# RISK MANAGEMENT (PILLAR III) DISCLOSURES
## Disclosure and Market Discipline
## Obligation for Public Disclosure of Information

In accordance with Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

## FOR THE YEAR ENDED 31 DECEMBER 2017

April 2018

## General Notes

ARUMPRO CAPITAL LTD has prepared the following disclosures based on the audited financial statements for the year ended 31st December 2017.

While the information included in the Disclosures derives from the Company's audited financial results, the Disclosures do not constitute the Company's Financial Statements nor do they constitute any form of contemporary or forward-looking record or opinion of the Company.

They are merely prepared to explain how the Company manages risks, under the requirements of the Cyprus Securities Exchange Commission (hereafter referred to as "CySEC or the Commission", and how much capital is assigned to these risks for their management.

The disclosures have been reviewed and approved by Senior Management, and they have been verified by the Company's external auditor. Unless stated otherwise, all amounts are in thousands of Europe Currency ("EU-€"). Numbers presented in parentheses represent negative amounts.

## Materiality of Disclosures

The Directive provides that the Company may omit one or more of the disclosures if it believes that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for making economic decisions. Where the Company has considered a disclosure to be immaterial, this was not included in this document.

## Disclosures and Confidential Information

The Directive also permits the Company to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The Directive defines proprietary as if sharing that information with the public would undermine the investment firm's competitive position. It may include information on products or systems, which, if shared with competitors, would render an investment firm's investments therein less valuable. Confidential information is defined thus:

Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an investment firm to confidentiality.

In the light of the above, the Company avoided disclosing such confidential information in this report.

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# 1. GENERAL INFORMATION AND SCOPE OF APPLICATION

## I. Principal Activities

The Company is licensed by CySEC as a financial services firm under CIF license number 323/17. The principal activities of ARUMPRO CAPITAL LTD are the provision of investment services to natural and legal persons in accordance with the provisions of the applicable legislation and requirements issued by the CySEC. During the reported period, the Company was providing services to clients based on "Reception & Transmission & Execution of Orders on behalf of clients, Portfolio Management" License only.

According to Basel III regulations, there are 3 (three) pillars, which are designed to implement market discipline through the disclosure of financial information about risk exposures of the Company and of the risk mitigation techniques of the risk management.

Pillar 1 - sets out the minimum capital requirements firms are required to meet for credit, market and operational risks.

Pillar 2 – defines the risks, which are not covered by Pillar I, and which are determined under ICAAP process.

Pillar 3 – disclosure to the market participants of the key information on Company's capital, risk exposures, risk assessment processes, which are underlining the capital adequacy of ARUMPRO CAPITAL LTD.

The CRD IV package, consisting of the Capital Requirements Directive (Directive 2013/36/EU) and the Capital Requirements Regulation (CRR # 575/2013), are enforced in Cyprus Republic by the Directives DI144-2014-14 and DI144-2014-15 relatively.

## II. Disclosure Policy

The disclosures are published on the website of the Company four months after the financial year-end. This document represents the Pillar III disclosures of ARUMPRO CAPITAL LTD for 2017. The purpose of the disclosures is to give information on the basis of calculating Basel III capital requirements and on the management of risks faced by the Company.

The following sets out the Company's Disclosure Policy as applied to Basel III Pillar 3 Disclosures:

### *a. Information to be disclosed*

The aim of the Company's Disclosure Policy is to meet all required Pillar 3 disclosure requirements as detailed in the Capital Requirement Regulations (CRR).

### *b. Frequency*

The Company discloses information in relation to its risk management policies and procedures on an annual basis.

The frequency of disclosure will be reviewed in case of material change in the calculation of capital, business structure or regulatory requirements.

### *c. Medium and location of publication*

The Company's Pillar 3 disclosures are published on the company's website:

https://arumcapital.eu/cms/legal_documentation/

### *d. Verification*

The Company's Pillar 3 disclosures are subject to internal review and approval by the Compliance function and External Auditor prior to being submitted to the Board for assessment and prior to being published. In addition, the Remuneration Policies, which have been mentioned herein, have been assessed and approved by the Board of Directors.

## III. Scope of the Disclosures

As at 31 December 2017, the Company did not have any subsidiaries. As a result, the disclosures in this document relate solely to information of the Company. The Company is making the disclosures on an individual (solo) basis.

The Company provides a range of financial services in forex industry for the retail and institutional customers through the trading platforms for online trading.

Products currently offered by the Company for the clients include currency pairs, CFDs, Portfolio Management (copy-trading via RAMM-platform).

Financial Statements of the Company are produced quarterly and annually. The Company uses IFRS Accounting framework (International Financial Reporting Standards (IFRS)) for financial statements and financial reporting.

