



Infin Markets Limited

Regulated by the Cyprus Securities and Exchange Commission License no. 147/11

Independent Auditors' report to the Cyprus Securities and Exchange Commission in respect of Infin Markets Limited for the year ended 31 December 2014

May 2015

Disclosure

Independent Auditors' report to the Cyprus Securities and Exchange Commission for the year 2014 has been prepared by Infin Markets Ltd as per the requirements of the Directive DI144-2014-14 issued by the Cyprus Securities and Exchange Commission.

Infin Markets 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.

Infin Markets Ltd is regulated by the Cyprus Securities and Exchange Commission under License number 147/11.

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I. EXECUTIVE SUMMARY

The purpose of this report is to inform the public and other market participants of the key components, scope and effectiveness of Infin Markets Ltd (the "Company") risk measurements, risk profile and capital adequacy.

The Company has been compliant with Basel II framework since commencement of its operations and it has adopted the Standardized Approach for calculating the capital requirements of Credit Risk and Market Risk and the Basic Indicator Approach for determining the capital requirements for Operational Risk.

The Company's Capital Adequacy Ratio as at 31 December 2014 was equal to 94.38%, which is well above the minimum required ratio of 8%. For the same period, its Total Capital Requirements summed up to EUR 88,240 against its Total Eligible Own Funds at EUR 1,041.000.

II. INTRODUCTION

The present report is prepared by Infin Markets Ltd a Cyprus Investment Firm ("CIF") authorized and regulated by the Cyprus Securities and Exchange Commission (the "CySEC", the "Commission") under the license number 147/11 and operates in harmonisation with the Markets in Financial Instruments Directive (MiFID) (EU Directive 2004/39/EC).

In accordance with its CIF authorisation the Company is allowed to provide the following services:

Investment Services & Activities

- a. Reception and transmission of orders in relation to one or more financial instruments
- b. Execution of orders on behalf of clients
- c. Dealing on own account

Ancillary Services

- a. Safekeeping and administration of financial instruments, including custodianship and related services
- b. Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- c. Foreign exchange services where these are connected to the provision of investment services

In accordance with Directive DI144-2014-14 for Capital Adequacy of CIFs (the "Directive"), the Company is required to disclose information relating to its capital structure, capital adequacy, its risk exposures and its assessment. The scope of this report is to promote market discipline and to improve transparency to market participants.

The report will be published on the Company's website at <http://www.infinmarkets.com/> on an annual basis. The provisions of the Directive follow the fundamental steps of the Basel II Accord which has been implemented in the European Union through the Capital Requirements Directive ("CRD").

Under the Basel II, CRD fundamentally consists of three "pillars":

- **Pillar 1** sets out the minimum regulatory capital requirements of firms to cover credit, market and operational risk. The minimum capital adequacy ratio an investment firm is required to maintain is set at 8%.
- **Pillar 2** requires the firm to assess whether additional capital should be maintained against any risks not adequately covered under Pillar 1, and
- **Pillar 3** specifies a set of disclosure requirements which enable market participants to assess information on firms' risks, capital and risk management procedures.

Under Pillar 3, the Company is required to publicly disclose information about the capital it holds and each material category of risks it faces, including the strategies and processes it has in place in order to manage and monitor these risks.

The Board of Directors and the Risk Management Committee 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 based on the guidelines of the risk management policies and procedures. The Board of Directors, Risk Management Committee, Internal Audit, Risk Manager 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 a variety of risks. In particular the Company is exposed to credit risk, operational risk, foreign exchange risk, liquidity risk, interest rate risk, counterparty risk, funding liquidity risk, money laundering and terrorist financing risk, compliance risk, and technology risk.

To this end, this Report is focused on the following areas:

- Examination of the capital adequacy and the financial results of the Company
- Assessment and Monitoring of the risks faced by Company

III. CAPITAL STRUCTURE

The Company periodically manages its capital in order to ensure that it will be able to mitigate any risk exposures arising from the business while maximizing the return to shareholders.

In accordance with the Regulatory framework issued from CySEC, the Capital Adequacy of the Company is set to a minimum of 8%. In accordance with the Directive DI144-2014-14, due to the services the Company is authorised to provide, Capital Adequacy Reports must be prepared and submitted on a monthly basis to the Commission. The Capital Adequacy Reports are prepared on a solo basis and the reporting currency is Euro.

