P.V. PANAYIOTOU & CO
Chartered Certified Accountants

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Independent Auditors' Report to the Cyprus Securities and Exchange Commission in respect of Tradernet Limited for the year ended 31 December 2013 pursuant to paragraph 37(1) of Chapter 7 of Part C of the Directive DI144-2007-05 of 2012 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms

1. We report in relation to the fair presentation of the disclosures of Tradernet Limited (the "Company") for the year ended 31 December 2013, required by paragraph 34(1) of Chapter 7 of Part C (the "Disclosures") of the Directive DI144-2007-05 of 2012 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms (the "Directive"). The Disclosures, which are set out on the Company's website, are attached as an Appendix and have been initialled for identification purposes.

Respective responsibilities

2. The Company's Board of Directors is responsible for the preparation and fair presentation of the Disclosures in accordance with the Directive. Our responsibility is to express an independent conclusion in relation to the fair presentation of the Disclosures, in all material respects, in accordance with the requirements of the Directive.

Scope of work performed

3. We conducted our work in accordance with International Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". This Standard requires that we plan and perform our work to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Disclosures are not fairly presented, in all material respects, in accordance with the requirements of the Directive. Our procedures included verifying, on a sample basis, the compliance of the Disclosures with the requirements of paragraph 34(1) of Chapter 7 of Part C of the Directive, as well as obtaining evidence supporting certain of the amounts and notifications included in the Disclosures. Our procedures also included an assessment of any significant estimates made by the Company's Board of Directors in the preparation of the Disclosures. We believe that our procedures provide a reasonable basis for our conclusion.

4. The procedures performed do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, and hence we do not express any assurance other than the statement made below. Had we performed an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Conclusion

5. Based on our work described in this report, nothing has come to our attention that causes us to believe that the Disclosures for the year ended 31 December 2013 are not fairly presented, in all material respects, in accordance with the requirements of the Directive.

6. Our report is solely for the purpose as set out above and is not to be used for any other purpose or to be distributed to any other parties without our prior consent in writing. This report relates only to the Disclosures required pursuant to paragraph 34(1) of Chapter 7 of Part C of the Directive and does not extend to any financial statements or other financial information of the Company.

P.V. Panayiotou
P.V. PANAYIOTOU & CO

Panicos Panayiotou
Certified Public Accountant and Registered Auditor
For and on behalf of
P.V. Panayiotou & Co
Certified Public Accountants and Registered Auditors

Lemesos, 30 May 2014

Tradernet Ltd

RISK MANAGEMENT (PILLAR III) DISCLOSURE IN ACCORDANCE WITH THE DIRECTIVE FOR THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS FOR THE YEAR ENDED 31 DECEMBER 2013

YEAR ENDED 31 DECEMBER 2013

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1. General Notes

Following the implementation of the Directive DI144-2007-05 Tradernet Limited (hereafter referred to as "the Company") is required to disclose information relating to its capital and the risks that the Company is exposed to, as well as to promote market discipline.

Under Pillar 3, capital adequacy must be reported through public disclosures that are designed to provide transparent information on capital structure, risk exposures, and risk management and internal control processes.

Pillar 3 Disclosure and Market discipline sets minimum disclosure requirements for Investment Firms, which covers the composition and structure of an IF's capital, the nature of its risk exposures, its risk management and internal control processes, and its capital adequacy. The disclosure requirements under Pillar 3 are intended to improve transparency and strengthen market discipline through enhanced public disclosure of the Firm's risk management practices and regulatory capital ratios.

The following disclosures are based on the audited Financial Statements of the Company as at 31 December 2013. The disclosures ensure compliance with Basel II Pillar 3 and are in accordance with Chapter 7 of Part C and Annex XII, Part 2 of Directive DI144-207-05 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms.

The Company as of 31/12/2013 has not activated its licenses.

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2. Introduction

2.1 Governing Law

The Management of Tradernet Limited has prepared the Disclosures and Market Discipline Report of the Company in accordance with Chapter 7 of Part C and Annex XII of Part 2 of Directive DI144-2007-05 of 2012 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms (hereafter the "Capital Requirements Directive" or "CRD Directive").

