Capital Requirements Directive IV (“CRD IV”) and the Capital Requirements Regulation (“CRR”). CRR provides the detailed requirements for complying with CRD IV.

CRD IV consists of three “pillars”:

Pillar 1 sets out the minimum capital requirements of firms to cover credit, market and operational risk.

Pillar 2 requires the firm to assess whether additional capital should be maintained against any risks not adequately covered under Pillar 1.

Pillar 3 specifies a set of disclosure requirements which enable market participants to assess information on firms’ risks, capital and risk management procedures.

Under CRD IV’s Pillar 3 the Company is required to disclose information relating to its capital, the risks that the Company is exposed to, its remuneration policy as well as to promote market discipline. These shall constitute the present report (the ‘Report’) which will be published on the Company’s websites on an annual basis and where necessary the Company shall proceed with amendments of the Report, approved by the Board of Directors. Since the Company does not have any subsidiaries, the present Report relates solely to information regarding the Company.



The Board of Directors and the Senior Management have the overall responsibility for the internal control systems in the process of “Capital Adequacy Assessment” therefore they have established effective processes for the identification, assessment, monitoring and the management of each risk. The Company’s business effectiveness is dependent and based on the guidelines of the risk management policies and procedures. The Board of Directors, the Internal Auditor, the Risk Manager, the Compliance and Anti-Money Laundering Officers control and supervise the overall risk management system.

As with all Investment Firms, the Company is exposed to a variety of risks. To this end, this Report is focused on the following areas:

- examination of the risk management structure of the Company
- examination of the capital risk management of the Company
- examination of the risks faced by the Company and the mitigation strategies
- information on the remuneration policy of the Company

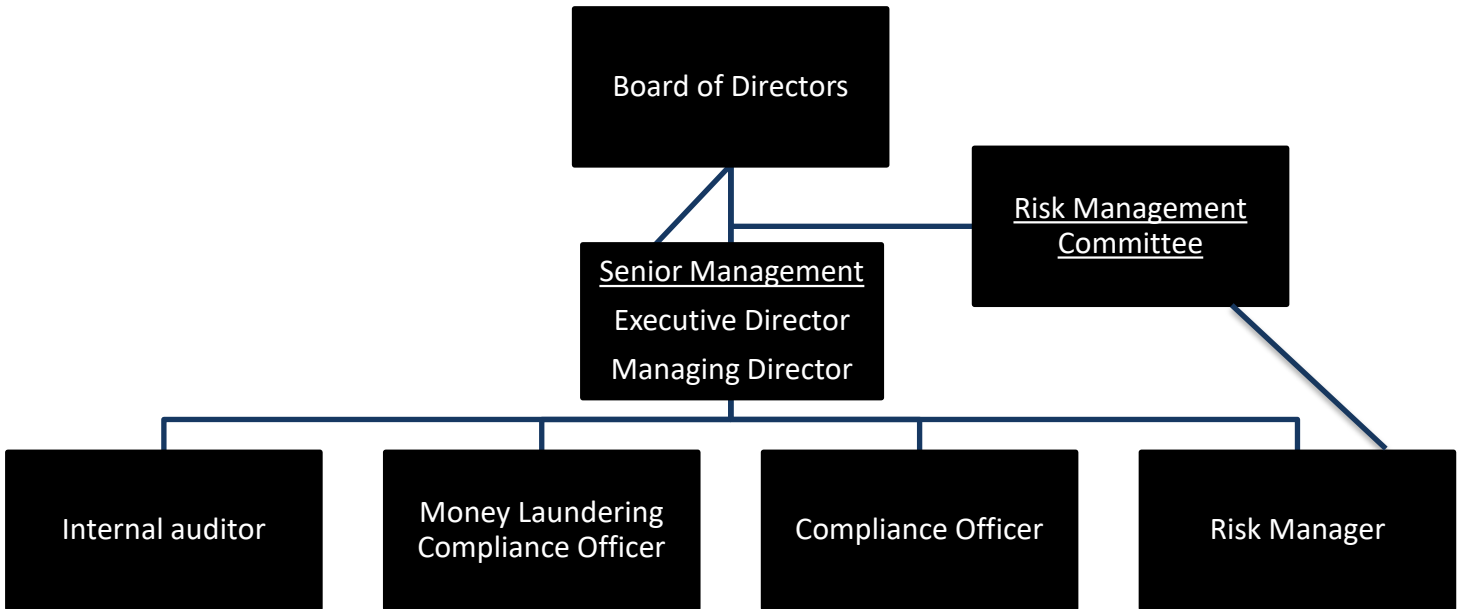
2. REGULATORY (PRUDENTIAL) SUPERVISION

The Laws and Regulations, published by the Cyprus Securities and Exchange Commission, that govern the operations of Cyprus Investment Firms and set out the obligations and requirements that shall be met in the aspect of capital adequacy and market discipline, are 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



3. RISK MANAGEMENT STRUCTURE OF THE COMPANY



4. INTERNAL GOVERNANCE OF THE COMPANY IN RESPECT TO RISK MANAGEMENT

Risk Appetite Framework

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. Such risks include but are not limited to credit, operational, reputational and compliance risk.

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

This shall be expressed along multiple scenarios, including both “normal” business conditions and “stressed” periods with zero tolerance for regulatory, legal or compliance risks.