# 2. RISK MANAGEMENT AND GOVERNANCE OF THE COMPANY

## I. The Board

The Board of Directors is responsible for overlooking the operations of the Company. With respect to the management of risk, it has overall responsibility for the establishment and oversight of the Company's risk management framework.

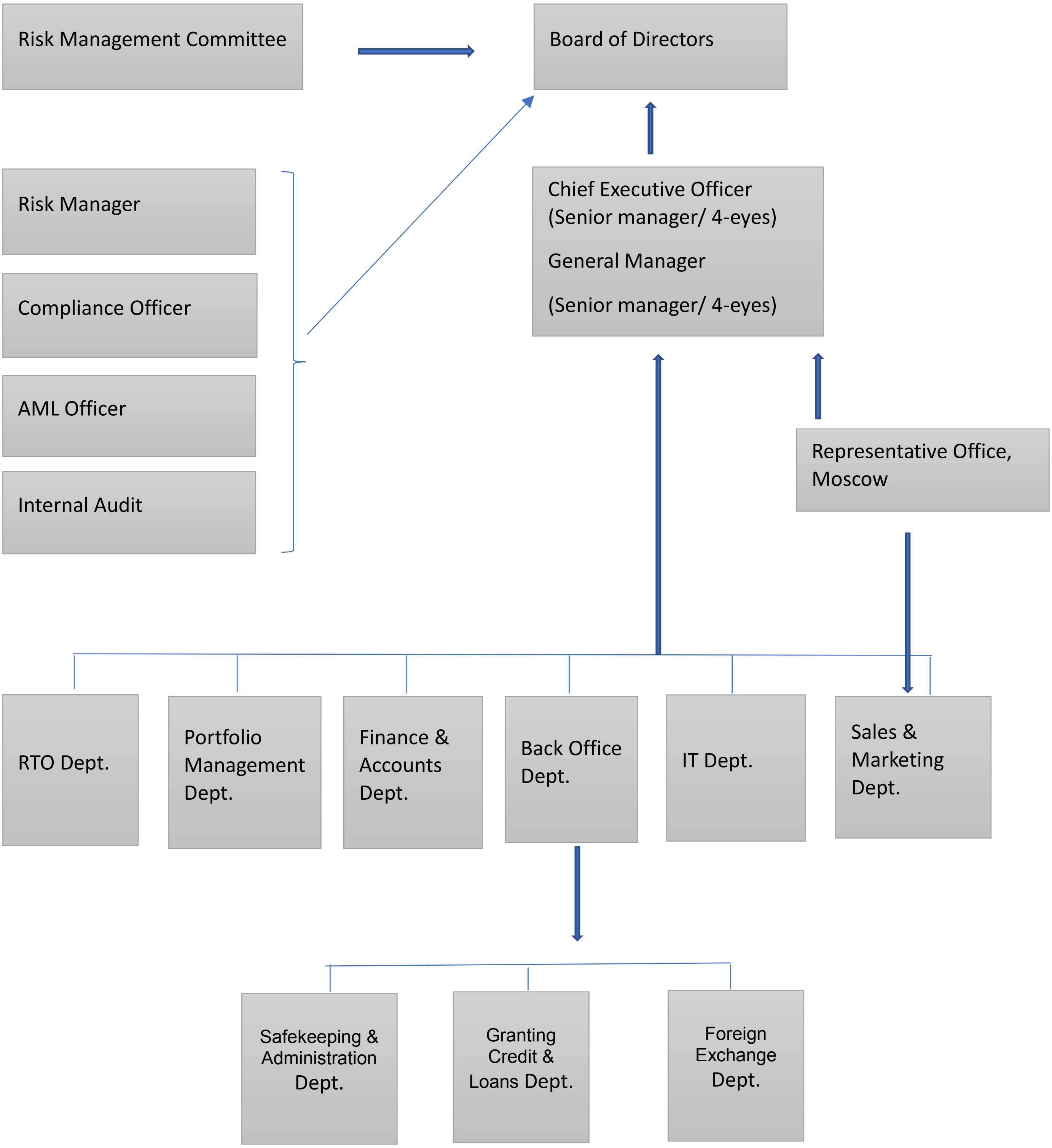
## II. Board & Committee Structure

The board comprises of two executive directors and three non-executive directors.

The departments, described above in Organizational Structure, are operating throughout the year.