2.2 Scope of the Disclosure

The Company discloses information in relation to its capital requirements on an individual (solo) basis. As of 31 December 2013, the Company did not have any subsidiaries and thus the disclosures in this document relate solely to information of the Company.

2.3 Frequency of the Disclosures

The Directors of the Company have decided based on the size and complexity of the business of the Company to produce Pillar 3 Disclosures on an annual basis. Furthermore the Directors have decided to publish the disclosures on the Company's website within five months of each financial year end.

2.4 Company's Background

The Company was incorporated in Cyprus on 30 May 2012 as a limited liability company. On 30 October 2013 the Company obtained a license from the Cyprus Securities and Exchange Commission ("CySec") to operate as a Cypriot Investment Firm (CIF) under licence number 219/13. The Company was authorised to provide the following investment and ancillary services:

<u>Investment Services:</u>

- 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.

<u>Ancillary Services:</u>

- 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.
- Foreign exchange services where these are connected to the provision of investment services.

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- Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.
- Investment services and activities as well as ancillary services of the type included under Parts I and II related to the underlying of the derivatives included under paragraphs 5, 6, 7 and 10 of Part III where these are connected to the provision of investment or ancillary services.

Amendment of license

On 14 January 2014 the Company amended its licenses as follows:

Investment Services:

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

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.
- Foreign exchange services where these are connected to the provision of investment services.
- Investment services and activities as well as ancillary services of the type included under Parts I and II related to the underlying of the derivatives included under paragraphs 5, 6, 7 and 10 of Part III where these are connected to the provision of investment or ancillary services.

2.5 Licenses activation

The Company as of 31/12/2013 has not activated its licenses.

3. Risk Management Framework

3.1 Risk and Risk Management

Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the Company's business objectives.

Risk Management is the process of systematically identifying, quantifying, and managing all risks that can affect achievement of the Company's strategic and financial goals. Risk Management is a systematic process for the identification and evaluation of pure loss exposures faced by an organization and for the selection and administration of the most appropriate technique for treating such exposures.

Risk Management constitutes an integral part of the Company's internal controls and corporate governance. The Board of Directors which consists of both Executive and non-executive and independent members, as well as the Risk Management Committee, have the overall responsibility for the establishment and oversight of the Company's risk management framework, including aligning business strategy with risk appetite, and ensuring that all key risk are controlled and managed via a robust risk management framework.

The Company allocates resources towards the management of its risks with the purpose of increasing the efficiency of its operations and its capital utilization, reducing financial losses, maximizing income, maintaining stability and enhancing growth.

The Company recognizes that Risk management is a continuous and developing process which runs throughout the Company's strategy and the implementation of that strategy. It addresses methodically all the risks surrounding the Company's activities past, present and in particular, future.

Risk management is integrated into the culture of the Company with an effective policy and a programme led by the most senior management. It translates the strategy into tactical and operational objectives, assigning responsibility throughout the Company with each manager and employee responsible for the management of risk as part of their job description. It supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels.

The role of the Company's Risk Management can be summarised as follows: Risk Management is to ensure that:

- The individuals who take or manage risks clearly understand it.
- Appropriate systems are in place to identify the material risks facing the Company;
- The Company's Risk exposure is within the limits established by Board of Directors;
- The potential financial impact of identified risks is ascertained;
- Appropriate controls and strategies are adopted to manage exposure to those risks;
- Appropriate responsibilities are delegated to control identified risks effectively;
- Risk taking decisions are in line with the business strategy and objectives set by Board of Directors;
- Risk taking decisions are explicit and clear;
- Any material changes to the Company's risk profile are disclosed in accordance with the Company's continuous disclosure policy.