The risk appetite of the Company expresses its strategy through desirable and undesirable risk exposures. It is the aggregate level and types of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

Thus, Risk Appetite and Strategic Plan occur and evolve in parallel, The Risk Appetite enables the Company to demonstrate that the achievement of its strategic goals has not been the result of fortuitous circumstances.



Furthermore, the risk capacity/tolerance is the maximum amount of risk which the Company is technically able to assume before breaching one or more of its capital base, liquidity, borrowing capacity, reputational and regulatory constraints.

The risk capacity represents the upper limit beyond which a breach is likely to result in failure.

Taking into consideration the Company's size, services offered, complexity and operations, the risks that are considered significant and/or material for the Company are credit risk, market risk, operations risk, liquidity risk and large exposures.

In regards to the above, setting the corporate risk appetite without taking into account the risk capacity of the Company may have serious consequences. Risk capacity may be easy to quantify in terms of capital or require funding but it is more challenging to consider the point at which the Company's reputation is beyond repair.

The Board understand how the risk capacity impacts the business and have taken the necessary steps in order to be in constant awareness, mitigating any potential threats.

Stress Testing

Stress testing is a key risk management tool used by the Company to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- (a) Understanding the risk profile of the Company.
- (b) The evaluation of the Company's capital adequacy in absorbing potential losses under stressed conditions: This shall take place in the context of the Company's ICAAP.
- (c) The evaluation of the Company's strategy. The *Senior Management* considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows the Senior Management to determine whether the Company's exposures correspond to its risk appetite.
- (d) The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products etc.

The ultimate responsibility and ownership of the Company's stress testing policy rests with the Risk Management Committee. If the stress testing scenarios reveal vulnerability to a given set of risks, the Senior Management should make recommendations to the Board for remedial measures or actions. These may vary depending on the circumstances and include one or more of the following:

- (a) Review of the overall business strategy, risk appetite, capital and liquidity planning.
- (b) Review limits.
- (c) Reduce underlying risk positions through risk mitigation strategies
- (d) Consider an increase in capital
- (e) Enhance contingency planning.



Internal Governance Arrangements

The Board

The Board is currently consisting of three Executive Directors and two Independent Non-Executive Directors. The Board is responsible, inter alia, for ensuring that the Company complies with its obligations under the relevant and applicable legislation. The Board assesses and periodically reviews the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the relevant and applicable legislation, and to take appropriate measures to address any deficiencies.

The Board ensures that it receives at least annually, written reports regarding Compliance, Internal Audit, Money Laundering & Terrorist Financing and Risk Management issues, indicating, in particular, whether the appropriate remedial measures have been taken in the event of any deficiencies.

The Board is responsible for the monitoring of the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and the prevention of any unlawful transactions, the identification of risks, and the timely and adequate flow of information.

Board - Recruitment Policy

Board members must be of sufficiently good repute and have the skills, knowledge and expertise for performing their assigned responsibilities. Therefore the Company collects relevant information and/or recommendations and/or certificates proving the integrity, morals, credibility, ethos and the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them, while selecting the Members of the Board. It shall also be noted that prior to the appointment of any Member of the Board, the Company communicates its intention to CySEC by sending all relevant details and documentation, and such appointment only becomes effective if CySEC does not oppose to it.

Risk Management Committee

The Company maintains a Risk Management Committee, which is formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general.

The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of the risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

The Risk Management committee held two meetings during 2016:



- Review and approval of the ICAAP
- Brexit effect for the company

Number of directorships held by members of the Board

The table below provides the number of directorships a member of the management body of the Company holds at the same time in other entities. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below.

Name of Director	Position within the Company	Other Directorships – Executive	Other Directorships – Non-Executive
Antonia Ioannidou	Executive Director	0	0
Theodoros Photiou	Executive Director	0	2
Marios Karaiskos	Non – Executive Director	1	0
Victor Florin Safta	Executive Director	2	0
Illickos Michaelides	Non – Executive Director	0	3

Information flow on risk to the management body

The information flow on risk to the management body is achieved, inter alia, through:

- The reports of the Risk Manager, the Internal Auditor, the Compliance Officer and the Money Laundering Compliance Officer, which are prepared at least annually and indicate, in particular, any risks identified and any remedy measures taken.
- The report on the status of the European and Cypriot Economy and on the review of the credit ratings of the Company’s counterparties, which is prepared by the Risk Manager at least quarterly.
- The minutes of the Risk Management Committee meetings.
- The Company’s Internal Capital Adequacy Process Report (ICCAP).

ICAAP is a process that is embedded to the core of the Company’s operations, by comprising as well as aligning the Company’s overall Risk Management System, Governance Framework, Internal Control system, the definition of its financial budget and corporate strategy, and the alignment with the Company’s available capital and risks faced.