ORGANIZATIONAL STRUCTURE

ARUMPRO CAPITAL LTD



## III. Number of directorships held by members of the Board

(Directorships held in non-commercial organizations are not included).

| NAME | Position with ARUMPRO CAPITAL LTD | Directorships – Executive | Directorships – Non-Executive |
|---|---|---|---|
| Ms. Ekaterina Seredinskaya | Executive Director, CEO part of "4-Eyes", CY-based | 1 | 0 |
| Ms. Radostina Kovacheva-Stutely | Executive Director, CY-based | 1 | 0 |
| Mr. Ioannis Ashiotis | Independent, Non-Executive Director, CY-based | 1 | 1 |
| Mr. Vadim Solomakhin | Independent, Non-Executive Director, RU-based | 0 | 1 |
| Mr. Rashid Minnegaliev | Independent, Non-Executive Director, CY-based | 1 | 1 |

## IV. Duties of the Board of Directors

The main duties of the Board of Directors of ARUMPRO CAPITAL LTD are:

- To carry the overall responsibility for proper implementation of the relevant laws and regulations;
- To formulate the Company's business strategy in terms of the development of existing and new services and its presence in the local and international financial markets;
- To govern the Company by broad policies and objectives, formulated and agreed upon by the chief executive and employees;
- To ensure that sufficient resources are available to the Company to carry out its operations;
- To be responsible for the overall duties and responsibilities of the Anti-Money Laundering /Compliance Officer (MLCO);
- To define, record and approve the general policy principles of the Company in relation to the prevention of money laundering and terrorist financing;
- To notify the Company's policy for the prevention of money laundering and terrorist financing to the MLCO;
- To approve the Company's risk management policies and procedures;
- To establish a clear and quick reporting chain for transmission of information to the MLCO;
- To assess the Money Laundering function
- To assess and approve the annual report of the MLCO;
- To assess the Internal Audit Department's members and the efficiency of the mechanisms of internal control;
- To assess the Compliance Function;

- To evaluate and adopt strategies to improve the operation of the internal audit mechanism;
- To review written reports regarding Compliance, Risk Management and Internal Audit;
- To approve the Company's financial statements;
- To review the suitability report prepared by the Company's external auditors;
- To take decisions on important matters of the Company during Board meetings;

Also responsible for the Company's internal control system and for the management of it's risks are the following departments:

- Risk Management Department (inhouse)
- Anti-Money Laundering (inhouse)
- Compliance Officer (inhouse)
- Internal Audit Function (outsourced)
- External Audit Function (outsourced)

All five above listed functions are reporting directly to the Board in regards of the audited outcomes of the Company's operation, at least annually.

## V. Three lines of defense

To prevent the risks which might impact the smooth operation, management of the Company has adopted the "three lines of defense" model of governance with clearly defined roles and responsibilities. Company has a good risk management framework with the systems for identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating material risks that may affect the business' ability to achieve its objectives. The 'three lines of defense' has become the standard model for identifying, managing and monitoring risks and uncertainty in organization. The model has three lines (or barriers) of defense against the impact of risk as illustrated below.

**The first line** represents staff on the frontline, those involved in day-to-day operations and directly exposed to the risks of Company's business. It is the first line of defense which is crucial for all businesses, where everyone understands the risks they personally manage and are empowered and qualified to respond appropriately for these risks.

**The second line** is essentially the oversight function for the first, which sets and monitors the policies and procedures that the first line of defense must comply with. It is the second line of defense, which is crucial for controlling of all internal procedures and complying with regulations. There is adequate managerial and supervisory compliance function in place to ensure compliance and to highlight control breakdown, inadequate processes, and unexpected events.

**The third line** is the supervising review of the effectiveness of the first and second lines by Board of Directors and independent auditors.

**THIRD LINE OF DEFENCE**

Independent assurance: directors and auditors

**SECOND LINE OF DEFENCE**

Oversight functions: risk and compliance

**FIRST LINE OF DEFENCE**

Business operations: employees, managers, etc.

## VI. Anti-Money Laundering

Anti-Money Laundering Officer reports directly to the Board of Directors and is responsible for:

- Ensuring implementation of the procedures described in the Company's AML Procedures Manual;
- Implementing and maintaining adequate policies design to detect any risk or failure by the Company to comply with its obligations;
- Implementing of adequate measures and procedures designed to minimize risk or failure by the Company to comply with its obligations;
- Monitoring and assessing the adequacy of the existing policies and procedures for detect ing the risk of failure by the Company to comply with its regulatory obligations, as well as the associated risks;
- Ensuring that Company employees attend training sessions on anti-money laundering and terrorist financing procedures;
- Ensuring that all client's accounts must be opened only after the relevant pre-account opening due diligence and identification measures and procedures have been conducted, according to the principles and procedures set in the AML Manual;
- Compliance with high standards of anti-money laundering (AML) practice in all markets and jurisdictions in which the Company operates;
- Ensuring the implementation of the "know your client" procedures of the Company;
- Gathering information with regards to the new customers of the Company;
- Analyzing the customers' transactions;
- Continuous improvement of the existing control procedures;
- Providing a written annual report to the Board of Directors on the matters of own responsibility, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies;
- Close cooperation with the Money Laundering Combat Unit of the Republic of Cyprus and electronic submitting of the reports to MOKAS.