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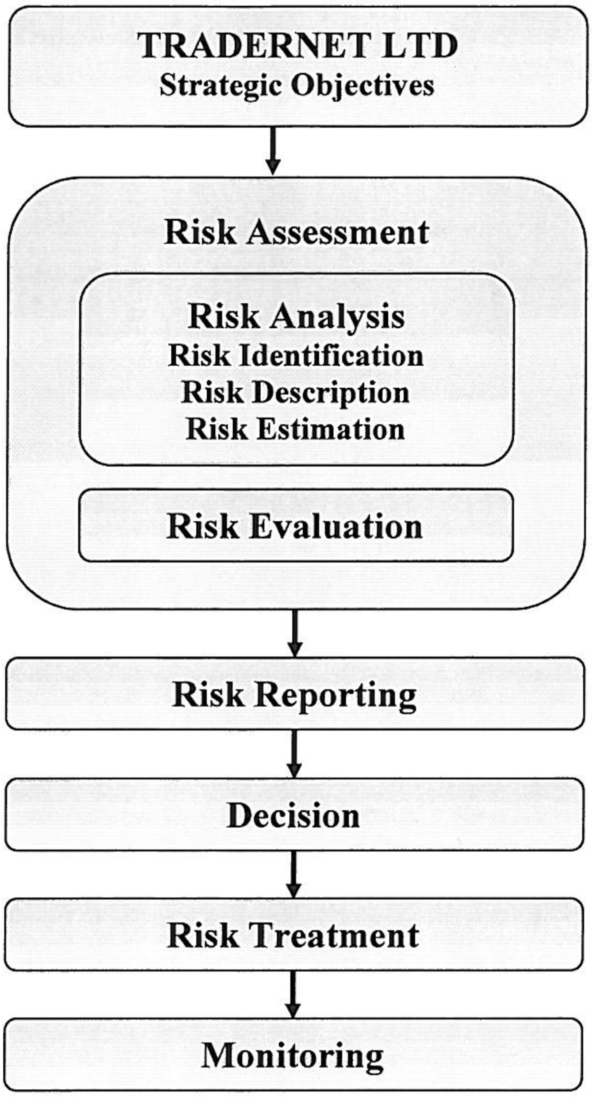
3.2 Risk Management process

The Company's risk management process is as follows:



3.3 Roles and Responsibilities

The Board of Directors as well as the Risk Management Committee have the overall responsibility for the establishment and oversight of the Company's risk management framework, but the Internal Audit, Risk Manager, Compliance and Anti-money Laundering Officer have the responsibility to control and supervise Company's risk management system.

<u>Board of Directors and the Risk Management Committee</u>

The Board of Directors and the Risk Management Committee have the overall responsibility for the establishment and oversight of the Company's risk management framework.

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The Board of Directors has the responsibility to adopt and maintain risk management policies, which identify the risks relating to the Company's activities, processes and systems and sets the level of risk tolerated by the Company.

Also the Board, through 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 Board of Directors has the responsibility for the development of an internal risk management framework and its integration with the Company's decision making process, covering the whole spectrum of the Company's activities and units. In particular it has the responsibility to ensure that the Company has clear policy in respect of the assumption, follow up and management of risks duly notified to all interested parties or departments of the Company. This policy shall ensure that all parties involved in the provision of investment services are aware of: (a) the particular features of each investment service, financial instrument, and risk inherent in the provision of the services and (b) the interrelation between the volume of the projected returns and the gravity of the risks undertaken by the Company.

Risk Management Department

The Company's Risk Management Department is responsible to ensure proper application of risk management procedures for the identification, assessment and management of all financial and non-financial risks of the Company. It has the responsibility to perform frequent assessment of all kinds of the Company's risks and submit relevant reports to Company's departments, senior management and the Board of Directors.

Risk Management conducts routine assessment of all kind of Company's risks and submits reports to senior management and the Board of Directors as well as to Business Units. Different levels within the Company need different information from the risk management department.

The Board of Directors should:

- Know about the most significant risks facing the Company;
- Know the possible effects on shareholder value of deviations to expected performance ranges;
- Ensure appropriate levels of awareness throughout the Company;
- Know how the Company will manage a crisis;
- Know the importance of stakeholder confidence in the Company;
- Know how to manage communications with the investment community where applicable;
- Be assured that the risk management process is working effectively;

- Publish a clear risk management policy covering risk management philosophy and responsibilities;

Business Units/Departments should:

- Be aware of risks which fall into their area of responsibility, the possible impacts these may have on other areas and the consequences other areas may have on them;
- Have performance indicators which allow them to monitor the key business and financial activities, progress towards objectives and identify developments which require intervention (e.g. forecasts and budgets);
- Have systems which communicate variances in budgets and forecasts at appropriate frequency to allow action to be taken;
- Report systematically and promptly to senior management any perceived new risks or failures of existing control measures;

Individual employees should:

- Understand their accountability for individual risks;
- Understand how they can enable continuous improvement of risk management response;
- Understand that risk management and risk awareness are a key part of the Company's culture;
- Report systematically and promptly to senior management any perceived new risks or failures of existing control measures;

Internal Auditor

The Internal Auditor evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures with respect to risk management and issue recommendations to senior management and the Board of Directors.

