tone Edge Capital Ltd

Regulated by the Cyprus Securities and Exchange Commission License no. 311/16

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2017

APRIL 2018

DISCLOSURE

*The Disclosure and Market Discipline Report for the year 2017 has been prepared by **Stone Edge Capital Ltd** as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive DI144-2014-14 issued by the Cyprus Securities and Exchange Commission.*

Stone Edge Capital Ltd states that any information that was not included in this report was either not applicable on the Company's business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.

Stone Edge Capital Ltd is regulated by the Cyprus Securities and Exchange Commission under License number 311/16.

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Abbreviations

AT1	Additional Tier 1
BoD	Board of Directors
CET1	Common Equity Tier 1 Capital
CIF	Cyprus Investment Firm
CRD	Capital Requirements Directive - Directive 2013/36/EU
CRR	Capital Requirements Regulation - Regulation (EU) No. 575/2013
CRM	Credit Risk Mitigation
CySEC	Cyprus Securities & Exchange Commission
ICAAP	Internal Capital Adequacy Assessment Process
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RWAs	Risk Weighted Assets
T1	Tier 1 Capital
T2	Tier 2 Capital
UBO	Ultimate Beneficial Owner
EU	European Union
EC	European Commission

1. INTRODUCTION

1.1. Pillar III Regulatory Framework and Scope of Application

The present report is prepared by Stone Edge Capital Ltd (the "Company"), a Cyprus Investment Firm ("CIF") authorized and regulated by the Cyprus Securities and Exchange Commission (the "CySEC", the "Commission") under the license number 311/16 and operates in harmonisation with the Markets in Financial Instruments Directive II (MiFID II).

In accordance with Regulation (EU) No. 575/2013 (the "Capital Requirements Regulation", "CRR"), which was introduced in 2014, the Company is required to disclose information relating to its risk management, capital structure, capital adequacy, its risk exposures as well as the most important characteristics of the Company's corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants.

The Capital Requirements Regulation introduced significant changes in the prudential regulatory regime applicable to banks and investment firms including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of Risk Weighted Assets and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be phase out by 2018. The current regulatory framework comprises three pillars:

- **Pillar I** covers the calculation of Risk Weighted Assets for Credit Risk, Market Risk and Operational Risk.

- **Pillar II** covers the Supervisory Review and Evaluation Process ("SREP"), which assesses the Internal Capital Adequacy Assessment Process (the "ICAAP") and provides for the monitoring and self-assessment of an institution's capital adequacy and internal processes.

- **Pillar III** covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

The 2017 Pillar III Disclosures report sets out both quantitative and qualitative information required in accordance with Part 8 of the CRR and in particular articles 431 to 455, which set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure report is to be audited by the Firm's external auditors and published on the Company's website on an annual basis.

Furthermore, the Board of Directors and the Senior Management have the overall responsibility for the internal control systems in the process of "Capital Adequacy Assessment" and they have

established effective processes to ensure that the full spectrum of risks facing the Company is properly identified, measured, monitored and controlled to minimize adverse outcomes.

The Company's business effectiveness is presented and based on the guidelines of the risk management policies and procedures. The Board of Directors, Internal Audit, Risk Manager, Compliance Officer, and Anti-Money Laundering Officer control and supervise the overall risk system so that all units charged with risk management perform their roles effectively on a continuous basis.

As with all Investment Firms, the Company is exposed to several risks. In particular, the Company is exposed to Credit Risk, Market Risk and Operational Risk. It is noted that the Company had begun to building its client base in 2017, after obtaining its authorization from CySEC in December 2016. Therefore, 2017 was the first fully operational year for the Company, during which the Company offered to its clients brokerage, investment advice and portfolio management services.

More information can be found in the sections below.

1.2. Corporate Information

Company Name	Stone Edge Capital Limited
CIF Authorization Date	13 December 2016
CIF License Number	311/16
Company Registration Date	27 January 2016
Company Registration Number	HE 351681

Financial instruments	Investment services and activities								Ancillary Services						
	I(1)	I(2)	I(3)	I(4)	I(5)	I(6)	I(7)	I(8)	II(1)	II(2)	II(3)	II(4)	II(5)	II(6)	II(7)
III (1)	√	√	√	√	√				√	√		√	√		√
III (2)	√	√	√	√	√				√	√		√	√		√
III (3)	√	√	√	√	√					√		√	√		√
III (4)	√	√	√	√	√				√	√		√	√		√
III (5)	√	√	√	√	√				√	√		√	√		√
III (6)	√	√	√	√	√				√	√		√	√		√
III (7)	√	√	√	√	√				√	√		√	√		√
III (8)	√	√	√	√	√				√	√		√	√		√
III (9)	√	√	√	√	√				√	√		√	√		√
III (10)															

Notation in regards to previous table:

I. <u>Investment services and activities</u>

1) Reception and transmission of orders in relation to one or more financial instruments;
2) Execution of orders on behalf of clients;
3) Dealing on own account;
4) Portfolio management;
5) Investment advice;
6) Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
7) Placing of financial instruments without a firm commitment basis;
8) Operation of a Multilateral Trading Facility.