## VII. Compliance Officer

The Compliance Officer function is inhouse and reports directly to the Board of Directors and is responsible for:

- Ensuring compliance with laws, regulations and directives issued by the CySEC;
- Ensuring implementation of the procedures described in the Company's IOM;
- Monitoring and assessing the adequacy of the existing policies and procedures for detecting the risk of failure by the Company to comply with its regulatory obligations, as well as the associated risks, and making sure that the Company takes into account the nature, scale and complexity of its business and the nature and range of investment services and activities undertaken in the course of that business;
- Ensuring that Company employees attend training sessions on compliance with applicable laws, rules and regulations;
- Providing advice and guidance to Company employees;
- Ensuring that the Company complies with its continuous obligations to the CySEC (e.g. submission of Capital Adequacy Return, annual reports, notifications to the CySEC regarding changes in the Company's structure, services, personnel, procedures, etc.);
- Communicating with regulatory bodies;
- Assisting regulatory bodies in performing inspections of the Company's activities;
- Continuous improvement of the existing control procedures;
- Reviewing marketing communications and making sure that they have been prepared in accordance with legal requirements;
- Advising and assisting employees to comply with the Company's regulatory obligations;
- Recommending specific remedial measures, in case of detection of any weakness or failure by the Company to comply with its obligations under applicable laws and regulations;
- Providing a written annual report to the Board of Directors on the matters of own responsibility, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.

## VIII. Internal Audit

The primary role of Internal Audit is to help the Board to protect the assets, reputation and sustainability of the organization. The Internal Audit function is outsourced to an external audit firm and is an element of the internal control framework established by management to examine, evaluate and report on financial and other controls on operations. Internal audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls.

It is an independent unit reporting directly to the Board of Directors through a written internal audit report prepared on an annual basis.

The Internal Auditor reports directly to the Board of Directors and is responsible for:

- To review the existence of adequate systems and trading platforms of ARUMPRO CAPITAL LTD (hereinafter, the "Company");
- To review the presence and adequacy of a continuous audit trail in the Company;
- To review the existence of basic accounting practices and financial information;

- To review the actions taken by the Company to fulfil the conditions imposed by the CySEC.

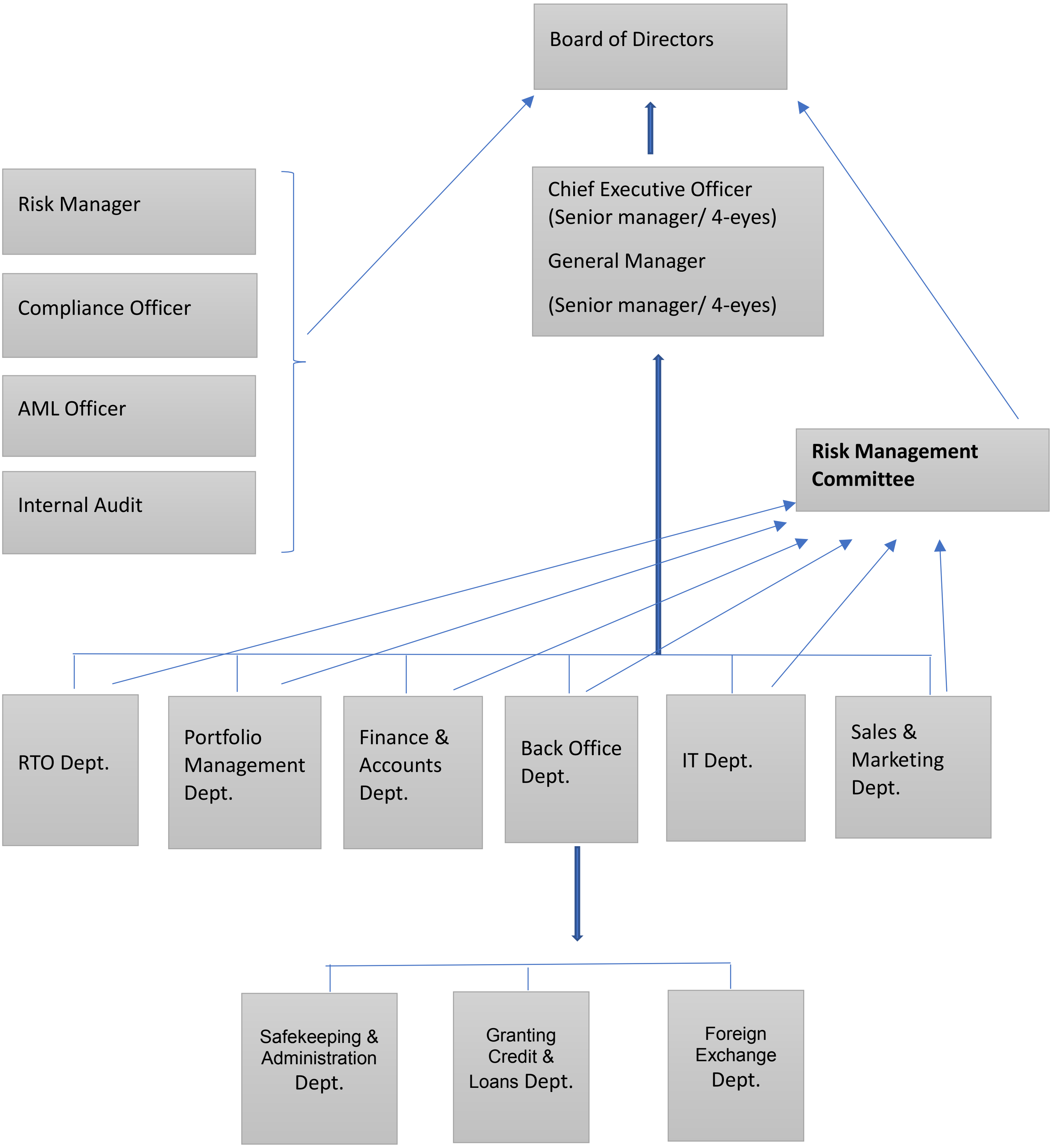
In addition to the above, Internal Audit also provide feedback and challenge on the effectiveness of the Company's control framework.

