NTFX CAPITAL LTD

Pillar III Disclosures Report

2017

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General information

NTFX CAPITAL LTD is a company established in the Republic of Cyprus in August 2014. The company is regulated by the Cyprus Securities and Exchange Commission (CySEC) under the license # 280/15, received July 29th, 2015 and activated in July 2016. The Company is licensed to provide investment (reception and transmission of orders in relation to one or more financial instruments; execution of orders on behalf of clients; dealing on own account) and ancillary (safekeeping and administration of financial instruments, including custodianship and related services; granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction; foreign exchange services where these are connected to the provision of investment services) services. 2017 was the second year of the Company's operations, and the first full year in business.

Regulatory Framework

The current legislative package concerning risk management in the financial sector in the European Union (EU) is represented by the Capital Requirements Regulation (EU) 575/2013 (CRR) and the Capital Requirements Directive (CRD IV).

CRR is binding to all EU states, while CRD IV requires national legislature to be in place. CRD IV is harmonized with Cyprus legislation via Directive DI 144-2014-15 of CySEC.

The current report, according to current legislature, is based on the following 3 pillars:

- Pillar I covers the calculation of minimum capital requirements (or capital adequacy, CAD), which includes the calculation of risk weighted assets for credit risk, counterparty risk, market risk and operational risk.

- Pillar II covers the Supervisory Review Process (SREP), which assesses the internal capital adequacy processes.

- Pillar III covers market discipline and is intended to provide disclosures for external parties that are designed to give transparent information on capital adequacy, risk exposures, risk management and internal control processes.

Under Pillar III the Company is required to disclose information about own capital, categories of risks it faces during the course of its operations along with quantitative measures of these risks, as well as procedures to monitor, measure and manage them.

Risk Management Function

The Company is fully committed to have a proper risk management, control and monitoring framework in full compliance with current legislature and appropriate with the size and nature of the Company's business. It has put in place all the necessary risk management arrangements that are adequate with regard to the institution's profile and strategy.

The Company strategic objective is to maintain conservative attitude in the use of it's own capital. The Company is aligned to always having the capital adequacy ratio higher than what is stipulated by Requirements. With this stipulated, the Company limits its own proprietary trading and prefer arbitrage trading strategies where possible in case of own trading.

In regard to clients trading activities the Company employs the Agent (A-Book) Model, where all clients' trades are fully covered back-to-back with liquidity providers and the Company does not carry market risks associated with clients' trading.

The Company's structure is set out to be aligned with the abovementioned objectives.

Organization Structure

The Board of Directors is the managing body of the Company responsible for the Company's general strategy and, in particular, for setting out risk policies and risk appetite. The BoD consists of 2 executive and 2 non-executive Directorships. None of them has executive directorships in other companies.

Due to the size of operations Company has not established a separate Risk Committee, and the Risk Management function is directly reporting to the BoD, the same as Compliance and Anti-Money Laundering (AML) function and Internal Audit Function.

The functions supporting to the risk management functions are Audit, Compliance and Accounting.

The role of Internal Audit is to evaluate how the Company's internal processes, procedures and controls satisfy the regulatory requirements. The internal audit is carried out annually at the head office of the Company, the recommendations are given to its staff and management and the Internal Audit Report, once approved, is submitted to the Regulator.

The Compliance function is responsible for establishing and maintaining adequate policies and procedures to detect the risks of failing to comply with legislative and regulatory obligations, minimize these risks and for assisting CySEC in fulfilling its duties. The Function is also responsible for transmitting and explaining the legislature requirements to the employees and, particularly, provide necessary trainings.

The Accounting Function is responsible for preparing the financial statements in compliance with regulatory requirements and actual accounting standards.

Further the information flows from the abovementioned bodies are described.

Information Flow

There are established information flows to the BoD and further to the Regulator, that are risk-related. Details are given in Table 1.

Table 1. Information Flow related to risks.

Instance Name	Responsible Function	Addressee(s)
AML Report	*AML Officer*	*BoD*
Compliance Report	*Compliance Function*	*BoD*
Internal Audit Report	*Internal Auditor*	*BoD*
Pillar III Disclosures Report	*Risk Management Function*	*BoD, Public (Website)*
Risk Management Report	*Risk Management Function*	*BoD*
Audited Financial Statements	*Accounting Department, External Auditor*	*BoD*
Capital Adequacy (CAD) Report	*Risk Management Function*	*Shareholders, CySEC*

All the reports mentioned are submitted annually, except CAD Report that is submitted quarterly.