II. <u>Ancillary Services</u>

1) Safekeeping and administration of financial instruments, including custodianship and related services;
2) Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
3) Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings;
4) Foreign exchange services where these are connected to the provision of investment services;
5) Investment research and financial analysis or other forms;
6) Services related to underwriting;
7) 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.

III. Financial instruments

1. Transferable securities;
2. Money-market instruments;
3. Units in collective investment undertakings;
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF;
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in paragraph 6 above and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for differences (CFDs);
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

1.3. Regulatory (Prudential) Supervision

The Laws and Regulations that govern the operations of Cyprus Investment Firms and set out the obligations and requirements that shall be met in the aspect of capital adequacy and market discipline, are comprised, inter alia, by the following:

- Law 87(I)/2017: Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereafter, “the Law”);
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation;
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation;
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV;
- Directive DI144-2014-14: For the prudential supervision of Investment Firms;
- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013.
- Directive 2014/65/EU on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU – MiFiD II Directive
- Regulation (EU) No. 600/2014 – Markets in Financial Instruments and amending Regulation (EU) No. 648/2012 (MiFiR)

2. RISK MANAGEMENT

2.1. Definition of Risk Management

Risk Management is the process of identification, analysis and evaluation of uncertainty in investment decision-making. As a result, it is treated accordingly; either accepted (in which case the Company allocates capital) or mitigated.

Risks should be continuously monitored and reviewed. In addition to that, outcomes and results should be properly reported and new objectives should be set.

The Company envisages a risk management framework that would be founded on the following principles:

- A culture of risks adjusted in the organization. It embraces a series of values, attitudes and ways of acting towards risks, including taking decisions on change management and strategic business planning.

- Complete approach to all risks; there are risks that directly affect the Company and risks that indirectly affect the Company. It is very important to report all kinds of risks and to assume and understand the relations between them. The overall calculation should be simplified without affecting the difference of nature, degree of evolution and real possibilities of management and control of each type of risk, adjusting the organization, processes, reports and tools to the features of each one.

- An organizational and control model which is assigned to all risk types.

- Common management instruments among the different departments, without negatively affecting the regulations and requirements of supervisors and the degree of development of each department.

- Lastly, it is very important that all risk assessment results should be communicated to all relevant departments with the appropriate consultation given.

2.2. Risk Management Policy and Objectives

The Company's Risk Management Policy was formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general.

It sets out the procedures and mechanisms regarding risks and it describes the roles and responsibilities of the Risk Manager. In addition to that, it identifies the main reporting procedures and outlines the

process followed by the Senior Management in order to evaluate the effectiveness of the Company's internal control procedures.

The Risk Manager ensures that all different types of risks taken by the Company are monitored and reported to the Senior Management and the Board of Directors ("BoD"). Moreover, the Risk Manager is responsible for making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified, as aforementioned.

The Senior Management bears the responsibility to monitor the adequacy and effectiveness of 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 to those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

The Company's BoD receives on a regular basis written reports, which contain a description of the implementation and effectiveness of the overall control environment for investment services and activities, ancillary services and other business, and a review of the risks that have been identified, analysed, planned as well as remedies undertaken or that will be undertaken.

Processes are continuously being reviewed with the intent of further strengthening through the implementation of guidance provided by both the industry and new regulatory requirements. In addition, the entire risk management policy universe has been re-designed to define an updated comprehensive and coherent framework for risk management, linked to the Company's risk appetite.

The risk management policy is as follows:

Policy Name	Revision Frequency
Internal Operations Manual	Annual

2.3. Risk Appetite Framework (RAF)

Risk appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, conduct, reputational, compliance and data security/IT risk.

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

The BoD approved the following Risk Appetite Statement decided by Management:

Risk appetite statement

The Company's risk appetite is determined by its BoD, following the recommendations of the Risk Manager and taking into account the Company's risk bearing capacity.

Risk appetite determines the maximum risk that the Company is willing to assume in order to meet its business targets. To ensure coherence between the Company's strategic considerations as regards risk taking and the day-to-day decisions, Management reviews and when deemed necessary updates the Company's risk appetite statement.