## IX. Risk Management

Risk data flow up to the Board through the direct reporting from Risk Committee, Internal Audit, External Audit, Money Laundering Officer and Compliance Officer.

ORGANIZATIONAL STRUCTURE

ARUMPRO CAPITAL LTD



***a. Risk Management Committee***

In order to support effective governance and manage the wide range of risks the Board has established the Risk Management Committee. The Risk Management Committee is responsible for the compliance and monitoring of all transactions in the context of legality, avoidance of conflicts of interest, insider dealing and preservation of confidential information, creating internal procedures of the company, including Risk Appetite and Risk Policy. The Risk Management Committee determinates evaluation and efficient management of the risks inherent in the provision of the investment services.

The scope of the Risk Management Committee is to ensure that, in providing the investment and ancillary services, the Company remains compliant with the provisions of the applicable legislation and the Directives issued by the CySEC concerning capital adequacy and other risk-related issues, as well as with the internal regulations of the Company.

RMC is comprised of one non-executive director (Mr. Ioannis Ashiotis), one executive director (Ms. Ekaterina Seredinskaya) and Risk Manager (Mr. Sergejs Negrejs, chairperson of the RMC). Risk Management Committee reports to the Board directly. The role of the RMC includes the oversight and challenge of the Company's risk appetite and the recommendation to the Board of any changes to risk appetite, the assessment of any future risks, the review and challenge, where appropriate, of the outputs from the Risk Manager and to oversee that a supportive risk culture is appropriately embedded in the business. During the year 2017, the RMC met 2 times.

***b. Duties of Risk Manager***

Risk Manager is responsible for the monitoring and managing risks across the Company, implementing of the above-mentioned policies into day-to-day practice, including the Risk Appetite and Risk Policy. Risk Manager is responsible as well for the strategy, risk identification, assessment and escalation, reporting and support processes.

***c. Risk Culture***

The Company is committed to cultivating a consistent risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to respond appropriately for these risks. The Company also embraces a culture where the business areas are encouraged to take risk–based decisions, while knowing when to escalate or seek advice. The Company also promotes a culture where there is no fear of escalating bad news or emerging risks through. The Company has in place the measures and techniques to identify, assess and manage events, which might have an actual or potential negative impact on the customers, colleagues, operational capability, financial position or the reputation of the Company.

***d. ICAAP***

In order to evaluate the risks that are not covered by capital requirements (Pillar 1), and according to Pillar 2 requirements the Company is implementing the ICAAP procedure. The ICAAP process considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against them both currently and in the future. The Company is performing a full ICAAP annually with approval provided by the Board. For this purpose, all departments of the organization completed the Risk Records Charts. After the evaluation of the complete Risk Records charts, Risk Manager created Risk Register with Assessments. Financial department prepared Business Plan and Capital Plan for next 3 years based on rolling P&L and Balance Sheet. Risk Manager implemented Stress Test of the

Capital Plan, based on "What if" approach in each department of the Company. All stress tests summarized by Risk Manager, assessed, identified and submitted as a "Stress Test Register" to Risk Committee and to ICAAP Committee. Financial department prepared stress tested Capital Plan based on Stress Test Register. Financial department prepares Budget of the Company, based on stress tested Capital Plan. Financial department compares the calculated Capital Plan and stress tested Capital Plan: Pillar I Risks + Pillar I uncovered Risks + Pillar II Risks.

These measures allow the Management to evaluate Gap Analysis (what we have at hands and what we should have), and to create Action Plan to monitor and mitigate the consequences of the risks in order to make the Board of Directors to be able to assess and approve Action Plan along with outcomes of ICAAP.