Compliance - AML - External Audit

The Company has designed its risk management framework to be proportionate to the scale, nature and complexity of its business. Apart from the above described functions – Board of Directors, Risk Management Committee, Risk Management Department and Internal Audit function – other functions involved in Company's risk management framework are the Compliance function, the Anti Money Laundering Compliance Function and the External Audit function.

4. Approach Adopted for Capital Requirements Calculation

The CRD Directive takes into account the diversity of investment firms and provides different approaches to the calculation of minimum capital requirements. The different approaches

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provide a flexible structure in which investment firms, subject to supervision, adopt approaches that most suitably fit their level of sophistication and risk profile.

Based on the CRD Directive, the Company's Board of Directors has decided that the most appropriate approach for calculating Company's capital requirements are:

- Standardised Approach for Credit and Market Risk;
- Basic Indicator Approach for Operational risk;

5. Capital Base

The Company calculates its regulatory own funds and capital adequacy ratio on an individual (solo) basis. The capital base of the Company as at 31 December 2013 comprised solely of original own funds (Tier 1 capital).

Table 1 : Capital Base	31 December 2013 €000's
Original Own Funds (Tier 1)	
Share Capital	1.000
Reserves	(4)
Income / (loss) from current year	(85)
Original Own Funds	**911**
Deductions	
Excess of Large Exposures in the Banking Book	(678)
Eligible Own Funds	**233**

Deductions from total own funds – Large Exposures in the non-trading book

The Company deducts from its total own funds the exposures on the non-trading book to the persons or group of connected persons, which exceeds the limit of paragraph 6(1) as specified in CySEC's Directive for the Large Exposures of the Cyprus Investments Firms. The excess of approximately €678 thousands relates to one corporate loan provided and is the amount exceeding the maximum limit of 25% over the Company's original own funds. The Company deducted this excess from it's owns funds, as required by the Directive. It is worth noting that the Company fully recovered the corporate loan in the first quarter of 2014 and completely eliminated its large exposures.

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6. Capital Requirements and Capital Adequacy Ratio

The Company follows the Standardised Approach for the measurement of its Pillar 1 capital requirements for Credit and Market Risk and the Basic Indicator Approach for Operational Risk.

The Company calculates and submit to CySEC on a quarterly basis the capital adequacy ratio and monitors its direction in order to ensure compliance with capital requirements.

In accordance with Capital Requirement Directive, the Company should maintain a minimum capital adequacy ratio of 8%.

The capital requirement calculated for each category of risk as well as the Capital Adequacy Ratio as at 31 December 2013 is shown in the table below.

Table 2 : Capital Requirements and Capital Adequacy Ratio	€000's
Capital Requirements by Risk Category	
Credit Risk	73
Market Risk	-
Operational Risk	74
Total of Capital Requirements	**147**
Capital Adequacy Ratio	**12,67%**

The Capital Adequacy ratio of the Company is 12,67%, higher than the minimum required 8%. During the year 2013, the Capital Adequacy ratio never fell below the minimum required by CySEC's Directive.

7. Credit Risk

Credit risk is the risk of financial loss to the Company as a result of a customer or counterparty failing to meet its contractual obligations. The Company's Credit risk arises principally from:

- Company's own funds deposited with credit institutions or financial institutions (Brokers);
- Company's own Funds invested in stocks/bonds etc;
- Granting credits/loans to clients;

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Monitoring and Mitigation of Credit Risk

Credit Risk is monitored by the Risk Manager, the Risk Management Committee and senior management on an ongoing basis.