The Company's risk appetite is set by taking into consideration its current risk profile (please see below). The following are the main risk appetite statements which are applicable across all of the Company's activities:

- *The available regulatory capital over the total risk weighted assets for Pillar I risks is targeted to be greater than or equal to 10%;*
- *Under no circumstances should the regulatory CET1 capital adequacy ratio fall below the minimum required imposed by CySEC (i.e. 4.5% plus applicable buffers);*
- *The Company has zero tolerance towards internal fraud and non-compliance with regulatory requirements. Therefore, all departments are required to operate at all times in compliance with respective regulatory requirements;*
- *The Company has limited tolerance towards operational risks / losses. Operational risks inherited in the business operations of the Company are managed proactively.*

The Company's risk bearing capacity is defined as the ability of the Company's available capital to absorb adverse risk. The Company's available paid-up capital currently consists solely of CET 1 capital, calculated after relevant deductions.

The risk appetite of the Company is the aggregate level and types of risk the Firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan. Thus, Risk Appetite and Strategic Plan occur and evolve in parallel. The Risk Appetite enables the Company to demonstrate that the achievement of its strategic goals has not been the result of fortuitous circumstances.

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

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

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

2.4. Risk Culture

The BoD has a crucial role in strengthening risk governance, including setting the ‘tone at the top’, reviewing strategy, and approving the Risk Appetite Statement. It is the BoD that is ultimately responsible and accountable for risk governance.

A robust risk culture is a substantial determinant of whether the CIF will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that the CIF wishes to build is reflected in its policies and procedures which are closely aligned to its Risk Appetite. Risk culture is manifested in the day-to-day decisions that indicate how risk is identified, understood, discussed, and acted upon.

The Company has focused primarily on the implementation of a firm-wide effective and pervasive risk culture. This is achieved through the following:

- Embedding the risk culture at all levels of the Company with clear ownership and accountability of tasks;
- Conducting firm-wide risk assessments;
- Implementing formal risk education presentations;
- Changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions;
- Changes in key personnel;
- Training.

2.5. Stress Testing

Stress testing is a key risk management tool used by the Company to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests aim at:

- Understanding the risk profile of the Company;
- The evaluation of the Company’s capital adequacy in absorbing potential losses under stressed conditions from risks not covered or not adequately covered under Pillar 1. This takes place in the context of the Company’s ICAAP;
- The evaluation of the Company’s strategy: Senior Management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows Senior Management to determine whether the Company’s exposures correspond to its risk appetite;

- The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

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

- Review the overall business strategy, risk appetite, capital and liquidity planning;
- Review limits;
- Reduce underlying risk positions through risk mitigation strategies;
- Consider an increase in capital;
- Enhance contingency planning.

2.6. Internal Capital Adequacy Assessment

Further to the requirements of Pillar I, a more detailed approach on managing risks is achieved through the preparation of the Pillar II requirements and more precisely the internal capital adequacy assessment process (ICAAP) report which follows the requirements under Regulation (EU) No. 575/2013 and relevant guidelines issued by CySEC.

The ICAAP report is a key tool for both the Company and the regulator as it approaches the risk assessment from a holistic perspective enabling the Company to assess and match risks as much as possible, reducing its residual risk and enabling more precise future growth planning.

The first ICAAP report will be prepared during 2018, after gathering all the sufficient historical data.

For the preparation of the ICAAP Report, the Company will implement the Circular C026 (previously Guidelines GD-IF-02) issued by the CySEC.

The Company will be preparing the ICAAP Report on a solo basis as it is a standalone entity, i.e. it has neither a parent undertaking nor a subsidiary, and as such, it is not required to produce a consolidated Report.

According to the criteria set by the aforementioned Guidelines, the Company is considered 'large' and / or 'complex' for the purposes of the ICAAP as it is authorised to deal on own account. Nonetheless, it is noted that at present the Company does not meet any of the other criteria under this classification as it is neither authorised to underwrite financial instruments, nor to operate a multilateral trading facility. Furthermore, the Company does not make use of any advanced methods to calculate its capital requirements. Finally, it is noted that the Company's CIF authorisation was activated by CySEC in December 2016, whilst it has started to building up its client base during 2017.

The ICAAP Report should outline how the Company has implemented and embedded the internal capital adequacy assessment process within its business, taking into consideration its risk profile, risk appetite and capital needs. Specifically, the ICAAP Report includes procedures and measures adopted by the Company to ensure:

- the appropriate identification and measurement of risks;
- an adequate level of internal capital in relation to the Company's risk profile;
- the application and enhancement of the risk management and internal control systems.