***e. Risk Appetite***

Risk Appetite limits the risks that the Company can accept in pursuit of its strategic objectives. Risk Appetite is formally reviewed annually and is monitored on an ongoing basis for adherence. The Company's strategy, business plan, capital and liquidity plans are set with reference to Risk Appetite. Risk Appetite was defined by the Management of the Company in the frame of the ICAAP procedure:

a. Risk Appetite.

b. Basic orientation of Risk Types.

c. Decision on the level of the application.

d. Decision on the ICAAP application method.

e. Assessment of the group structure and business model/products/services of the

Company.

f. Assessment of the current political, economic and business environment.

## 3. OWN FUNDS

### I. Tier 1 Own Funds and Tier 2 Own Funds

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

The Board has ultimate responsibility for the Company's capital management and capital allocation. The Board is kept informed via a quarterly update on the financial statements.

During the 12-month accounting period of 2017 year, the Company complied fully with all capital and liquidity requirements and operated well with the regulatory requirements determined by the regulation.

The Own Funds of the Company as at 31 December 2017 consisted of Tier 1 capital and amounted to EUR 359,000. An analysis is provided in Table 1 below:

Table 1 Own Funds of ARUMPRO CAPITAL LTD

| Capital Base | '000 EUR |
|---|---|
| Original Own Funds (Tier 1) | |
| Share Capital | 2 |
| Share Premium | 1020 |
| Deductions | (68) |
| Retained Earnings | (147) |
| Accumulated other comprehensive income | (448) |
| Other reserves | 0 |
| Original Own Funds (Tier 2) | 0 |
| Total Eligible Own Funds as at 31/12/2017 | 359 |

### II. Share Capital

***Authorized capital***

On 31 December 2017 the authorized share capital of the Company was 5,000 shares.

The changes in share structure during the reporting period have been provided to the CySEC.

***Issued capital***

On 31 December 2017 the Company issued to the subscribers of its Memorandum of Association 2,200 ordinary shares of €1.00 each at Par. The share premium amounts to 1,070,800.00 EUR.

The changes in share structure during the reporting period have been provided to the CySEC.

## 4. CAPITAL REQUIREMENTS

### I. Minimum regulatory capital requirements

The total capital requirements of the Company as at 31st December 2017 were EUR 542 thousand and are analyzed in Table 2 below:

| | |
|---|---|
| TOTAL ELIGIBLE CAPITAL | 359 |
| RISK WEIGHTED EXPOSURES | |
| RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES | 147 |
| TOTAL RISK EXPOSURE AMOUNT FOR SETTLEMENT/DELIVERY | 0 |
| TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS | 0 |
| TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR ) | 0 |
| ADDITIONAL RISK EXPOSURE AMOUNT DUE TO FIXED OVERHEADS | 396 |
| TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT | 0 |
| TOTAL RISK EXPOSURE AMOUNT RELATED TO LARGE EXPOSURES IN THE TRADING BOOK | 0 |
| OTHER RISK EXPOSURE AMOUNTS | 0 |
| TOTAL RISK EXPOSURE AMOUNT | 542 |

***The Capital Adequacy ratio of the Company as at 31 December 2017 was 66.20%***

***Basel II imposes a minimum required ratio of 8%.***

## II. Credit Risk

The Company has adopted the Standardized Approach to the calculation of Pillar 1 minimum capital requirements for Credit and Operational Risk.

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. In the ordinary course of business, ARUMPRO CAPITAL LTD uses various control mechanisms in order to ensure that credit risk is at a minimum level. The Company has no significant concentration of credit risk.

The Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

In addition, the Company has policies to limit the amount of credit exposure to any financial institution.

Cash balances of the Company are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

It should be noted that the Cyprus government has obtained significant results in its attempts to improve the economic situation and recover the local banking infrastructure. These facts had encouraged the Company to commence the cooperation with the range of the local banks:

Cyprus Development Bank, Hellenic Bank.

The Company considers that a certain element of credit risk exists regarding the Company's cash and cash equivalents. In order to minimize the possibility of loss, cash and cash equivalents are mostly held with reputable banks and financial institutions.

***a. Capital Requirements***

***Table 3:***

| 31.12.2017 '000 EUR<br>Type of exposure: Cash at bank and short-term deposits with institutions | | | Capital requirements |
|---|---|---|---|
| | Final exposure amount | Risk weighted Assets (20% & 50%) | Risk Weighted Assets (8%) |
| EU-regulated banks & institutions | 353 | 353 | 71 |
| Non-EU regulated banks & institutions | - | - | - |
| Non-regulated banks & institutions | - | - | - |

The Company applies a risk weight for exposures to institutions with original maturity of three months or less and/or with residual maturity of three months or less provided that the exposure is expressed in the national currency of the Country where the institution is located.