The Following processes, measures and techniques have been established and implemented by the Company:

- Maintain a diversified client portfolio thus avoiding high concentration and exposure to a small number of clients;
- Deposit Company's own funds and clients' funds only in highly rated banking institutions;
- Deposit Company's own funds and clients' funds in more than one jurisdiction for diversification and further mitigation;
- Conduct regular credit review, assessment of counterparties (credit institutions and financial institutions);
- Unless credit is provided, the Company has established a policy to ensure that clients cannot begin to trade unless money has been deposited into clients' accounts;

The Company exercise all due skill, care and diligence in the selection, appointment and periodic review of the credit institution or Financial institution, where own and client's funds are placed, and the arrangements for the holding of those funds.

The Company takes into account the expertise and market reputation of such institutions with a view to ensuring the protection of own and clients' rights, as well as any legal or regulatory requirements or market practices related to the holding of client funds that could adversely affect clients' rights. A review process will be performed in order to identify the following information:

a) expertise
b) market reputation
c) authorizations/licenses
d) supervisory authority
e) credit ratings
f) ability of opening "client accounts"
g) ability to maintain segregation of assets between Clients and the Company

Capital Requirements for Credit Risk by Exposure Class

For calculating its regulatory capital requirement for credit risk the Company adopts the Standardised Approach and has elected to use S&P Rating as the preferred External Credit Assessment Institution ("ECAI") for all classes of exposures. The Company has used the Credit Quality Step matching principles established by the Capital Requirements Directive.

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No credit mitigation techniques were used by the Company as at 31st December 2013.

There were no material impaired or past due exposures as at 31st of December 2013 and no provisions were made up to that date.

The table below provides information on the Company's credit risk exposure, risk weighted assets ("RWA") and capital requirement as at 31 December 2013 broken down by exposure class:

Table 3 : Capital Requirements for Credit Risk by Exposure Class	Exposure Value €000's	Risk Weighted Exposure €000's	Capital Requirements €000's
Exposure Class			
Institutions	13	3	0,2
Corporates	906	906	72,5
Other Items	9	9	0,7
Total	**928**	**918**	**73,4**

<u>Exposure Value by Risk Weight</u>

The following table presents the exposures of the Company per risk weight. We note that the Company does not keep any collateral in relation to its credit risk exposures.

Table 4 : Exposure Value by Risk Weight	Exposure Value €000's
Risk Weight	
20%	13
100%	915
Total	**928**

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Residual Maturity by Exposure Class

The following table presents the Company's Residual Maturity by Exposure class:

Table 5 : Residual Maturity by Exposure Class	Maturity ≤ 3 Months €000's	Maturity > 3 Months €000's	Total €000's
Exposure Class			
Institutions	13	-	13
Corporates	-	906	906
Other Items	9	-	9
Total	**22**	**906**	**928**

Geographic Distribution of Exposures

The following table analyses the Company's credit risk exposures by the country of the counterparty:

Table 6 : Geographic Distribution of Exposures	Exposure Value by Exposure Class			Total
	Institutions €000's	Corporates €000's	Other Items €000's	€000's
Country				
Cyprus	-	906	9	915
Latvia	13	-	-	13
Total	**13**	**906**	**9**	**928**

Exposure Class by Industry Sectors

The following table presents Company's Exposure Class by industry sector

Table 7 : Exposure Class by Industry Sectors	Exposure Value by Industry Sector			Total
	Banking €000's	Financial €000's	Other €000's	€000's
Exposure Class				
Institutions	13	-	-	13
Corporates	-	-	906	906
Other Items	-	-	9	9
Total	**13**	**-**	**915**	**928**

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Definitions

Impaired exposures: A financial asset or a group of financial assets is **impaired**, and impairment losses are recognised, only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated.

The determination of impaired exposures requires significant judgement. In making this judgment, the Company evaluates among other factors, the duration and extend to which the fair value of an investment is less than its cost and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in market, economic or legal environment, changes in technology and operational and financing cash flow.

Past due exposures: A financial Asset is **past due** when a counterparty has failed to make a payment when contractually due.

8. Market Risk

Definition

Market risk is the risk of loss caused by adverse market conditions, such as movements in the prices of traded financial instruments. Adverse movements in the level of interest rates, in the rate of exchange between currencies and the current prices of securities, commodities and other financial instruments may affect Company's profitability. Market risk comprises of foreign exchange risk, interest rate risk, equity price and other price risk.