The Company ensures optimal operating conditions via monitoring that sufficient capital is available for its operations and for covering its exposures to risks. The Company maintains only Tier 1 Capital as eligible Own Funds and as at 31 December 2014 its Capital Structure was as indicated in the table below:

Capital Structure as at 31 December 2014	
	EUR (000)
Ordinary Share Capital	2
Share Premium	998
Shareholders Contribution	852
Eligible Capital	1,041
Eligible Reserves	(787)
Original Own Funds (Tier 1 Capital)	1,041
Total Eligible Own Funds	1,041

As at 31 December 2014, the Company's Capital Adequacy Ratio was 94.38%. Its regulatory own funds, capital requirements/risk weighted assets and capital adequacy ratio were as follows:

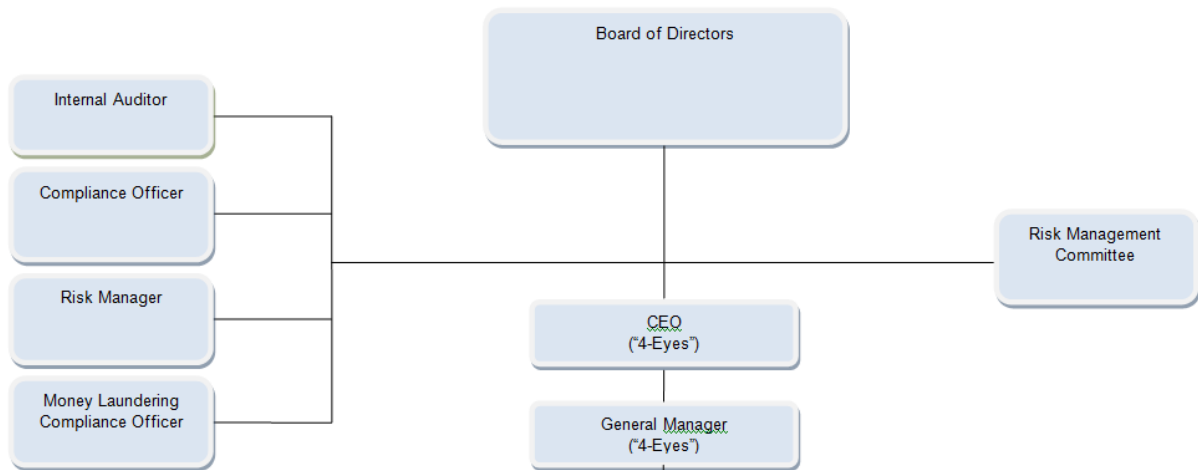
Capital Requirements as at 31 December 2014		
	Risk Weighted Assets EUR(000)	Capital Requirments EUR(000)
Total Eligible Own Funds	1,041	
Credit Risk	292	23.33
Foreign Exchange Risk	517	41.36
Operational Risk	294	23.55
Total	1.103	88.26
Capital Adequacy Ratio	94.38%	

IV. RISK MANAGEMENT & MITIGATION

Risk Management Structure

The Board of Directors (“BoD”) appoints a Risk Manager to head the Risk Management function which operates independently and is responsible for implementing the Risk Management Policy of the Company set by the Risk Management Committee and ensuring that is properly followed. The Risk Management Structure of the Company can be found below:

RISK MANAGEMENT STRUCTURE OF THE COMPANY



The risk management policy established by the Company sets out the Company’s procedures and mechanisms regarding risk as well as it describes the roles and responsibilities of the Risk Management Committee and the Risk Manager. It also identifies the main reporting procedures and outlines the process followed by the Risk Management Committee 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 BoD via the Risk Management Committee. It also ensures that efficient management of the Company’s risks in the provision of the investment and ancillary services to clients, as well as the risks underlying the operation of the Company, in general. 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 Risk Management Committee is composed of the General Manager, the Risk Manager, the Managing Director and the Head of Dealing on Own Account. It bears the responsibility to monitor the adequacy and effectiveness of such risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

The Risk Committee has the following responsibilities:

- Monitor and control the Risk Manager in the performance of his duties;
- Establish, implement and maintain adequate risk management policies and procedures which identify the risks relating to the Company's activities and processes;
- The assessment, on an annual basis, of the adequacy and effectiveness of the risk management policy and the appropriateness of the risk limits which have been set, the adequacy of provisions and the overall capital adequacy of own funds in relation to the size and nature of the risks undertaken.
- Monitor the adequacy and effectiveness of the risk management policies and procedures.