***b. Credit Risk by Exposure Class***

***Table 4 below presents the allocation of credit risk by exposure class:***

| Exposure at 31/12/2017 | Total Exposure Value<br>'000 EUR | Minimum capital<br>Requirements '000 EUR |
|---|---|---|
| Institutions | 353 | 71 |
| Corporates | 34 | 34 |
| Other | 44 | 42 |
| Total | 431 | 147 |

***c. Analysis of Exposures by Credit Quality Step***

The exposure amounts in EUR have been included for Corporate and Institutions as required by the CRR. Relating to External Credit Assessment, the Company has elected to use Moody's as the External Credit Assessment Institution ("ECAI") and as an alternative the Fitch's Ratings.

| Exposure values 2017 | Credit quality step 1 | Credit quality step 2 | Credit quality step 3 | Credit quality step 4 | Credit quality step 5 | Credit quality step 6 | Unrated | Total |
|---|---|---|---|---|---|---|---|---|
| Fitch assessment | AAA to AA- | A+ to A - | BBB + To BB- | BB+ to B- | CCC+ and below | | | |
| Institutions | - | 353 | - | - | - | - | - | 353 |
| Corporates | - | - | - | - | - | - | 34 | 34 |
| Others | - | - | - | - | - | - | 44 | 44 |
| Total exposure | - | 353 | - | - | - | - | 78 | 431 |

### *d. Credit Risk: Analysis by Geography*

| Exposure class | EU | UK | Non-EU | Total |
|---|---|---|---|---|
| Institutions | 353 | - | - | 353 |
| Corporates | 34 | - | - | 34 |
| Others | 44 | - | - | 44 |
| Total | 431 | - | - | 431 |

### *e. Credit Risk: Analysis by Industry Type*

| Exposure Class | Financial Institution | Individuals | Total |
|---|---|---|---|
| Institutions | 353 | n/a | 353 |
| Corporates | - | n/a | - |
| Other | - | n/a | - |
| Total | 353 | n/a | 353 |

Policies are in place that allows the use of credit risk mitigation techniques to reduce Counterparty Credit Risk.

## III. Market Risk

Market risk changes in line with fluctuations in market prices, such as foreign exchange rates, interest rates, equities and commodities prices. These market prices affect the Company's income indirectly as a result of the increase or decrease in the clients' activities, as well as the foreign exchange differences.

The Table 5 below shows the capital requirements for Market Risk as at 31st December 2017:

| Table 5: Minimum Capital Requirements for Market Risk 31/12/2017 | |
|---|---|
| Minimum Capital Requirements | Risk Weight '000 EUR |
| Foreign exchange risk | n/a |
| Interest rate risk | n/a |
| Commodity risk | n/a |
| Equity risk | n/a |
| Total | 0 |

The Risk Committee manages control of market risk exposure. Foreign Exchange Risk is the main market risk that could affect the Company's net interest income and arises where there is potential for changes in Foreign Exchange Rates. The Company has established limits that describe its Risk Appetite in this area and stress tests are performed using sensitivity to fluctuations in underlying Foreign Exchange Rates in order to monitor this risk. High level Risk Appetite and policies are recommended for approval by the Board. The Board has delegated the responsibility to the Managing Director and the Risk Committee to ensure that Company's Foreign Exchange Rate's Risk is maintained within Risk Appetite and according to Risk Policy.

## IV. Interest Rate risk

The Company's management closely monitors the interest rate fluctuations on a continuous basis, and frequently performs a detailed analysis of the Interest Rate risk. It shall be noted though that interest rate risk arises from the possibility that changes in the market interest rates will affect future income or the fair values of financial instruments. The Company is not exposed to Interest rate risk.

## V. Commodity Risk

Commodity risk arises from the positions of the Company in derivative contracts for which the underlying instruments are commodities. The Company is not exposed to Commodity risk.

## VI. Equity Risk

Equity risk is the risk of loss resulting from fluctuations in the price of stocks or changes that relate to the issuer of a share or the stock market in general. The Company is not exposed to Equity risk.

## VII. Operational Risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal procedures, human behavior, fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events or associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks outlined above. The directors are responsible for managing operational risk and have identified the following risks, which are considered significant to the Company.

For operational Risk managing, the following risks are also verified and managed:

• Business Process risk (incorrect orders, lack of control, operating bottlenecks);

• Technological risk (computer failures, software errors, unauthorized access, etc.),

• Personnel risk (misdemeanor, employee's incompetence, human errors, corporate abuse)

• Risks of unforeseen situations and external events (disasters, partners' misdemeanor, external technical failures, regulatory risks, legal risks, etc.)

| | €000 |
|---|---|
| ***Fixed Overhead*** | ***174*** |
| ***Fixed Overheads Requirement (25% * Fixed Overheads)*** | ***43*** |
| ***Fixed Overheads risk exposure amount*** | ***542*** |
| ***Additional Risk Exposure Amount Due to Fixed overheads*** | ***396*** |
| **Total risk exposure amount due to fixed overheads** | ***147*** |

***a. Business Process risk***

Moreover, to set control over operational risks, the Company has set and formalized all business processes:

1. The Company has a four-eye structure and a board oversight. This structure ensures the separation of powers regarding vital functions of the Company. The Board further reviews any decisions made by management and monitors their activities.