Moreover, the ICAAP enables the BoD and Senior Management to assess on an ongoing basis the risks inherent in the Company's activities, and to this extent, it forms an integral part of the Company's risk management process and decision-making culture.

REGULATORY PILLAR I RISK MANAGEMENT

It is noted that the 8% minimum regulatory capital requirements referred to in the sub-sections below exclude the capital buffers, namely:

a. Capital Conservation Buffer (the 'CCB')
b. Institution-specific Countercyclical Capital Buffer (the 'CCyB')
c. Other systematically important institutions buffer (the 'O-SII buffer').

Currently only the CCB and CCyB apply to the Company. The CCB and CCyB buffers must be covered by Common Equity Tier 1 Capital and it is calculated in accordance with Article 92(3) of the Regulation [par. 52 of the Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms].

The CCB buffer is set at 1.25% for the period 01.01.2017 to 31.12.2017 and shall gradually increase to:

- 1.875% for the period 01/01/2018-31/12/2018
- 2.5% from 01/01/2019 and onwards.

On the other hand, the CCyB is a variable buffer depending on the Company's exposures to each geographical region. In particular, the CCyB is calculated as the total RWAs multiplied by the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the Company are located.

The Company's total Pillar I capital requirement plus additional buffers totalled to 9.25% as of end-December 2017, comprising of: (i) a minimum 8% Pillar I capital requirements; (ii) a 1.25% CCB buffer; and (iii) a 0.0000001% CCyB buffer.

2.7 Credit Risk Management

Definition

Credit Risk is the risk of loss that the Company would incur if the Company fails to perform its contractual credit obligations. The Company follows the Standardized Approach under Pillar 1 for calculating its Credit Risk Capital Requirements as specified in CRR. It categorizes the assets in respect to their exposure class and uses the Credit Step methodology to determine its respective Risk Weights (RW).

Risk identification, Measurement, Control and Reporting

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

- From the Company's deposits in Financial institutions;
- From the Company's exposures to brokerages and other corporates;
- As counterparty credit risk arising from the Company's exposure to derivative contracts; and
- From the Company's exposure to its subsidiaries, directors, shareholders and to their connected persons/legal entities.

Further to the above, the Company is subject to the Large Exposures limits and exposures to directors and shareholders, as stipulated by Regulation (EU) No. 575/2013, in regards to their credit exposure to any particular counterparty.

Credit Risk Analysis

The tables below indicate the Company's Credit Risk exposure under Pillar 1, as at 31.12.2017.

a. Overall Credit Risk Exposure and Capital Requirements

Credit Risk Capital Requirements	31/12/2017	
	EUR '000	EUR '000
Risk Weighted Assets:	**RWAs**	**Capital requirement (8% of exposure)**
Institutions (RW: 20%)	109	8.7
Institutions (RW: 50%)	3	0.2
Institutions (RW: 100%)	2	0.2

Corporate (RW:100%)	438	35
Retail exposures (RW:75%)	0.4	0
Particularly high-risk exposures (RW: 150%)	16	1.3
Equity exposures (Investment in subsidiary)	44	3.5
Other assets and receivables	1	0.1
Total	**614**	**49.1**

The Company during 2017 was at all times above the Pillar I, plus applicable buffers, minimum regulatory capital requirement, but its eligible own funds were below the minimum EUR 730k initial capital requirement. For this purpose, a corrective action plan was initiated in June 2017. The action plan resulted in a two-phase capital increase which raised the Company's eligible own funds to EUR 913k (well above the minimum EUR 730k threshold) as at 31.12.2017.

The Company's exposure to its wholly owned subsidiary, operating in the IT sector, resulted in a limit excess of the Company's Large Exposures and Exposures to Directors and Shareholders. A corrective action plan has already been initiated and aims at resolving the excess of the aforementioned limits by June 2018.

b. Credit Risk Exposure by Industry

Credit Risk Capital Requirements by Industry	**31/12/2016**	**31/12/2017**
	EUR '000	EUR '000
Risk Weighted Assets:		
Financial institutions	151	115
Non-financial institutions	0	438
Equity	0	44
Particularly High Risk (Exposure to a AIF)	0	16
Retail	0	0.4
Other	0	1
Total Risk Weighted Assets (RWAs)	151	614
Capital Requirements (=8% x RWA)	**12**	**49**
Capital Requirements plus applicable buffer (=9.25% x RWAs)	**14**	**57**
Total Available Eligible Capital (equals to CET1)	**707**	**913**

c. Credit Risk Exposure by Residual Maturity

Credit Risk Capital Requirements by Maturity	31/12/2016	31/12/2017
	EUR '000	EUR '000
Risk Weighted Assets:		
Up to 3 Months	151	306
Greater than 9 months up to 10 months	0	0.6
Greater than 11 months up to 12 months	0	57
Greater than 30 months up to 33 months	0	189
Undefined maturity	0	62
Total Risk Weighted Assets (RWAs)	151	614
Capital Requirements (=8% x RWA)	**12**	**49**
Capital Requirements plus applicable buffer (=9.25% x RWAs)	**14**	**57**
Total Available Eligible Capital (equals to CET1)	**707**	**913**

d. Credit Risk Exposure by Country

Credit Risk Capital Requirements by Country	31/12/2016	31/12/2017
	EUR '000	EUR '000
Risk Weighted Assets:		
EU	151	177
US	0	147
British Virgin Islands	0	290
Non-EU	0	0
Total Risk Weighted Assets (RWAs)	151	614
Capital Requirements (=8% x RWA)	**12**	**49**
Capital Requirements plus applicable buffer (=9.25% x RWAs)	**14**	**57**
Total Available Eligible Capital (equals to CET1)	**707**	**913**

2.8 Market Risk Management

Definition

Market Risk is the risk of losses when the value of investments may decline over a given time period as a result of fluctuation of market prices or economic changes.

In the context of Pillar I, Market Risk can be divided in the following categories:

Equity Position Risk: It refers to the probability of loss associated with a particular trading (long or short) position due to share price changes.

Interest Rate Risk: The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Commodities Risk: It refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. These commodities may be oil, metals, gas, electricity etc.

Foreign Exchange Risk: It is a financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the Company. The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

Risk identification, Measurement, Control and Reporting

The Company's Market Risk mainly arises from:

- Foreign exchange fluctuations which affect the Company's assets or liabilities denominated in foreign currencies as well as from positions held during forex trading;
- Financial security market fluctuations, position risk, arising from positions being traded on the Company's platform.
- Commodities risk, arising from the Company's position in various derivatives with a commodity (i.e. oil, metal, gas, etc.) as an underlying asset.

Market risk shall be effectively managed by setting and monitoring foreign exchange risk limits, such as through the establishment of:

- A list of Permitted Currencies;
- Setting a Maximum value of exposure to a particular foreign currency (net open FX position);

- Setting a value of exposures to all foreign currencies (aggregate net open FX position);
- The above limits not only to Overnight positions but also to Intraday positions if possible;
- In regards to Dealing on Own Account ("DoA"), created FX positions should be flagged accordingly and managed by the Head of DoA department;
- Stop Loss Limits on trading by risk factor (equity, interest rates, commodities, FX); and
- Margin Calls.

Furthermore, the Company had adopted the Standardised Approach for calculating its minimum capital requirements.

Market Risk Analysis

Position Risk on Equities Capital Requirements	31/12/2016	31/12/2017
Sectorial Equity Breakdown	EUR '000	EUR '000
USA	nil	nil
EU	nil	nil
Other	nil	nil
Total Risk Weighted Assets	**nil**	**nil**
Capital Requirements (=8% x RWA)	**nil**	**nil**

Commodity Risk Capital Requirements	31/12/2016	31/12/2017
	EUR	EUR '000
Commodity Type	nil	nil
Total Risk Weighted Assets	**nil**	**nil**
Capital Requirements (=8% x RWA)	**nil**	**nil**

Foreign Exchange Capital Requirements	31/12/2016	31/12/2017
Currency	EUR '000	EUR '000
EUR	nil	nil
USD	nil	191
Other	nil	nil
Total Risk Weighted Assets	**nil**	**191**
Capital Requirements (=8% x RWA)	**nil**	**15**

2.9 Operational Risk Management

Definition

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external factors. Operational Risk includes Legal Risk but excludes Strategic and Reputational Risk.

The following list presents some event types, included in Operational Risk, with some examples for each category:

- Internal Fraud – unauthorized limit excess with intend, misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees;
- External Fraud – theft of information, hacking damage, third – party theft and forgery;
- Compliance – Brand impairment, Complaint handling, third country regulator retaliation, E-commerce global taxation matters;
- Clients, Products and Business Practice – market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.
- Execution, delivery and process management: wrong execution of orders, data entry mistakes when transmitting orders, trade miscapturing.

Risk identification, Measurement, Control and Reporting

In order to control the exposure to Operational Risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses);
- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of Operational Risk is directly related to effective and efficient management practices and high standards of corporate governance.