The role of the Risk Management Committee is essential to:

- a. ensure the efficient management of the risks inherent in the provision of the investment services to clients
- b. monitor the risks underlying the operation of the Company
- c. be responsible for monitoring and controlling the Risk Manager

The Risk Management Committee is dedicated primarily to managing the credit, market and operational risks of the company, resulting from the company's operations, and as part of its responsibilities it has to set out, approve and regularly update the policies, arrangements and procedures, which form the risk strategy, as well as to monitor all risks on an ongoing basis. The Risk Management Committee provides the BoD with status updates, and recommendations on risk management policies and guidelines.

V. OBJECTIVES UNDER RISK MANAGEMENT

The Company manages all its risks in an integrated and consistent way. The overall goals are to:

- Ensure that Company's exposure to the relevant risk factors is properly understood and evaluated;
- Ensure that Company's actual risk level is in line with its available equity capital;
- Ensure that Company optimizes the return on the risks that it takes.

Risk Governance

All risks are managed according to the same basic principles of governance and organization. The main responsibilities can be summarized as follows:

- The Board of Directors has a supervisory function. It is responsible for the Company's fundamental approach to risk for approving the risk principles and for defining risk capacity and risk appetite;
- The Risk Manager has the overall responsibility for the development, implementation and enforcement of the Company's risk principles.

Risk Tolerances

In order to achieve its business objectives, the Company recognizes that it will take on certain business risks. The Company aims to take business risks in an informed and proactive manner such that the level of risk is aligned with the potential business rewards.

VI. ASSESSMENT OF RISK EXPOSURES

The duty of the Risk Manager is to monitor the risks individually and report on them to the Risk Management Committee, the Senior Management and the Board, as requested and when applicable.

a. Credit Risk

Credit risk is the risk of loss that the Company would incur if a counterparty fails to perform its contractual credit obligations. The Company follows the Standardised Approach for calculating its Credit risk capital requirements as specified in paragraphs 2 to 7 of Chapter 1 of Part C of the Directive. It categorises the assets in respect to their exposure class and uses the Credit Quality Step methodology to determine their respective Risk Weights.

Credit Exposure Analysis

The following tables illustrate the results of credit risk exposure analysis as at 31 of December 2014.

Exposure Category	Amount '000	Risk Weighted Assets '000	Capital Requirements '000
Public Sector Entities	61.6	61.6	4.93
Institutions	981.3	196.3	15.7
Other Assets	40.7	33.7	2.7
Total	1.084	292	23.33

Institutions

For its exposures to institutions, the Company has used the ratings provided by top credit rating agencies (Moody's, Fitch Ratings, Standard & Poor's) to determine the applicable risk weight. Drawing on this, all exposures of the Company to institutions were assigned a 20% risk weight.

Public Sector Entities

A 100% risk weight was used to balances with Public Sector Entities.

Other Items

A risk weight of 100% was applied to all other items.

The Credit Risk exposures can be found below broken down by residual maturity and business sector:

Exposure Category	Residual Maturity		Total '000
	< 3 months '000	> 3 months '000	
Public Sector Entities	-	62	62
Institutions	981	-	981
Other Assets	2	39	41
Total			1.084

Exposure Category	Business Sector		Total '000
	Financial Services / Banking '000	Other '000	
Public sector Entities	-	62	62
Institutions	981	-	981
Other Assets	2	39	41
Total	983	101	1.084

Mitigation Strategies

The Company employs the following credit risk mitigation strategies:

- Regular credit review of counterparties by the Risk Manager, identifying the key risks faced and reports them to the Board of Directors, which then determines the firm's risk appetite and ensures that an appropriate amount of capital is maintained.
- In order to maintain its Credit risk to the minimum, the Company is using the European banking system for safekeeping of funds, always ensures that the banks

it cooperates with have high ratings based on top credit rating agencies (Moody's, S&P or Fitch).

- Electronic Fraud security system is in place to detect suspicious credit card activity.
- Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution. The Company also has policies to ensure that customers place sufficient funds prior to entering into new deals.

b. Operational Risk

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

Mitigation Strategies

The Company employs the following operational risk mitigation strategies:

- Four eyes structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company. The board further reviews any decisions made by the Management while monitoring their activities;
- Detection methods are in place in order to detect fraudulent activities.
- The Company outsources its Compliance function to Mr Savvas Patsalides. The compliance officer in addition to its core responsibilities also ensures the accuracy of any statements made during the marketing and advertising processes. The Compliance officer also ensures that the information addressed to the client is fair, clear and not misleading.
- The Company outsources the Internal Audit function to K. Treppides & Co Ltd, a member of the Institute of Chartered Public Accountants of Cyprus (ICPAC). The internal audit visits are performed in order to ensure that employees comply with the Company's internal procedures.

- It maintains a contingency plan for disaster recovery and periodic testing of backup facilities.
- The in house risk manager is responsible for the monitoring of the Company's risk exposure.

The Company manages operational risk through a control-based environment in which important processes (daily trading, risk management and back office) are thoroughly documented, recorded and monitored according to its policies and procedures within the Internal Operations Manual.

The Company has adopted the Basic Indicator Approach (BIA) for the calculation of the operational risk capital requirements as shown in the table below:

OPERATIONAL RISK AS AT 31 DECEMBER 2014	
BASIC INDICATOR APPROACH	CAPITAL REQUIREMENTS EUR (000)
	23.55

c. Foreign Exchange Risk

Foreign exchange ("FX") risk is the effect where unanticipated exchange rate changes have on the Company. In the ordinary course of business, the Company is exposed to minimal foreign exchange risk, which is monitored through various control mechanisms.

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

The Company has adopted the standardized approach for the calculation of the foreign exchange risk capital requirements. The table below shows the Capital Requirements for foreign exchange risk of Infin Markets Ltd, as at 31 of December 2014:

FOREIGN EXCHANGE RISK AS AT 31 DECEMBER 2014	
STANDARDISED APPROACH	CAPITAL REQUIREMENTS EUR (000)

Mitigation Strategies

The Company employs the following FX risk mitigation strategies:

- The risk manager monitors the compliance of the Company's trading book to the investment policy statement and any deviation is reported to the Senior Management and appropriate action is taken,
- Aggregate net exposures, as they develop from the opening and/or closing of positions by clients, are monitored by the Company's Head of Dealing on Own Account Department in regards to the level of risk to be maintained. Where risk exceeds desired levels, appropriate actions (i.e. automatic rejection of a client order by the system) are taken until desired levels are achieved.
- The opening of new deals is limited up to level which they backed up by the capital.

d. Liquidity Risk

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

Mitigation Strategies

To minimise its exposure to liquidity risk, the Company has established procedures that enables to monitor on a daily basis its cash flows and to manage them properly through its Accounting Department.

VII. Leverage

The leverage ratio is calculated as an institution's capital measure divided by the institution's total exposure measure and is expressed as a percentage.

The leverage ratio of the Company is calculated using two capital measures:

(a) Tier 1 capital: fully phased-in definition.

(b) Tier 1 capital: transitional definition.

As result, two leverage ratios are calculated.

As at 31 December 2014, the leverage ratio of the Company was equal to 96.54% using a fully phased-in definition of Tier 1 and 96,54% using a transitional definition of Tier1. This ratio is well above the 3% limit.

VIII. REMUNERATION SYSTEM

The Company is in the process of developing a Remuneration Policy which shall be appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities whilst adhering to the provisions of the Directive DI144-2014-14.

The Company's remuneration system will be concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management, members of the Board of Directors and the Heads of the departments; the said practices are established to ensure that the rewards for the 'executive management' provide an incentive to achieve the key business aims.

The total remuneration of staff will consist of fixed and variable components and these have to be appropriately balanced. The fixed component 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 remuneration of the key management personnel of the Company in 2014 stood at EUR 146.000.