Responsibilities in regards to Risk Management

The main responsibilities of the Board of Directors, the Internal Auditor, the Risk Management Committee, the Risk Manager, the Compliance Officer and the Money Laundering Compliance Officer in relation to the management of the Company's risks include the following:

- the Company's **Board of Directors** reviews the written reports prepared by the Risk Manager, identifies the risks faced by the Company, decides in respect to risk management and monitors whether all the Company's risk management procedures are followed (For Board Risk Management Declaration please see Annex I),
- the **Internal Auditor** evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures in respect to risk management,
- the **Risk Management Committee**, scrutinizes, and decides on various risks associated with the operation of the Company with the view to increase the awareness of; formulates internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company; and reviews the risk management procedures in place (monitors and controls the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department),
- The **Compliance Officer** is responsible for implementing and maintaining adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, and for putting in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively.
- The **Money Laundering Compliance Officer** monitors the risks faced by the Company regarding Money Laundering and Terrorist Financing and in this respect, formulates internal policies and measures the performance of those policies.
- The **Risk Manager** ensures efficient management of the Company's risks in the provision of the investment and ancillary services to clients, as well as the risks underlying the operation of the Company, in general. Furthermore, the Risk Manager bears the responsibility to monitor the following:
 - the adequacy and effectiveness of the risk management policies and procedures that are in place,
 - the level of compliance by the Company and its relevant persons with the adopted policies and procedures, in addition to the Company's obligations stemming from the relevant laws, and
 - the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

Moreover, the Risk Manager is responsible for making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified, as aforementioned.



5. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

Capital Resources (Own Funds)

At 31st of December 2016 the Company's own funds i.e. capital resources were as follows:

	€000
Share Capital	251
Retained Earnings / (Losses)	32
Regulatory Deductions	-68
Common Equity Tier 1 Capital	215
Additional Tier 1 Capital	Nil
Tier 2 Capital	Nil
Own Funds	215

As can be seen above the Company maintains only Common Equity Tier 1 (CET 1) capital as eligible own funds, which stood at €215K at 31 December 2016. CET1 comprises paid up share capital, retained earnings less any proposed dividends, translation differences, un-audited current period losses and regulatory deductions. Current period profits are not added to own funds unless they are audited.

Capital Adequacy Ratio (CAR)

The Company prepares and submits to CySEC Capital Adequacy Returns on a quarterly basis. The Returns are prepared on a solo basis and the reporting currency is Euro. The adequacy of the Company's capital is monitored by reference to the rules established by CRD IV. As mentioned in the introduction, Pillar 1 of CRD IV sets minimum capital requirements to meet credit, market, and operational risk, while Pillar 2 requires firms and their supervisors to consider whether additional capital should be held to cover risks not already covered by Pillar 1.

Pillar 1 Minimum Capital Requirements

Based on the specific investment services and activities the Company is licensed to carry out, it is not required to calculate an operational risk capital charge. As such its minimum capital requirement is the greater of:

- a base capital requirement of €125.000;
- the sum of its credit and market risk requirements; and
- the fixed overhead requirement



The fixed overhead requirement is calculated simply as one quarter of the preceding year’s fixed overheads, while the requirements for credit and market risk are calculated using CRR’s standardized approaches.

31st December 2016	Risk Weighted Assets	Minimum Capital @ 8%
figures in €000		
Credit Risk	545.91	43.67
Market Risk	78.58	6.29
Total	624.49	49.96
Additional Risk due to Fixed Overheads	637.53	51
Own Funds	215	
Total Capital Adequacy Ratio <i>(Own Funds / Fixed Overheads)</i>	17%	

CRR requires each investment firm to maintain a minimum ratio of own funds to risk weighted assets of 8% at all times. As can be seen above the Company maintained a ratio of 17% as at 31st December 2016 significantly above this minimum. Moreover own funds stood at €215K giving a surplus of €90K.

Pillar 2 Capital Requirement

As previously mentioned Pillar 2 of CRD IV requires investment firms to assess additional the need for capital to address risks not fully captured under Pillar 1. To this end the Company developed its ICAAP carried out an internal capital adequacy assessment employing a combination of risk assessment, scoring techniques as well as expert judgment to quantify any additional capital under Pillar 2. According to the first assessments the capital requirements will not be affected negatively.

6. INTERNAL CAPITAL ADEQUACY ASSESMENT PROCESS (ICAAP)

In compliance with CRD IV the Company has established an ICAAP manual and also an ICAAP report. The first assessment was based on the Audited Financial Statements of the year 2015. The company updates the ICAAP regularly and is in the process of updating the ICAAP also with the financial results of 2016 according to the audited financial statements.

The Company’s ICAAP is a process embedded to the core of the Company’s operations, which comprises as well as aligns the Company’s overall Risk Management System, Governance Framework, Internal Control system, the definition of its financial budget and corporate strategy, and the alignment with the Company’s available capital and risks faced. It is explicitly stated to the Company’s personnel, that the Company’s ICAAP does not merely represent a Compliance/Risk management exercise. Instead, the Company’s ICAAP brings together all the above mentioned elements of the Company’s governance, to forge a sound organization.



The Company's ICAAP is a valuable Risk Management tool which will ensure that the Company's Risk Management framework receives the necessary attention from all the related functions of the Company. Moreover, through the ICAAP, the Board of the Company communicates to the personnel of the Company its commitment in cultivating a risk-averse culture within the organization.

The process of ICAAP, indicated that the Company will not find difficulties meeting its capital requirements in the near future, given logical abnormalities in the marketplace.

After the analysis, some of the Company's exposures seem to have the ability to change the capital requirements significantly, even if the dataset provides limited information.

In order for the Company to mitigate its material risks identified and to strengthen its internal control system, the stakeholders are working towards the development of a firm wide Risk Management framework that will enable enhanced measures for minimizing its risk exposures. Greater consistency in monitoring will be assured by the Board of Directors and Risk Management Committee as well as more scrutiny from the Risk Manager.