To that effect, the management of Operational Risk is geared towards:

- Maintaining a strong internal control governance framework.
- Managing Operational Risk exposures through a consistent set of processes that drive risk identification, assessment, control and monitoring.

The Company implements the below Operational Risk Mitigation Strategies in order to minimize its Operational Risk Exposure:

- The development of Operational Risk awareness and culture;
- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities;
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives;
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value;
- Established a "four-eyes" structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management and a Risk Management Committee. The board further reviews any decisions made by the Management while monitoring their activities;
- Comprehensive business contingency and disaster recovery plan.

With regards to client data security and safety the following measures are being taken:

- Client and Counterparty identification documents to be duly completed and verified according to the relevant legislative framework (this way preventing the occurrence of external frauds);
- Client data, including transaction data, are secured with appropriate firewalls and backed up regularly (this way preventing the loss of data from external fraud);
- Client funds are deposited to dedicated bank accounts, being segregated from own funds, and balances are regularly reconciled per CySEC requirements (this way preventing internal fraud);
- Client investment profiling is performed in accordance to IOM and relevant internal policies; and making sure clients understand the risks of the products on offer by the Company prior to investing to such products (this way preventing risks related to aggressive selling, non-suitability and product misrepresentation).

For the calculation of Operational Risk in relation to the capital adequacy returns, the Company uses the Basic Indicator approach. Based on the relevant calculations in the Company's capital requirements, the figures calculated shows that the Company's exposure to Operational Risk, as at 31st December 2017 was nil, due to the fact that the Company recorded losses over the year.

Operational Risk Capital Requirements	31/12/2016	31/12/2017
	EUR '000	EUR '000
Gross Income as specified in CRR:		
Last 3 years average (based on working-assumptions)	nil	(3)
Operational Risk Capital Requirement (15% of 3-year average Gross Income)	**nil**	**nil**
Total Risk Weighted Assets equivalent	**nil**	**nil**

2.10. Funding Liquidity/Liquidity Risk

Funding liquidity risk is the possibility that, over a specific horizon, the Company will be unable to raise cash and meet its financial obligations.

Liquidity Risk is the risk that the Company will not be able to meet its financial obligations as they fall due. In periods of abnormal fluctuations in market conditions or financial crisis, Liquidity Risk can expose the Company to a shortfall of liquidity and limit its access to the capital markets resulting in damages. Liquidity shortages expose the Company to the risk of not having enough cash to fulfil its duties against creditors/debtors that can eventually cause regulatory sanctions and loss of business/reputation.

Mitigation Strategies

To minimize its exposure to Liquidity Risk, the Company implements the below Liquidity Risk Mitigation Strategies:

- Monitoring of the Company's exposures and diversification to avoid rise of concentration risk as per the internal policies;
- Cash Management.

2.11. Compliance / Money Laundering and Terrorist Financing Risk

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

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

The Company has in place and is updating as applicable, certain policies, procedures and controls in order to mitigate the Compliance / Money Laundering and Terrorist Financing Risks. Among others, the Company has established or is in the process of establishing the below policies, procedures and controls:

a. adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing Risks faced by the Company;
b. adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing Risk, prior and after the establishment of a business relationship with a client,

c. setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents collected from independent and reliable sources);
d. obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction;
e. monitoring and reviewing the business relationship or an occasional transaction with clients and potential clients of high risk countries;
f. Developed and established a Customers' Acceptance Policy (CAP) which has also been included in its AML Manual and reflects the actual policies and procedures followed by the Company;
g. A number of policies (i.e. Conflicts of Interest Policy, Client Complaints Policy, Protection of Clients' Funds / Assets, MIFID Client Categorization, etc.) have been uploaded in the Company's website aiming at providing its clients with all necessary information prior to the establishment of a business relationship;
h. The Company's Compliance Officer, in liaison with the BoD and the Heads of the Front-line Departments, designed effective organizational and administrative arrangements, which are expected to be implemented going forward, with a view to taking all reasonable steps to prevent conflicts of interest from adversely affecting the interests of the Company's clients;
i. Established mechanisms that allow the Company to submit the EMIR and MIFIR reporting on a daily basis according to the provisions of the relevant Laws and Directives;
j. Electronically submit to CySEC the Risk Based Supervision Framework ('RBS-F');
k. The Company is in the process of setting in place the Common Reporting Standard (CRS) reporting;
l. Registered with the goAML system implemented by MOKAS.
m. The Company's Compliance Officer and Senior Management shall ensure on an ongoing basis that, the Product Governance Requirements under MiFiD II will be met; and
n. Ensure that the Company's personnel receive the appropriate training and assistance.

The Company has reviewed its policies, procedures and controls with respect to money laundering and terrorist financing in order to ensure compliance with the applicable legislation and incorporated, as applicable, any new information issued/available in this respect.

3. CORPORATE GOVERNANCE

3.1. Recruitment Policy

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the BoD. The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the

collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. Factors considered in the review of potential candidates include:

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subject;
- Knowledge of and experience with financial institutions ("fit-and-proper");
- Integrity, honesty and the ability to generate public confidence;
- Knowledge of financial matters including understanding financial statements and financial ratios;
- Demonstrated sound business judgment;
- Risk management experience.

3.2. Board of Directors

The Board of Directors is comprised of three executive directors and two independent non-executive directors.

Name of Director	Executive Director/ Independent Non-Executive Director in Stone Edge Capital Ltd	Number of Directorships in other entities (other than Stone Edge Capital Ltd)
Dmitry Sinitsyn	Executive Director	2
Ilona Mekh	Executive Director	0
Igor Rodionov	Executive Director	2
Inna Parvan	Independent Non-Executive Director	5
Lubov Astreou	Independent Non-Executive Director	12

3.3. Diversity Policy of the Board of Directors

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how we do business and imperative to commercial success. The Company recognizes the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practises in the Corporate Governance Code of many EU countries.

The Company recognizes the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences will be considered when determining the optimum composition of the BoD.

3.4. Reporting and Control

In line with the requirements set out in the Law and subsequent Directives, the Company has been able to maintain a good information flow on risk to the management body, as can be seen below:

Report Name	Owner	Recipient	Frequency	Due Date
Annual Compliance Report	Compliance Officer	BoD, CySEC	Annual	30/04/2017
Annual Internal Audit Report	Internal Auditor	BoD, CySEC	Annual	30/04/2017
Annual Risk Management Report	Risk Manager	BoD, CySEC	Annual	30/04/2017
Annual Anti-Money Laundering Report	Anti-Money Laundering Compliance Officer	BoD, CySEC	Annual	31/03/2017
Pillar III Disclosures (Market Discipline and Disclosure)	Risk Manager	BoD, CySEC, Public	Annual	30/04/2017
Financial Reporting	External Auditor	BoD, CySEC	Annual	30/04/2017

4. FINANCIAL INFORMATION

The following information provides a reconciliation between the balance sheet presented in Financial Statements and the balance sheet prepared for prudential purposes.

Regulatory Capital (Eligible Own Funds for Solvency Purposes as defined in CRR)

	31 December 2016	31 December 2017
	EUR '000	EUR '000
Total Equity as per Financial Statements		
Share Capital (paid-up)	1000	1050
Share Premium	0	450
Less Reserves	(159)	(438)
Less Intangible Assets	(48)	(64)
Less Contribution to Investor Compensation Fund	(86)	(85)
Total Common Equity Tier 1 (CET1)	**707**	**913**
Additional Tier 1 Capital	**0**	**0**
Total Tier 1 Capital	**707**	**913**
Tier 2	**0**	**0**
Total Eligible Own Funds	**707**	**913**

5. CAPITAL REQUIREMENTS UNDER PILLAR I

The primary objective of the Company with respect to its capital management is to ensure that the Company complies with the capital requirements regulation imposed by the European Union and regulated by CySEC. Under this framework, the Company needs to monitor its capital base and maintain a strong capital adequacy ratio in order to be able to promote itself as a fully compliant and healthy Company, to support its business and maximize shareholders' value. In this respect, the Capital requirements should not be seen as a restriction of business but rather as proactive risk management imposed to help both the Company and its client base.

The fundamental pillar of the capital adequacy framework, Pillar I, is based on the fact that the Company must have minimum own funds which are at all times more than or equal to the sum of its capital requirements. In addition to the Pillar I minimum capital requirements, the Company's eligible own funds must at all times exceed the EUR 730k minimum initial capital requirement as specified under the Article 28 (2) of the CRD.

In line with CRR, Pillar I sets out the minimum regulatory capital requirements of firms to cover credit risk, market risk and operational risk. The minimum capital adequacy ratio an investment firm is required to maintain is set at 8%. Moreover, with the introduction of Basel III/CRR, the capital quality requirements have become more stringent: Common Equity Tier 1 ratio has increased to 4.5%, plus applicable additional buffers as described in Section 2.6 of this Report, Tier 1 to 6%, and Overall (Tier 1 and Tier 2) to 8% plus any additional capital buffers (including the countercyclical capital buffer) and any SREP add-on.

The BoD, as well as the Risk Manager, monitor the reporting requirements and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company.