The Recruitment Policy for the Selection of Members of BoD

The members of BoD must possess specific skills, have extensive experience and be of good repute. It is also important that they can devote a necessary amount of time to fulfill their duties at the BoD.

Diversity Policy

The Company's shareholders and members of BoD recognize the benefits of diversity in the composition of the BoD in decision making. The diversity in age, experience, background, origin, gender and race between the members facilitates the existence of independent opinions and critical approach to strategic decisions that the Board is responsible to make.

Remuneration Policy

The Company's Remuneration Policy for Risk takers is developed in accordance to the Directive Di144-2014-14 of CySEC for the Prudential Supervision of Investment Firms. The Company Remuneration Policy is aimed to align the remuneration of executive and non-executive management and staff with Company's long-term objectives and business strategy.

Currently the Company's Remuneration Policy does not include variable remuneration in any forms for the management and the staff.

The decisions concerning the actual remuneration as well as changes to the Remuneration Policy are taken by the BoD.

Management and Staff Remuneration

As mentioned previously, the remuneration of Company's Directors and Staff did not include variable component in 2017, as well as in previous year. Total remuneration for 2017 for all members of BoD did not exceed EUR 200K, total staff remuneration did not exceed EUR 340K. No bonuses were paid for Directors for 2017, following the practice of 2016.

Major Risks Description and Risk Management Strategies

During the course of its activities the Company faces a number of risks described further, and is required to hold regulatory capital against these risks. Major risks that the Company faces are the following:

- Credit risk
- Market risk
- Operational risk
- Interest-rate risk
- Excessive Leverage Risk

The detailed description of these categories and risk mitigation techniques are provided further.

Credit Risk (and Counterparty Credit Risk)

Credit risk is the risk to current and future earnings, as well as the Company's capital, arising from the Company's counterparties and clients' failure to meet the terms of obligations, including repayments of any forms of debt to the Company. Credit risk includes several components, namely, counterparty credit risk (the risk of any counterparty to fulfill its contractual obligations before the Company), geographical (or country) risk (arising from specific conditions existing in certain geographical regions), large exposure risk (risk that is the consequence of overexposures to certain bodies or geographical regions) and settlement risk.

Counterparty credit risk (CCR) is the risk that arises from trading operations performed by the Company with its counterparties. Due to the Company's type of operations the CCR arises from open trade positions in foreign currencies or FX OTC derivatives. The Company did not engage in trading assets than FX in 2017, except a small number of test trades in cryptocurrencies (performed only on own account), but is planning to expand its operations into cryptocurrencies in 2018, which is likely to lead to bigger credit risk, since the majority of cryptocurrency exchanges/brokers are unregulated bodies.

Past due and impaired exposures

The Company considers exposures to be past due when a customer or a counterparty does not make their minimum contractual monthly payment. Accounting wise, an asset (a loan, a deposit, collateral) is considered to be impaired where there is a clear evidence of impairment (for example, bankruptcy, insolvency, repossession or a declaration of financial hardship). This is where a customer (or a counterparty) is more than 90 days past due in principle or interest items and for the secured assets the days past due count is taken to be 180 days.

Credit and Counterparty Risk Mitigation Procedures

The Company employs a due diligence procedure while making decisions on engaging in financial relationships with potential counterparties, namely, banks, brokers and liquidity providers. This procedure takes into account the following:

- country of incorporation, with institutions incorporated in EU and/or equivalent third countries given preference;
- whether the institution is regulated or not. Non-regulated entities are rejected by default, the case of cryptocurrency exchanges/brokers are reviewed on a case-by-case basis;
- credit rating of the institution;

- own capital and financial position of the institution, with preference given to large well-established companies;

and a number of other qualitative and quantitative characteristics, including, among others, the reputation and informational background.

The Risk Management function of the Company monitors the existing counterparties on a constant basis in order to capture changes in the financial strength of the counterparty and its ability to respect its financial obligations towards the Company.

The Company normally does not grant loans to its clients to perform their trading operations, clients do not commence their trading activities until they deposit their funds with the Company. As of December 2017 there were no outstanding loans provided to clients.

Market risk

Market risk is the risk to current and future earnings, as well as the Company's capital, arising from adverse movements in prices of financial instruments that the Company is exposed to. Due to the nature of its operations the Company is mainly exposed to the currency risk, which arises from adverse movements in the rates of foreign currencies. As of 2017, exposure to the market risk in cryptocurrencies was minimal.

The currency risk for the Company is mainly due to the following:

- positions in FX taken by the Company as a result of own trading activities;
- positions in FX due to the clients' trading activities;
- positions in FX taken due to the fact that certain assets are held in currencies different from the accounting currency, which is Euro.