The Company acknowledges the necessity to be in position to cover over and above the regulatory capital requirements by injecting new capital, if required, and/or decreasing its risk exposures. The Company has taken all measures to ensure its strategic plans are in line with the ICAAP implementation. The Board of Directors alongside the Risk Management Committee have initiated a gap analysis program to identify potential deficiencies in future capital requirements under current conditions where applicable. The Company is also working towards enhancing its control's environment and is further developing its proactive risk culture at a firm-wide level when it comes to the regulatory capital requirements.

Furthermore, the Company is fully aware of the new CRR capital requirements. Necessary steps have been planned to be fully compliant and prepared to effectively cover the new regulatory requirements.

7. RISKS EXAMINATION / MANAGEMENT

As described above Risks in the Company at the moment are managed through, inter alia, risk internal governance and capital management. This is summarized as follows:

The Company having applied the principle of proportionality has adopted a relatively risk-averse approach to risk despite considering itself as non-complex. The Company's Risk Management framework was formed by following the Pillar 1 plus minimum capital requirement approach, i.e. the minimum capital calculated under Pillar 1 that is internally assessed and challenged through ICAAP to identify and quantify uncontrolled/material risks.

Thereafter, the allocation of additional capital or the imposing of additional controls is decided. The Risk Tolerance of the Company is determined by the Risk Management Committee. Then the Company's Risk Manager identifies the risks the Company faces and record them in a Risk Register; he/she will also detail the controls and mitigation technics in place as regards to each risk.

Thereafter, each risk in the said register will be rated in terms of its potential financial impact and its probability of occurrence, then, following calculation as per the latest ICAAP report the category of each risk



will be determined. In such cases, further analysis will be undertaken, on whether additional capital or controls are more appropriate to be added, so as for the risk to be mitigated and returned into the Company’s Risk Tolerance.

Taking into consideration its size, services offered, complexity and operations, the risks that are considered significant and/or material for the Company are shown in the Board Approved Risk Statement which can be found as Annex 2 of the present and are detailed below.

Credit Risk

Credit Risk arises when failures by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company’s credit risk arises:

- (a) By the Company’s deposits in Financial Institutions
- (b) By assets mainly held, debtors or prepayments.

For the calculation of Credit Risk, the Company follows the **Standardized Approach**, as this term is defined by CySEC in Directive DI144-2007-05. Credit requirements are calculated on a quarterly basis and reported to CySEC via the Transaction Reporting System.

Asset Class	Exposure Amount (EUR, rounded up to thousands)
Institutions	187
Corporates	39
Retail	507
Other Items	89
Risk weighted assets:	
Total risk weighted assets for Credit Risk (RWA)	545.91
Capital Requirements for Credit risk (8% of RWA)	43.67
Leverage Ratio	26%



The table below illustrates the industry distribution of the Company's original exposures.

Industry	Exposure Amount (EUR, rounded up to thousands)
Financial	74
Payment Processor	123
Other	625

The table below illustrates the geographic distribution of the Company's original exposures.

Geographic Distribution	Exposure Amount (EUR, rounded up to thousands)
Cyprus	796
Slovakia	10.23
Romania	1.65
United States	1.26
British Virgin Islands	3.36
Isle of Man	10.06

The table below illustrates the effective maturities of the Company exposures:

Effective Maturity	Exposure Amount (EUR, rounded up to thousands)
Below three (3) months: Institutions	187
N/A- Public Sector, Corporates, Other Assets and Other Receivables	635



Mitigation Strategies

Some of the mitigation strategies that the Company follows are the following:

- All client funds are held in segregated accounts, separated from Company's funds.
- The investment committee of the Company maintains regular credit review of credit counterparties.
- The Company diversifies its funds over several European banks and is choosing banks that were awarded by Moody's, S&P or Fitch with high ratings.
- Additional Capital will be added following Company's ICAAP.

Foreign Exchange Risk

Foreign exchange risk is the effect that unanticipated exchange rate changes have on the Company.

In the ordinary course of business, the Company is exposed to minimal foreign exchange risk, which is monitored through various control mechanisms.

The foreign exchange risk in the Company is effectively managed by adding required capital following Pillar 1 calculations, by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external factors. Operational risk can be, for example:

- Internal Fraud Risk
- External Fraud Risk
- Employment Practices and Workplace Safety
- Clients, Products, & Business Practice
- Internal Procedures and Controls Risk
- Business Disruption & System Failures Risk.

Mitigation Strategies

The Company manages operational risk through a control-based environment in which systems are continuously evaluated, maintained and upgraded, processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated. Some of the mitigation strategies that the Company follows are the following:

- The Company implements a three (3) tier enterprise wide control structure.



- The Company's Board of Directors ultimately bears the responsibility for ensuring that an adequate and effective system of internal controls is instituted, implemented and sustained.
- As a result the Board of Directors:
 - engages in periodic discussions with management concerning the overall control environment and the effectiveness of Control Functions,
 - has institutionalized an annual review of Senior Management's assessment of the outsourced Control Functions (namely Internal Audit),
 - carries out an annual assessment of the extent to which management has acted on the recommendations/findings of Control Functions.
- Level 2 (Risk Management and Compliance Function) and Level 3 (Internal Audit Function) Control Functions are reporting directly to the Board of Directors while also communicating and discuss their findings to Senior Management.
- The Compliance Officer ensures that proper information/reports are sent on time to CySEC.
- The Risk Manager is responsible for monitoring the Company's risk exposure and for examining the adequacy and effectiveness of the measures taken to address those risks.
- The Internal Auditor makes all the appropriate checks in order to ensure that employees comply with the Company's internal procedures.
- The Company has a four eyes structure (Senior Management). This structure ensures the separation of power regarding vital functions of the Company. The Board of Directors further reviews any decisions made by management and monitors their activities.
- Several detection methods are in place by the accounting department in order to detect crooks or other fraudulent activities.
- The Company has in place comprehensive business continuity and disaster recovery plan with recovery procedures and actions to be followed in the case of damage to any vital part of the Company's structure.
- The Company aggregates net exposures, as they develop from the opening and/or closing of positions by clients are monitored by the Company's systems regarding the level of risk to be maintained. Where risk exceeds desired levels, appropriate actions (i.e., automatic rejection of a client order by the system) are taken, until desired levels are achieved.

Liquidity Risk

Funding liquidity risk is the possibility that, over a specific horizon, the Company will be unable to meet its demands/needs for money (i.e. cash) through mismatch of assets and liabilities.

The Company's approach on managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Mitigation Strategies

- The Board of the Company is examining whether additional capital is needed.
- The Company assess day – to – day cash flow under different market scenarios.



- The Company maintains a risk mitigation agreement with its liquidity provider.

Business Risk

This risk might arise due to unfavorable changes in the Industry that the Company operates, or other unfavorable market conditions and/or due to bad management decisions. Those situation might have a result that the Company might not be able to continue as a going concern.

Mitigation Strategies

The Company's Board and Senior Management have demonstrated its ability and technical expertise to implement goals and objectives, as well as to successfully implement its strategic initiatives. Further, it also has a reasonable record in decision making and controls while dedicated compliance function is utilising expert advice from external consultants. In addition following Internal Risk assessment the Company is adding additional capital in regards to this risk.

Money Laundering and Terrorist Financing Risk

Money laundering and terrorist financing risk mainly refers to the risk that the Company may be used as a vehicle to launder money and/or assist/involved in financing terrorism.

Mitigation Strategies

The Company appoints a Money Laundering Compliance Officer who is responsible to monitor the risks faced by the Company regarding Money Laundering and Terrorist Financing. Furthermore, the Company has in place and is updating as applicable, certain policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks. Among others, these policies, procedures and controls include the following:

- The adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing risks faced by the Company.
- The adoption of adequate client due diligence and identification procedures in line with the clients' assessed Money Laundering and Terrorist Financing risk.
- The adoption of certain minimum standards of quality and extent of the required identification data for each type of client (e.g. documents from independent and reliable sources, third party information, and documentary evidence).
- By obtaining additional data and information from clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular business relationship or an occasional transaction.
- By monitoring and reviewing the business relationship or an occasional transaction with clients and potential clients of high risk countries



- By ensuring that the Company's personnel receive the appropriate training and assistance.

Compliance Risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, bylaws, regulations, prescribed practices, internal policies, and procedures, or ethical standards.

Mitigation Strategies

The Company is mitigating Compliance Risk by:

- Appointing more personnel to join the Compliance Function, responsible for implementing and maintaining adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, and for putting in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively.
- Appointing an Internal Auditor through an outsourcing agreement, who performs onsite visits at least quarterly, in order to assess the Company's Compliance with the regulatory framework.
- Ensuring that its personnel receive the appropriate training and assistance regarding compliance issues.

Reputation Risk

Reputation risk is the risk that a company will lose potential business because its character or quality has been called into question by clients, counterparties, shareholders, investors or regulators.

Mitigation Strategies

In order to minimize the possibility of having to deal with serious incidents that might damage its reputation, the Company has in place mitigation strategies, such as:

- By adopting policies and procedures in order to be as far as possible in compliance with all relevant Laws, rules and regulations and avoid receiving any fines from CySEC.
- By maintaining a clear policy for identifying and dealing with possible client complaints in order to provide the best possible assistance and service under such circumstances.
- By training and educating its Employees in respect of providing the best possible customer service to its clients and of addressing the clients with a fair, clear and not misleading attitude.
- By choosing its Employees, partners and especially Directors after taking into consideration their morality and reliability (character), ethos and reputation, academic qualifications relevant to the responsibilities assigned and professional experience.
- By exerting its best efforts in order to provide best quality services to its clients.



Risk of Expenses due to Client Complaints

The risk of expenses due to Client Complaints might arise because of Clients complaining for any of their dealings with the Company. Those expenses include the costs for investigating the complaint, any litigation expenses and/or any compensation to the client who is complaining etc.

Calculation and Mitigation Strategies

The Company has effective and transparent procedures in place for reasonable prompt complaint handling for existing and potential clients. These procedures are communicated to the Clients via Company's website. Furthermore, all Employees of the Company are receiving training regarding the procedures of identification, resolution and record keeping of Clients' complaints.

In addition, taking into consideration that it is not unusual in the financial industry, for Clients to deceitfully try to file an erroneous or unjustified complaint against a Company in order to gain monetary benefit, the Company following Internal Risk assessment the Company allocates additional capital regarding this type of risk.

Concentration Risk

Concentration risk could occur due to Company's high exposure to a specific sector, asset class, financial instrument, client category, country or regional market.