2. Several detection methods are in place by the accounting department in order to detect incorrect activities.

3. Senior Management ensures the accuracy of any statements. Senior Management along with Compliance Officer ensure that the information addressed to the client is fair, clear and not misleading.

4. To mitigate the risk of Money Laundering and Terrorist Financing Activities from Clients, the Company has employed on a full-time basis an Anti-Money Laundering Compliance Officer;

5. Internal auditor visits to ensure that the Company complies with internal procedures and operations.

6. The Company has prepared a comprehensive business contingency 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.

7. The Company obtains continuous legal advice and suggestions on the preparation of its legal documents and any issues that may arise relating to Compliance and Risk Management. The Company's aim is to meet all legal and regulatory requirements and minimize any reputational impact by maintaining an effective control framework.

***b. Technology***

The Company's operations are highly dependent on technology and advanced information systems. Its ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of the business. Such dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. The Company has business continuity procedures and policies in place which are designed to allow it to continue trading in its core markets and its systems are designed to mitigate the risk of failure of any component.

Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that, where possible, multiple providers and data routes are utilized. To remain competitive, the Company must continue to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

***c. Reputation Risk***

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor customer service, fraud or theft, customer claims and legal action and regulatory fines.

The Company has policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. In addition, the Company's Directors are made up of high caliber professionals who are recognized in the industry for their integrity and ethos; this adds value to the Company.

***d. Strategic Risk***

This could occur because of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

***e. Business Risk***

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic forecasts are conducted with a view to minimize the Company's exposure to business risk.

***f. Regulatory Risk***

Regulatory risk is the risk the Company faces by not complying with the relevant Laws and Directives issued by its supervisory authority the Cyprus Securities and Exchange Commission. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and Compliance Officer and suggestions for improvement are implemented by management. The Internal Auditors and Compliance Officer evaluate and test the effectiveness of the Company's control framework at least annually. Therefore, the risk of non-compliance is medim-low.

## VIII. Liquidity risk

Liquidity risk is the risk that 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. The Company has procedures to minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The Company holds in separate accounts all the funds of its clients and therefore considers that its liquidity risk is significantly low.

The balance-sheet liquidity risk is managed by the Accounting Department. The Accounting Department is responsible for planning and supervising asset flows on accounts. The following table details the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

## IX. Compliance risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. The Company's aim is to meet all legal and regulatory requirements and minimize any reputational impact by maintaining an effective control framework. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Management of the Company.

# 5. REMUNERATION POLICY AND PRACTICES OF THE COMPANY.

The Company's Board of Directors is responsible for the adoption, periodic review and implementation of the Company's Remuneration Policy. The Board of Directors, has approved, at its meeting which took place on 26/01/2017, the Remuneration Policy that has been drafted by the Senior Management of the Company based on Part Eight of Regulation (EU) No 575/2013 of the European Parliament (herewith the "Remuneration Policy").

The Company's Remuneration Policy fulfils the Company's obligation under Part Eight of Regulation (EU) No 575/2013 of the European Parliament. Responsible body for the implementation of the Company's Remuneration Policy shall be the Board of Directors. The responsibility of the Board is to prepare the decisions regarding the Remuneration Policy, including those which have implications for the risk and risk management of the Company and to table the said decisions or proposals for final deliberation.

The Board of Directors is advised by the following persons in respect to the Company's Remuneration Policy:

The Head of Compliance shall be advising the Board on remuneration matters, in order to ensure that any developments in the regulatory field are duly monitored and that the Remuneration Policy, as amended from time to time, duly reflects and compiles with the provisions of the applicable legal framework.

Part Eight of Regulation (EU) No 57512013 of the European Parliament states that the Remuneration Policy must be consistent with and promote sound and effective risk management and that it shall not encourage risk-taking that exceeds the level of tolerated risk of the Company. In order to ensure that the above risk management considerations are duly reflected in the workings, decisions and proposals for final deliberation by the Board of Directors, the Risk Management Committee shall advise the Board on such matters.

The Remuneration Policy is "subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the management body in its supervisory function". The said review should be performed at least on an annual basis by the Internal Audit function and the Compliance function.

The Remuneration Policy of ARUMPRO CAPITAL LTD in 2017 consisted solely on the salary base of the staff. The Company has not paid any dividends, bonuses to its employees or its management or any other benefits.

The Company’s annual remuneration to senior management and staff members for 2017 was as follows: