

**IFCM CYPRUS LIMITED**  
**(former Infin Markets Limited)**

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

**Pillar 3 Disclosures 2016**

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## **I. EXECUTIVE SUMMARY**

As a Cyprus Investment Firm, IFCM CYPRUS LIMITED (former Infin Markets Ltd) (the “Company”) is obliged, pursuant to Article 433 of part Eight of the CRR to publish, at least on an annual basis, these disclosures.

The following report is published pursuant to the above obligations as well as in accordance with the circulars issued by Cyprus Securities and Exchange Commission (CySEC).

The purpose of this report is to inform the public and other market participants of the key components, scope and effectiveness of IFCM CYPRUS LIMITED (former 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 2016 was equal to 112.97%, which is well above the minimum required ratio of 8%. For the same period, its Total Capital Requirements summed up to EUR 648.000 against its Total Eligible Own Funds at EUR 731.000.

## II. INTRODUCTION

The present report is prepared by IFCM CYPRUS LIMITED (former 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:**

- Reception and transmission of orders in relation to one or more financial instruments (Financial Instrument: 1|2|4|5|9);
- Execution of orders on behalf of Clients (Financial Instrument: 1|2|4|5|9);
- Dealing on Own Account (Financial Instrument: 1|2|4|5|9);
- Investment Advice (Financial Instrument: 1|2|4|5|9).

### **Ancillary Services:**

- Safekeeping and administration of financial instruments, including custodianship and related services (Financial Instrument: 1|2|4|5|9);
- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction (Financial Instrument: 1|2|4|5|9);
- 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 Circular C038 and Directive DI144-2014-15, due to the services the Company is authorised to provide, Capital Adequacy Reports must be prepared and submitted on a quarterly 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 2016 its Capital Structure was as indicated in the table below:

Capital Structure as at 31 December 2016	
	EUR (000)
Ordinary Share Capital	2
Share Premium	998
Shareholders Contribution	1,076
<b>Eligible Capital</b>	<b>731</b>
Eligible Reserves	1.338
<b>Original Own Funds (Tier 1 Capital)</b>	<b>731</b>
<b>Total Eligible Own Funds</b>	<b>731</b>

As at 31 December 2016, the Company's Capital Adequacy Ratio was 112.97%. It's regulatory own funds, capital requirements/risk weighted assets and capital adequacy ratio were as follows:

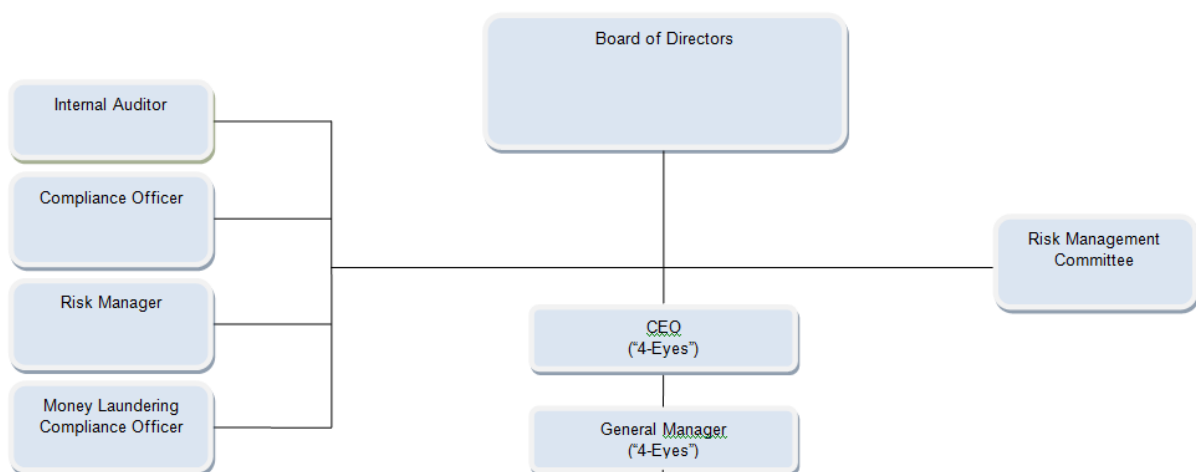
<b>Capital Requirements as at 31 December 2016</b>		
	<b>Risk Weighted Assets EUR(000)</b>	<b>Capital Requirments EUR(000)</b>
<b>Total Eligible Own Funds</b>	731	730
Credit Risk	304.74	24.38
Foreign Exchange Risk	294.27	23.54
Operational Risk	48.75	3.9
<b>Total</b>	<b>647.76</b>	<b>51.82</b>
<b>Capital Adequacy Ratio</b>	<b>112.97%</b>	