Mitigation Strategies

In order for the Company to minimize this risk at the lowest possible levels, constant monitoring of the local legislation and the financial, political and social situation of the Countries that it's operating is performed, alongside analysis of the concentration of funds, clients and other key figures that can be used to assess the risks that might arise in adverse conditions. Furthermore, following Internal Risk assessment the Company is adding additional capital in regards to this risk.

8. CREDIT RISK 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 **Standard & Poor's (S&P)** 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:

Table 1 ECAI association with CQS

Credit Quality Step	S&P Rating	Institution Weight (Below 3 months)	Risk (Below 3)	Institution Weight (Above 3 months)	Risk (Above 3)	Sovereigns Risk Weight	Corporate Risk Weight
1	AAA to AA-	20%		20%		0%	20%
2	A+ to A-	20%		50%		20%	50%
3	BBB+ to BBB-	20%		50%		50%	100%
4	BB+ to BB-	50%		100%		100%	100%
5	B+ to B-	50%		100%		100%	150%
6	CCC+ 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



9. REPORTING AND CONTROL

In line with the requirements set out in the Law, directives and circulars issued thereof, the Company has been able to maintain a good information flow on risk the Senior Management and the Board as per the table below:

No	Report Name	Creator	Recipient	Frequency	Due Date
1	Annual Compliance Officer Report	Compliance Officer	Board, Senior Management & CySEC	Annual	30/04/2017
2	Annual Internal Audit Report	Internal Auditor	Board, Senior Management & CySEC	Annual	30/04/2017
3	Annual Risk Management Report	Risk Manager	Board, Senior Management & CySEC	Annual	30/04/2017
4	Pillar III Disclosures	Risk Manager	Board, Senior Management, & Public	Annual	30/04/2017
5	Financial reporting	External Auditor	Board, Senior Management & CySEC	Annual	30/04/2017
6	Capital Adequacy Reporting	Head of Finance & Accounting Department	Senior Management & CySEC	Quarterly	/
7	Complaints register	Compliance Officer	Senior Management & CySEC	Monthly	/

10. RECRUITMENT POLICY

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



Board recruitment is subject to the approval of the Executive Director and the Chairman and the. Regulatory approval is co-ordinated through the Compliance Officer.

It will be required to establish the specific experience and skills needed to ensure the optimum blend of individual and aggregate capability having regard to the Company's long term strategic plan.

11. BOARD DIVERSITY POLICY

The Company is committed to promoting 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 Company.

12. REMUNERATION POLICY AND PRACTICES

In compliance with the CRR and in order for the Company to implement risk-focused remuneration controls and procedures which will be consistent with and promote effective risk management, the Company has established a Remuneration Policy (the 'Policy').

This Policy takes into consideration Company's size, internal organisation and the nature, the scope and the complexity of its activities and aims to set the principles and procedures to be followed for the remuneration of all Company's staff and especially for the remuneration of the following categories of staff, whose professional activities have a material impact on Company's risk profile:

- Executive Directors of the Company.
- Senior Management responsible for the day-to-day management.
- Personnel who directly report to the Board of Directors of the Company.
- Staff responsible for independent control functions, such as senior staff responsible for heading the compliance, risk management, human resources, internal audit and similar functions.
- Other risk takers, such as staff members whose professional activities can exert influence on the Company's risk profile, including persons capable of entering into contracts/positions and taking decisions that affect the risk positions of the Company.

Furthermore, this Policy aims to ensure the consistent and improved implementation of the conflicts of interest and conduct of business requirements under the Law in the area of remuneration, taking into consideration the requirements set out in Section 18(2)(b), 29 and 36 of the the Investment Services and Activities and Regulated Markets Law 144(I)/2007.

Company's remuneration policies, procedures and practices aim to promote sound and effective risk management and do not encourage risk-taking that exceeds the level of tolerated risk of the Company. In considering the risks arising from its remuneration policies the Company is also taking into account its statutory duties in relation to equal pay and non-discrimination.

It is noted that the Company has taken into account its size, internal organization and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific



remuneration committee. Decision on these matters is taken on a Board of Directors level, while the remuneration policy is periodically reviewed.

Main design characteristics of the remuneration system:

- **Appropriate balance between Fixed and Variable Remuneration:** The Company remunerates its Employees only based on fixed components. The Company may also provide in the future variable remuneration, however appropriate ratios will be set between the fixed and variable components of total remuneration in order to ensure that fixed and variable components of total remuneration will be appropriately balanced and that the fixed component will represent a sufficiently high proportion of the total remuneration.
- **Scope of Variable Remuneration:** Variable remuneration is designed to ensure that the total remuneration remains in competitive levels and to reward the staff for its performance whilst remaining aligned with the department's and/or the Company's performance.
- **Remuneration is linked with Performance:** The Company is adopting mechanisms in order to calculate remuneration, by taking into consideration the performance, educational level, experience, accountability, each employee's personal objectives, personal development, compliance with the Company's systems and controls and achievement of goals. The total amount of remuneration is based on a combination of the assessment of the performance of the individual, the business unit concerned, and the overall results of the Company.
- **Remuneration is linked with Responsibility:** Remuneration varies for different positions/roles depending on each position's actual functional requirements, performance and responsibility and is also set in comparison with standard market practices employed by the other market participants - competitors. The Company ensures that employees engaged in control functions are independent from the business units they oversee, they have appropriate authority and are remunerated:
 - Adequately to attract qualified and experienced staff;
 - In accordance with the achievement of the objectives linked to their functions;
 - Independent of the -performance of the business areas they control.
- **Risk Management/Risk Tolerance and Capital Planning:** The Company implements policies in order to ensure that its remuneration system is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Company. The structure of an employee's remuneration shall be consistent with and shall promote effective risk management. The total fixed and/or variable remuneration shall not limit the Company's ability to strengthen its capital base.
- **Inclusion of measures to avoid conflicts of interests:** Taking into account the best interests of the clients, policies are set in order for variable components of the remuneration to be appropriate. For determining variable remuneration, the Company takes into account not only quantitative criteria but also qualitative criteria.