Market risk focuses on the way in which changes in traded values in major markets such as bonds, equities, foreign exchange, or commodities, affect Company's revenues.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fluctuations of market interest affect the prices of securities. We can say that interest rate risk is the probability of an adverse impact on profitability or asset value as a result of interest rate changes.

Usually the price of shares increase if the interest rate falls and vice-versa. Factors that influence the level of market interest rates include:

- Expected levels of inflation;
- General economic conditions;
- Monetary policy and the stance of the central bank;
- Foreign exchange market activity;

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- Levels of sovereign debt outstanding;
- Financial and political stability;

The adverse economic impact may be due to an increase in interest rates if the company wishes to borrow money. But, on the other hand, if the company has surplus cash that it intends to place on deposit, an adverse economic impact would be represented by a fall in interest rates.

When identifying interest rate risk, an institution has to look at both the mismatches between assets and liabilities. If every loan made was offset by a borrowing which referenced the same interest rate basis, there would be no risk. By contrast, a fundamental type of risk is generated when an asset has interest calculated on a variable basis, while an associated liability has interest calculated on a fixed basis (or vice versa).

Foreign exchange risk

Foreign exchange risk is the risk of loss (or gain) from unforeseen changes in exchange rates (the prices at which currencies trade for each other). Foreign exchange risk arises when financial instruments are recognised in a currency that is not the Company's basic currency.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk and currency risk). The Company is exposed to price risk with regards to its own portfolio invested in equity shares which have been classified as available for sale. The management of the Company and the risk management committee continuously monitor market prices and act accordingly in order to maintain price risk at acceptable levels.

Market risk mitigation

- The Company implements policies and processes for the measurement and management of all material sources and effects of market risks;
- The management get timely data and information on the Foreign exchange risks of the company periodically and take appropriate action required;
- The Company employs a risk Manager who is responsible for the monitoring of the Company's risk exposure and any deviation identified is brought to the attention of the risk management committee for immediate action;
- The Company has established a Risk management Committee that reports directly to the Board of Directors;
- The trading activity is recorded so as to allow the risk manager to review and monitor the Company's exposure;

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- Aggregate net exposures are monitored as they develop from the opening and/or closing of positions by clients. If risk exceeds desired levels, appropriate actions are taken to hedge risk until intended levels are achieved;
- The Company maintains trading accounts with other regulated firms for engaging in proprietary positions in financial instruments for its own account as a hedging measure and in order to minimize market risk.

9. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk

Operational risk is associated with human error, system failures and inadequate procedures and controls. It is the risk of loss arising from the potential that inadequate information system, technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses or reputation problems. Operational risk exists in all products and business activities.

Operational risk event types that have the potential to result in substantial losses includes among others, Internal fraud, External fraud, employment practices and workplace safety, clients, products and business practices, business disruption and system failures, damage to physical assets, marketing and advertising and finally execution, delivery and process management.

The Company has put in place an appropriate set of systems and procedures for identifying, measuring, monitoring and controlling its operational risk.

The Company has established systems and procedures to identify the operational risk inherent in all types of transactions, products, activities, processes and systems. It can also ensure that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subjected to adequate assessment procedures.

The Company has ensured that its operational risk identification process is robust and is capable of considering potential risks.

Business continuity, fraud (internal and external), dealing errors, administrative errors, Information Technology failure and regulatory action can be identified as the key elements of operational risk to which the Company is exposed. Not all of these risks can be effectively eliminated, however these risks are adequately controlled by key personnel and a rigorous control framework.

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Operational Risk Management Principles

The Company adopts 6 fundamental principles to address its approach to operational risk management:

- Ultimate accountability for operational risk management rests with the board, and the level of risk that the Company accepts, together with the basis for managing those risks, is driven from the top down by those charged with overall responsibility for running the business.
- The board and executive management should ensure that there is an effective, integrated operational risk management framework. This should incorporate a clearly defined organizational structure, with defined roles and responsibilities for all aspects of operational risk management/monitoring and appropriate tools that support the identification, assessment, control and reporting of key risks.
- Board and executive management should recognize, understand and have defined all categories of operational risk applicable to the Company. Furthermore, they should ensure that their operational risk management framework adequately covers all of these categories of operational risk, including those that do not readily lend themselves to measurement.
- Operational risk policies and procedures that clearly define the way in which all aspects of operational risk are managed should be documented and communicated. These operational risk management policies and procedures should be aligned to the overall business strategy and should support the continuous improvement of risk management.
- All business and support functions should be an integral part of the overall operational risk management framework in order to enable the institution to manage effectively the key operational risks facing the institution.
- Line management should establish processes for the identification, assessment, mitigation, monitoring and reporting of operational risks that are appropriate to the needs of the Company, easy to implement, operate consistently over time and support an organizational view of operational risks and material failures.

Operational risk mitigation

The Company has established various techniques for the mitigation of operational risk. These techniques include the following:

- Maintaining a four eye structure and implementing board oversight. The Board of Directors reviews significant strategic decisions made by management and monitors their activities.
- The compliance officer must ensure the accuracy of any statements made during the marketing and advertising processes and ensure that the information addressed to the client is fair, clear and not misleading. Relevant risk warnings are included on any

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marketing campaign. Marketing materials should be carefully reviewed by the Compliance officer prior of their dissemination to the public.

- The compliance officer ensures that proper information/reports are sent on time to CySEC.
- Management formally communicates duties and responsibilities to employees through regular meetings, seminars and trainings.
- The Company outsources the internal audit function to an experience firm. Internal audit visits are implemented to ensure that employees comply with the Company's internal procedures.
- Several policies and procedures have been established and followed in an attempt to identify and minimize any fraudulent activities.
- The Company has developed a business contingency plan (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. This includes Business contingency center in case of any nature's catastrophic incidents. It should be communicated to all personnel.
- The Company has a conflicts of interest policy.
- The Company obtains legal advice from its legal advisors for all its official documents and before it enters into new markets.
- Company's financial accounts are audited by an experience and reliable audit firm so as to eliminate the risk of Company statement manipulation or tax evasion.
- Segregation in respect of those responsibilities and functions whose exercise by one and the same individual might result in inadequate control, in the concealment of any errors or malpractices or in any abuse of powers or abusive practices apt to expose the Company or its customers to unreasonable and unacceptable risks.
- The Company has subscribed to an online web-based screening program in an attempt to improve Company's know your clients procedures and to minimize fraud activities.
- The Company ensures that premises and fixtures and fitting are maintained on a regular basis.
- The Company has in place an employer's and public liability insurance, covering costs of a potential injury of personnel or a third party visitor to its premises;
- The Company follows an open policy where the employees can freely communicate with the management any concerns or improvements in regards to employment practises and workplace safety.
- Staff appraisals are conducted on an annuals basis by the Human Resources department and topics such as compensation or other benefits or complaints are discussed.
- The Company performs appropriateness and suitability test.
- The Company has proper KYC/CDD procedures in place.

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- The Company provides regular AML training to relevant staff.
- The Company regularly reviews and updates (if needed) its AML manual.
- The Company monitors Client's transaction to identify activities which are inconsistent with Client's financial profile.
- The Company maintains trading back-up servers to ensure continuity of business in case of any failure.

Capital Requirements

The Company applies the Basic Indicator Approach for calculating the amount of capital required under the minimum regulatory capital requirements for Operational Risk.

10. Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting payment obligations and potential payment obligations as and when they fall due without incurring unacceptable losses. Liquidity risk also arises from the inability to find buyers on the terms desired. Infrequently traded securities/assets bear higher liquidity risk. The imbalance between the number of buyers and sellers or because the securities/assets are not traded very often cause this liquidity risk. The liquidity risk is usually reflected in a wide bid-ask spread or large price movements. Furthermore Liquidity risk arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Liquidity Risk Mitigation

An effective measurement system is essential for adequate management of liquidity risk. Consequently, the Company has instituted systems that enable it to capture liquidity risk ahead of time so that appropriate remedial measures could be prompted to avoid any significant losses. Some commonly used liquidity measurement techniques used by the Company is the regular Cash Flow projections and calculation of Liquidity Ratios and Limits. Furthermore the Company:

- The Company prepares monthly budgets to ensure that it meets its obligations on time.
- The liquidity position is monitored on a regular basis, with regular management information provided to senior management and the Board.
- The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of its financial obligations as and when they fall due.
- The Company, if possible, maintains bank balances which are adequate to cover its liquidity needs.

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11. Other Risk

Reputational Risk

Reputational risk is defined as the potential that adverse publicity regarding Company's business practices, whether accurate or not, will cause a loss of confidence in the integrity of the Company. Reputation risk is the current and prospective impact on earnings and capital arising from negative public opinion. This affects Company's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the Company to litigation, financial loss, or a decline in its customer base.

Reputational risk poses a major threat to the Company, since the nature of its business requires maintaining the confidence of investors and the general marketplace. The Company and Investment firms in general are especially vulnerable to reputational risk because they can so easily become a vehicle for or a victim of illegal activities perpetrated by their customers.

The Company considers Reputational risk as the most critical risk, as reputation is becoming a key source of competitive advantage as products and services become less differentiated.

Loss of reputation is systemic in nature. Once germinated, it is difficult to manage and eradicate and other elements of business begin to suffer. Reestablishing reputation takes a long time. Loss of reputation arises as a reaction to the failure of detailed processes and procedures in risk management, business continuity, consolidation and compliance.

The Company protects itself against reputational risk by means of continuous vigilance through an effective KYC programme and by establishing policies and procedures for handling customer's complaints.

Legal and Compliance Risk

Legal and Compliance Risk is the risk of financial loss arising from violations of, or non-compliance with laws, regulations, internal policies and procedures or ethical standard.

In case of non-compliance with existing legislation there is a risk that the regulatory authority will impose a sanction, either upon the Company or one of its officers, for failing to comply with the regulatory standards applicable in the financial services sector. A variety of different forms of sanction can be applied, including:

- The imposition of conditions upon a license;
- Fines;
- Withdrawal of a licence;

Also the Company faces the risk of possible enforcement action against it, by the competent authority, if determine that the Company had:

- Failed to take reasonable care to establish and maintain effective systems and controls to offset the risk that criminals might use the Company to launder money;

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- Failed to check that employees understood the anti-money laundering training they were receiving;
- Failed to ensure that staff understood their AML responsibilities for the recognition and reporting of suspicions;

Furthermore Legal risk is the possibility that lawsuits, adverse judgments or contracts that turn out to be unenforceable can disrupt or adversely affect the operations or condition of the Company. The Company may become subject to lawsuits resulting from the failure to observe mandatory KYC/AML standards or from the failure to practice adequate due diligence. Consequently, the Company can, for example, suffer fines, criminal liabilities and special penalties imposed by supervisors.

The Company has minimised the possibility of Legal and Compliance risks by establishing and implementing internal policies and procedures for proper implementation of existing legislation which are monitored and reviewed by the Compliance officer and the internal auditor who propose remedy measures/actions in case of identification of in-compliances and provide relevant advice and training to the company's employees.

Also no transactions are initiated unless all the required documents have been signed. The agreements and all future amendments are scrutinized and approved by the Company's legal advisors. Confidentiality agreements are scrutinized and approved by the Company's legal advisors. The clauses of the agreements are clearly explained to the customers before entering in relationship. A disclaimer statement and the source of information are included on reports and documents. All the Company staff must strictly follow the internal procedures.

12. Remuneration Policy Disclosures

The Company's remuneration disclosure is subject to the principle of proportionality, which takes into account the scale, nature and complexity of activities of the Company.

The Company's remuneration policy is prepared by the General Manager and is reviewed and approved by the Board of Directors. The Board ensures that all remuneration decisions are in line with the stated risk appetite and framework of the Company and its current and future financial position.

The level of remuneration offered by the Company to management and staff is established based on skills, knowledge, and individual performance and market rates. Staff performance is assessed on an annual basis through the Company's HR processes, based on a range of performance criteria (financial and non financial).

The rewards structure of the Company supports the business objectives and corporate values of the Company and is aimed at promoting prudent risk management and to avoid excessive risk taking by attracting, retaining and motivating the key talent needed to achieve these outcomes.

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The remuneration structure offered by the Company to management and staff comprises of fixed salary cash component and variable cash pay component which basically includes bonuses. The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's rank in the Company, professional activity and market practice.

The remuneration relating to outsourced functions is based on fixed fee contracts.

The Company did not activate its license during year 2013 and has no employee.

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