The Company manages its capital structure and makes adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

The Company's Own Funds, Capital Requirements and Capital Adequacy Ratio as at 31st of December 2017, were the following:

Available Capital Level	31 December 2017
	€ '000
Common Equity Tier 1 (CET 1)	913
Additional Tier 1 Capital (AT 1)	0
Total Tier 1 Capital	913
Tier 2	0
Total Eligible Own Funds	**913**

	Risk weighted assets	Capital Requirement
	€ '000	€ '000
Credit Risk	614	49
Market Risk	191	15
Operational Risk	0	0
Credit Valuation Adjustment Risk	0	0
Total Risk Exposure Amount	**805**	**64**
CET1 Capital Ratio	**113.4%**	**Surplus: 876**
T1 Capital Ratio	**113.4%**	**Surplus: 864**
Total Capital Ratio	**113.4%**	**Surplus: 848**

6. CREDIT ASSESSMENT UNDER THE STANDARDISED APPROACH

For the purpose of calculating the capital requirements of the Company mainly under the Credit Risk requirement, for the exposure classes listed below, Moody's, S&P and Fitch's external credit ratings have been applied.

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

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

Credit Quality Step	S&P	Moody's	Fitch	Institution Risk Weight (Below 3 months)	Institution Risk Weight (Above 3 months)	Sovereigns Risk Weight	Corporate Risk Weight
1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%	20%	0%	20%
2	A+ to A-	A1 to A3	A+ to A-	20%	50%	20%	50%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	20%	50%	50%	100%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	50%	100%	100%	100%
5	B+ to B-	B1 to B3	B+ to B-	50%	100%	100%	150%
6	CCC+ and below	Caa1 and below	CCC+ and below	150%	150%	150%	150%

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

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

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

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

The ECAIs are not taken into account where all relative exceptions or discretions as per the CRR apply. This means the credit quality step tabulated below may not apply for credit exposure risk weighting purposes if CRR exceptions apply (for example exposures to EU institutions in domestic currency with remaining maturity up to 90 days).

The classification of original exposures as at 31/12/2017 in the table below follows the information above.

Credit Quality Step	Corporates	Institutions	Public Sector Entities	Other Assets	Total
1			1		1
2		547			547
3					
4	449	7		2	458
5		2		44	46
6				11	11
Total	**449**	**556**	**1**	**57**	**1062**

7. REMUNERATION POLICY AND PRACTICES

Remuneration refers to payments or compensations received for services or employment. Based on the above, the Remuneration policy includes the base salary (fixed amount) and any bonuses or other economic benefits (variable amount) that an employee or executive receives during employment and shall be appropriate to the Company's size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the Directive DI144-2014-14.

The variable element of the pay structure, if any, does not rely solely on meeting sales targets or other purely quantitative performance criteria but also on qualitative performance criteria. Such qualitative performance criteria include the quality of service provided to clients (client positive feedback or no client complaints), the level of understanding of the investments services or products being offered, and the ability to explain in layman terms to clients all the risks underlying a product or a financial instrument.

Furthermore, the fixed and variable elements are appropriately balanced and the fixed element represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component.

The BoD of the Company is responsible for making decisions on remuneration matters. The Company has documented its remuneration policy in 2017.

Remuneration as at 31st December 2016	No. of Directors during 2017	Annual Remuneration (EUR)		
		Fixed	Variable	TOTAL
Executive directors	3	27,336	-	27,336
Non-executive directors	2	1,000	-	1,000
Total	**5**	**28,336**	**-**	**28,336**

8. LEVERAGE

According to CRR, Article 429, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposures and is expressed as a percentage. Institutions shall calculate the end-of-quarter leverage ratio as per the discretions from CySEC.

The leverage ratio of the Company is calculated using the fully phased in definition of Tier 1 capital and the monitoring by the regulator will end in 2017, when a minimum ratio will be established. Currently, a 3% minimum limit is being in place for monitoring purposes.

As at 31 December 2017, the leverage ratio of the Company was equal to 76.1% using a fully phased-in definition, as per the table below:

Leverage Ratio	**31 December 2016**	**31 December 2017**
	€ 000	**€ 000**
Exposure Values		
On Balance Sheet	890	1,138
Off Balance Sheet	0	11
Derivatives / REPOs	0	50
Total Exposure	**890**	**1,200**
Total Own Funds	**707**	**913**
Leverage Ratio	**79.4%**	**76.1%**

9. DISCLOSURES POLICY

The Company, taking into consideration the requirements of the Law, is currently planning on drafting its Disclosures policy for 2018.