Remuneration of Key Management Personnel and Directors

The remuneration of the in house key management personnel of the Company, including Board of Directors, in 2016, was as shown in the following table:

Broken down by Management area	Number of Beneficiaries(per position)	Fixed Remuneration	Variable Remuneration	2016
		€000	€000	€000
Directors and Senior Management	7	254,762	0	254,762
Heads of Departments	5	61,382	0	61,382
Total	12*	316,144	0	316,144

* The two executive directors also act as heads of department so their salary is not included in the fixed remuneration of the line “Head of Departments” since it is included in the fixed remuneration line of “Directors and Senior Management”.

13. REPLACEMENT POLICY

The Key role in a financial services company (Such Senior Manager and Head of Department) is a central element in the Company’s success and compliance with the legislation requirement. Therefore, insuring that the functions of such key roles are well understood and even shared among senior staff is important for safeguarding the Company against unplanned and unexpected change. This kind of risk management is equally helpful in facilitating a smooth function transition when it is predictable and planned.

This plan reflects R Capital Solutions Limited Employee Replacement Policy with respect to the departments, functions as well as positions depicted on its Organizational Structure and its commitment to sustaining a healthy functioning Company.

The Replacement Policy is designed to ensure that the personnel undertaking the duties of the Company functions and departments can be adequately replaced during temporary or unpredictable absence. The aim of this policy is to minimize any risks of disruption of the normal provision of investment or ancillary services to Clients and the general activities of the Company.



TEMPORARY STAFFING STRATEGY

Key Position Function	Temporary Staffing Strategy
General Manager	CEO
Money Laundering Compliance Officer	Compliance Officer
Risk Manager	Head of Brokerage
Compliance Officer	Money Laundering Compliance Office
Head of Brokerage	Risk Manager
Head of Back Office	General Manager
Head of Finance & Accounting	CEO
Head of Safe Keeping, Credit and Loans	CEO
Head of Portfolio Management	General Manager
Assigned IT Officer	(Outsourced Service Provider)
Head of Sales and Support	N/A



ANNEX I - Declaration

Board Risk Management Declaration

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and – as such- offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.



ANNEX II – Risk Statement

Board Approved Risk Statement

Risks in the Company are currently managed through, inter alia, risk internal governance and capital management. Through the annual update of the Company's ICAAP report, the risks will be managed in a holistic manner which encompasses, inter alia, the Company's Risk management framework.

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

Risk Statement of the BoD

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

Investment Services and Activities:

- Reception and transmission of orders in relation to one or more Financial Instruments;
- Execution of orders on behalf of clients; and,
- Portfolio management;

Ancillary Services:

- Safekeeping and administration of Financial Instruments for the account of clients, including custodianship and related services such as cash/collateral management;
- Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction; and
- Foreign exchange services where these are connected to the provision of investment services;

The aforementioned services are offered with respect to CFDs on Spot Foreign Exchange, CFDs on Spot Precious Metals, and CFDs on European, American and Asian Stocks.

The Company's business strategy is pursued within a defined risk appetite. The BoD determines the Company's overall risk tolerance following the decision of the Risk Management Committee on December 2016 as Low. The aim is to ensure that the Company implements and will continue to implement its strategic plans whilst honoring both its regulatory and internally determined risk limits. The only way to ensure that is to measure its capital requirements stemming from its current and future exposures to material risks and to make sure that the Company has adequate eligible own funds to cover its current and forecasted internal capital (i.e. the level of capital that the Company, after the application of its internal risk assessment procedures, considers as adequate for the coverage of all the risks that is, or could be, exposed to).



ANNEX III Specific References to CRR

CRR Ref	High Level Summary	Compliance Reference
Scope of disclosure requirements		
431(1)	Requirement to publish Pillar III disclosures.	Paragraph 2
431(2)	Disclosure of operational risk information.	Paragraph 7
431(3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	Paragraph 1
431(4)	Explanation of ratings decisions to SMEs upon request.	N/A
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements.	Paragraph 9
Means of disclosures		
434(1)	To include disclosures in one appropriate medium, or provide clear cross-references to other media.	Paragraph 1
434(2)	Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate.	Paragraph 1
Risk management objectives and policies		
435(1) (a)	Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation/hedging policies	Paragraph 7
435(1) (b)		Paragraph 7
435(1) (c)		Paragraph 7
435(1) (d)		Paragraph 7
435(1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements	Annex I
435(1) (f)	Concise risk statement approved by the BoD	Annex II
435(2)	Information, once a year at a minimum, on governance arrangements.	Paragraph 9
435(2) (a)	Number of directorships held by members of the BoD.	Paragraph 4
435(2) (b)	Recruitment policy of BoD members, their experience and expertise.	Paragraph 4
435(2) (c)	Policy on diversity of BoD members, its objectives and results against targets.	Paragraph 11
435(2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Paragraph 4
435(2) (e)	Description of information flow on risk to BoD.	Paragraph 9
Scope of application		
436(a)	Name of institution.	Paragraph 1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	N/A
436 (b) (i)	Fully consolidated;	N/A
436 (b) (ii)	Proportionally consolidated;	N/A



436 (b) (iii)	Deducted from own funds;	N/A
436 (b) (iv)	Neither consolidated nor deducted.	N/A
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	N/A
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any).	N/A
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities.	N/A
Own Funds		
437 (1)	Requirements regarding capital resources table	Paragraph 5 & 7
437 (1)		Paragraph 5 & 7
437 (1) (a)		Paragraph 5 & 7
437 (1) (b)		Paragraph 5 & 7
437 (1) (c)		Paragraph 5 & 7
437 (1) (d) (i)		Paragraph 5 & 7
437 (1) (d) (ii)		Paragraph 5 & 7
437 (1) (d) (iii)		Paragraph 5 & 7
437 (1) (e)		Paragraph 5 & 7
437 (1) (f)		Paragraph 5 & 7
437(2)	EBA shall develop implementation standards for points (a), (b), (d) and (e) above	N/A
Capital Requirements		
438(a)	Summary of institution's approach to assessing adequacy of capital levels.	Paragraph 6
438(b)	Result of ICAAP on demand from competent authority.	Paragraph 6
438(c)	Capital requirement amounts for credit risk for each Standardized approach exposure class (8% of risk-weighted exposure).	Paragraph 5
438(d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class.	N/A
438(d) (i)		N/A
438(d) (ii)		N/A
438(d) (iii)		N/A
438(d) (iv)		N/A
438(e)	Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits.	Paragraph 5
438(f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	Paragraph 5
Exposure to counterparty credit risk (CCR)		
439(a)	Description of methodology to assign internal capital	N/A



	and credit limits for counterparty credit exposures.	
439(b)	Discussion of policies for securing collateral and establishing reserves.	N/A
439(c)	Discussion of policies as regards wrong-way exposures.	N/A
439(d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	N/A
439(e)	Derivation of net derivative credit exposure.	N/A
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	N/A
439(g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	N/A
439(h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	N/A
439(i)	Estimation of alpha, if applicable.	N/A
Credit Risk Adjustments		
442(a)	Definitions for accounting purposes of 'past due' and 'impaired'.	N/A
442(b)	Approaches for calculating credit risk adjustments.	N/A
442(c)	Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by different types of exposures.	N/A
442(d)	Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by significant geographic areas and material exposure classes.	N/A
442(e)		N/A
442(f)	Exposures post value adjustments by residual maturity and by material exposure class.	N/A
442(g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	N/A
442(g) (i)		N/A
442(g) (ii)		N/A
442(g) (iii)		
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	N/A
442(i)	Reconciliation of changes in specific and general credit risk adjustments.	N/A
442(i) (i)		N/A
442(i) (ii)		N/A
442(i) (iii)		N/A
442(i) (iv)		N/A
442(i) (v)		N/A
442 endnote	Specific credit risk adjustments recorded to income	N/A



	statement are disclosed separately.	
Unencumbered assets		
443	Disclosures on unencumbered assets.	N/A
Use of ECAI's		
444(a)	Names of the nominated ECAs used in the calculation of Standardised approach RWAs, and reasons for any changes.	Paragraph 8
444(b)	Exposure classes associated with each ECAI.	Paragraph 8
444(c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	Paragraph 8
444(d)	Mapping of external rating to credit quality steps.	Paragraph 8
444(e)	Exposure values pre- and post-credit risk mitigation, by credit quality step.	Paragraph 8
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Paragraph 5
Operational Risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Paragraph 7
Exposures in equities not included in the trading book		
447(a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	N/A
447(b)	Recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value.	N/A
447(c)	Types, nature and amounts of the relevant classes of equity exposures.	N/A
447(d)	Cumulative realised gains and losses on sales in the period.	N/A
447(e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	N/A
Exposure to interest rate risk on positions not included in the trading book		
448(a)	Nature of interest rate risk and key assumptions in measurement models.	N/A
448(b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	N/A
Remuneration Disclosures		
450	Remuneration Policy	Paragraph 12
Leverage		



451(1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Paragraph 7
451(1) (b)		Paragraph 7
451(1) (c)		Paragraph 7
451(1) (d)	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	N/A
451(1) (e)		N/A
451(2)	EBA shall develop implementation standards for points above.	N/A
<i>Use of Credit Risk mitigation techniques</i>		
453(a)	Policies and processes, and an indication of the extent to which the CIF makes use of on- and off-balance sheet netting.	N/A
453(b)	Policies and processes for collateral valuation and management.	N/A
453(c)	Description of types of collateral used by the CIF.	N/A
453(d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	N/A
453(e)	Information about market or credit risk concentrations within the credit mitigation taken.	N/A
453(f)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure value covered by eligible collateral.	N/A
453(g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	N/A
<i>Use of the Advanced Measurement Approaches to operational risk</i>		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	N/A