Market Risk Mitigation Procedures

In order to mitigate the risk of losses in financial positions taken by the Company while trading on own account the Company employs limits for positions taken, and decreases the exposure to be carried overnight.

As of 31.12.2017 the Company did not have open FX positions due to the limited trading on own account, however a rather significant part of own assets kept with credit institutions/brokers was nominated in currencies other than Euro (mainly USD), due to the business objectives.

In order to reduce the currency risk that arises from clients' trading activities the Company's employs immediate hedging of clients' positions with its liquidity providers via Straight-Through Processing (STP), thus not carrying these positions on own trading book.

The Company monitors exchange rate movements continuously to prevent losses that may be incurred. Since there is no leverage employed when holding assets in foreign currencies the risk of losses is limited.

Operational Risk

Operational risk is the risk of any adverse impact on the Company's earnings and capital arising from inadequate processes, procedures, systems, personnel, as well as the result of external events.

Due to the nature of Company's activities the operational risk mainly arises from the following areas:

- information technology and information security;
- legal issues;
- possible non-compliance with regulatory requirements;
- reputational and conduct issues;
- issues with inadequate internal processes, including personnel errors and/or their deliberate actions.

An important factor that contributes to operational risk is the existence of outsourcing agreements with third parties. The Company currently outsources its several functions (namely, IT-support, including back-office software, mail server, cloud storage) to third parties, however all core functions, such as investment activities function, marketing function and risk-management function are kept in-house.

There is a number of separate risks that can be considered specific types of Operational Risk, described further, namely, strategic risk, reputational risk and legal (or compliance) risk.

Strategic Risk

Strategic risk arises when the implementation of a business does not go according to the business model or plan. The Company is exposed to strategic risk due to poor strategic decisions or as a result of the changes in business environment.

Compliance Risk

Compliance Risk is the risk of not complying with rules and regulations that are applicable to the industry in which the Company operates.

Reputational risk

The Company is exposed to the reputational risks which arises from negative publicity, lack of quality of services provided, litigation processes or breaches of regulatory requirements.

Operational Risk Mitigation Procedures

NTFX Capital has developed Rules for Outsourcing for service providers, these Rules are a part of its Internal Procedures manual, and when engaging in any kind of relationship with providers it carefully follows these Rules. Particularly, the Company takes all necessary steps to ensure that:

- the service provider has the ability, capacity and other characteristics to perform the outsourced functions, services or activities reliably and professionally;
- the service provider supervises the carrying out of the outsourced/delegated functions, and adequately manage the risks associated;
- appropriate action must be taken if it appears that the service provider may not be carrying out the functions effectively and in compliance with applicable laws and regulatory requirements;
- the service provider discloses to the Company any development that may have an impact on its ability to carry out the outsourced functions in compliance with applicable laws and regulatory requirements;

Certain other considerations are taken into account when considering whether to engage into outsourcing agreements with service providers and whether to continue with these agreements.

As far as IT support function (outsourced) is concerned, the Company continuously monitors the external user access rights to the Company's systems and takes all necessary steps to prevent any breach into its systems and any possible violations concerning personal or other sensitive data.

Specific types of the Operational Risk mentioned above are monitored and mitigated as well.

Interest Rate Risk

Interest rate risk is defined as the risk that arises from adverse movements in interest related instruments, such as bonds or interest rate swaps. As of December 2017, the Company did not have any interest risk bearing instruments in its assets, except for current accounts with banks and liquidity providers, and fixed deposits with public bodies in Cyprus with minimal exposure to interest rate risks.

Excessive Leverage Risk

The excessive leverage risk arises from the Company's engaging in transactions that increase its assets without correspondent increase in capital, which may lead to the Company's inability to meet it's legal

and regulatory obligations, as well as fail to meet the obligations with its counterparties. Indicators for Excessive Leverage Risk include the Leverage Ratio as laid out in Article 429 of Regulation (EU) No 575/2013 and mismatches between assets and liabilities.

Excessive Leverage Risk Mitigation Procedures

The Company addresses this risk by constantly monitoring the leverage ratio. The limits on own trading position are set to always comply with capital adequacy, as well as maximum possible losses.

Company's Own Funds and Capital Adequacy Calculations

Regulatory Capital

The table below shows the Company own funds calculated based on the CRR requirements, that is total invested capital net of audited and unaudited losses, the value of software (including software licenses) and commitment to the Investors Compensation Fund (ICF). The audited financial statements for 2016 were used to calculate the eligible capital of the Company. The basis of preparation of financial statements is Solo.

The Company's own funds fully consists of Tier 1 Capital.

Table 2. Own Funds Breakdown

	Amount (EUR 000)
Common Equity Tier 1 Capital (CET1)	*1 025.4*
Additional Tier 1 Capital (AT1)	*0*
Tier 1 Capital (CET1 + AT1)	*1 025.4*
Tier 2 Capital (T2)	*0*
Total Own Funds	*1 025.4*

Table 3 demonstrates the reconciliation of own funds in accordance with the financial statements of the Company for 2017.

Table 3. Reconciliation of Own Funds

	Amount (EUR 000)
Share Capital	*1 120*
Transitional Reserve	*152*

Accumulated Losses	*(172)*
Total Equity	*1 100*
Intangible Assets	*(15)*
ICF Contribution	*(60)*
Total Own Funds	*1 025*

The Company's capital consists of 1 120 000 shares, as of December 31st, 2017, with par value of EUR 1. There was no any additional issue of shares during the year 2017, in order to fully satisfy the capital requirements imposed by the regulator. Capital movements are shown in Table 4.

Table 4. Company's Equity

	# of Shares	Share Capital, EUR	Translation Reserve, EUR
January 1st, 2017	*1 120 000*	*1 120 000*	*152 000*
Issue of Share Capital	*0*	*0*	
December 31st, 2017	***1 120 000***	***1 120 000***	***152 000***
Total Equity, EUR	***1 272 000***		

Regulatory Requirements for the Share Capital

As per Article 92 of the Regulation EU No. 575/2013 a CIF must at all times satisfy the following own funds requirements (as of January 2017), shown in Table 5.

Table 5: Own Funds Requirements (as of January 2017)

	Minimum Requirement (%)
CET 1 Capital	*5.750*
Tier 1 Capital	*7.250*
Total Capital	***9.250***

The Company is subject to the requirements of Conservation Buffers, which is 1.125% or risk-weighted assets and Countercyclical Buffer (CCR), which is in brackets of [0%;1.125%] of risk-weighted assets. However, due to the actual geographical exposures of the Company's credit risk (shown further) the actual capital requirements amounted to 0 (Exposure to the UK institutions will be subject to 0.5% countercyclical buffer, but effective from June 2018).

The Company at all times complies with regulatory requirements and thus the Company's own funds should always be sufficient to satisfy the requirements laid out in the Table 3. Own funds should also never fall below EUR 730K, which is the regulatory requirement for the type of license the Company has (that includes keeping clients' funds and dealing on own account). The Company's risk management function takes a conservative approach requiring the abovementioned requirements be fulfilled with additional margin. Also, another reason to keep additional capital buffer is the Regulator's requirement for the provision of negative balance protection for retail clients. The actual Capital Adequacy Ratios are disclosed in Table 6.

Table 6. Capital Adequacy Ratios as of 31.12.2017

	Ratio (%)
CET 1 Capital	*45.8*
Tier 1 Capital	*45.8*
Total Capital	***45.8***

The Company has a very solid margin in satisfying CRD regulatory capital requirements, due to both the conservative attitude to own trading and client trading as well, since it did not have any B-Book positions (Non-covered with LPs) opened.

Leverage

A CIF is required to maintain a supplemental non-risk based Leverage Ratio, i.e. the ratio of firm's capital to total assets on&off-balance sheet, which should be no less than 3%.

The Company's leverage details are shown in the Table 7.

Table 7. Leverage Ratio Details

	Amount (EUR 000)
On-Balance Sheet Items	*1062*
Off-Balance Sheet Items	*0*
Tier 1 Capital	*1062*
Leverage Ratio	***96.5%***

The Company has a very solid Leverage Ratio of over 90%, as all of the eligible balance sheet items are almost fully covered by Tier 1 Capital.

Own Funds Requirements for Different Risk Types

The Company assesses on a regular basis the adequacy of its capital needed to support its current and future activities. The Company has a substantial capital base to meet its regulatory obligations and business needs. The actual risks that the Company is facing are laid out in Table 5, along with Capital Requirements to mitigate these risks and the value of Risk Weighted Assets.

Table 8. Risk Exposures, Risk Weighted Assets and Capital Requirements, EUR 000

Risk Type	Exposure	RWA	Capital Requirements
Credit Risk	*237*	*237*	*19*
Market Risk	*711*	*711*	*57*
Operational Risk	*1 290*	*1 290*	*103*
TOTAL	**2 238**	**2 238**	**179**

The details of risk exposures to credit, market and operational risks are described further.

Credit Risk

The Company is exposed to credit risk when keeping its assets with counterparties. In accordance with CRR requirements the exposures to credit risk are provided further in Table 9, with details of exposure types.

Table 9. Credit Risk Breakdown by Exposure Class

Exposure Description	Amount (EUR 000)
Institutions	*1 034.79*
Central Government	*2.4*
Corporate Entities	*19,7*
Other	*0,6*
TOTAL	**1 061.97**

The details of geographical credit risk exposures are shown in Table 10. The Company has a limited credit risk exposures to the 3rd countries, however to the countries, equivalent to the members of the EU.

Table 10. Credit Risk Geographical Breakdown

Exposure Description	Amount (EUR 000)
Cyprus	*507.5*
Switzerland	*18.6*
Denmark	*141.9*
Great Britain	*363.7*
Latvia	*13.4*
United States of America	*7.7*
TOTAL	**1 062**

No adjustments were required to be made to calculate the credit risk exposure and capital requirements to mitigate credit risk.

External Ratings used for Calculations of RWAs

Under Standardized Approach to The Company generally applies External Credit Assessment Institutions ratings, namely, Standard&Poor's (S&P) ratings. The connection between "Big Three" ECAIs ratings and Credit Quality Steps (CQS) is laid out below.

Table 11. Connection between ECAIs ratings and CQS for Asset Classes

CQS	Ratings			Corporate	Institutions			Sovereigns
	Fitch	Moody's	S&P		Sovereign Method	Credit Assessment Method		
						Maturity > 3 months	Maturity 3 months of less	
1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%	20%	20%	20%	0%
2	A+ to A-	A1 to A3	A+ to A-	50%	50%	50%	20%	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%	100%	50%	20%	50%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	100%	100%	100%	50%	100%

CQS	Ratings			Corporate	Institutions			Sovereigns
	Fitch	Moody's	S&P		Sovereign Method	Credit Assessment Method		
						Maturity > 3 months	Maturity 3 months of less	
5	B+ to B-	B1 to B3	B+ to B-	150%	100%	100%	50%	100%
6	CCC+ and lower	Caa1 and lower	CCC+ and lower	150%	150%	150%	150%	150%

As of December 2017, the Preferential Treatment was used to calculate the RWA exposed to Institutions. These exposures fell into the following categories:

- Exposures to Institutions of a residual maturity of 3 months or less, incorporated in a Member State, funded and denominated in the national currency of the State, are assigned a risk of 20%;
- Exposures to unrated Institutions with original maturity of 3 months or less are assigned a risk of 20%.

Market Risk

The only type of market risk the Company faces due to the nature of its operation is foreign currency (FX) risk. The actual exposure arises from the fact that the Company holds part of its assets in currencies other than EUR. There were no open FX positions in derivatives at the reference date to add to FX risk. The details of the exposure to market risk are shown in Tables 12 and Table 12.A.

Table 12. Market Risk Breakdown

Risk Type	Exposure Amount (EUR 000)
FX Risk	*711*

Table 12.A Company's Net Currency Positions as of 31.12.2017

Currency	Net positions (EUR)	
	Assets	Liabilities
EUR	515 270	28 597
USD	351 104	-
RUB	24	-

Operational Risk

The operational risk, as noted earlier, arises from failure in internal procedures, processes, systems, personnel, including legal and compliance risks. Under CRR, the operational risk is calculated as 15% of the 3 most recent annual adjusted revenues of the Company. For a new Company that do not have a history of revenues the projected numbers from the Business Plan are accounted. The following figures were taken into account when calculating the adjusted revenues (positive or negative):

- Brokerage commissions;
- Interest income;
- Income from own trading net of loss of own trading;
- Bank charges.

The capital requirement for Operational risk calculated accounting the abovementioned elements makes 103K EUR and Risk-weighted assets of 1 290K EUR.

Counterparty Credit Risk (CCR)

The Company's CCR arises from transactions in derivatives (namely, margin trading transactions). As of 31/12/2017 the Company did not have any positions opened on own account, as mentioned earlier. All clients' positions at the reporting date were initiated by transactions via Straight Through Processing thus were hedged immediately with Company's liquidity providers (LPs) and did not affect the CCR.

The Company uses and marked-to-market method to calculate the value of exposure and required capital to mitigate this type of risk.

Interest Rate Risk

The Company is not exposed to interest rate risk, as mentioned earlier.

Equity Risk

The Company is not exposed to equity risk.