## 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.

The Company has the following reports to be submitted to the BoD and relevant authorities:

Report name	Description	Responsible person	Recipient	Frequency of submission
Internal Audit Report	Annual Internal Audit review	Internal Auditor	BoD, CySEC	Annually
Compliance Report	Annual Compliance review	Compliance officer	BoD, CySEC	Annually
AMLCO annual report	Annual report on the Prevention and Suppression of Money Laundering and Terrorist Financing Activities	AMLCO	BoD, CySEC	Annually
Financial statements	Audited financial statements	External Auditor	BoD, CySEC	Annually
Risk Management report	Annual risk manager report	Risk manager	BoD, CySEC	Annually
Pillar III report	Pillar 3 Disclosure regarding risk management, capital adequacy, capital structure and risk exposures.	Risk manager	BoD, CySEC, Public (web-site)	Annually
Capital adequacy report	Capital requirements calculation	Accountants	BoD, CySEC	Quarterly

### *Risk Governance*

The Company is committed to having corporate governance, risk management and control framework appropriate to the size of the business.

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 2016.

Exposure Category	Amount '000	Risk Weighted Assets '000	Capital Requirements '000
<b>Public Sector Entities</b>			
<b>Institutions</b>	554.82	122.69	9.82

<b>Other Assets</b>	198.63	182.08	14.56
<b>Total</b>	<b>753.45</b>	<b>304.74</b>	<b>24.38</b>

### *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	
<b>Public Sector Entities</b>			
<b>Institutions</b>	555	-	555
<b>Other Assets</b>	182	17	199
<b>Total</b>			<b>754</b>

Exposure Category	Business Sector		Total '000
	Financial Services / Banking '000	Other '000	
<b>Public sector Entities</b>			
<b>Institutions</b>	555		555
<b>Other Assets</b>	182	17	199
<b>Total</b>	<b>737</b>	<b>17</b>	<b>754</b>

### 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 Fiduserve Management Limited. The Compliance Officer has established a monitoring program with the aim to evaluate whether the Company's operations are conducted in compliance

with its obligations under the legislation and the effectiveness and appropriateness of the internal control measures of the Company.

- 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 2016	
BASIC INDICATOR APPROACH	CAPITAL REQUIREMENTS EUR (000)
	48.75

### *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 IFCM Cyprus limited (ex Infin Markets Ltd), as at 31 of December 2016:

FOREIGN EXCHANGE RISK AS AT 31 DECEMBER 2016	
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.

#### **e) Compliance and Regulatory Risk**

Compliance risk is defined as the risk of legal sanctions, material financial loss, or loss to reputation the CIF may suffer as a result of its failure to comply with laws, its own regulations, code of conduct, and standards of best/good practice.

Compliance risk is sometimes also referred to as integrity risk, because a CIF's reputation is closely connected with its adherence to principles of integrity and fair dealing.

The risk that a change in laws and regulations will materially impact a security, business, sector or market. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape. Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Cyprus Securities and Exchange Commission (The Commission); these can be found in the Internal Operations Manual. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework.



## **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 2016, the leverage ratio of the Company was equal to 96.95% using a fully phased-in definition of Tier 1 and 96.95% using a transitional definition of Tier1.

This ratio is well above the 3% limit.

## **VIII. REMUNERATION SYSTEM**

The Company has establish and implemented its Remuneration Policy which is 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 purpose of the Remuneration Policy is to strengthen client's protection by improving the implementation of the conflicts of interest and conduct of business requirements under the Law in the area of remuneration and of course to improve the services provided by the Company.

The Company must ensure that its remuneration system includes measures to avoid conflicts of interests and to ensure compliance with the legislative requirements concerning the conduct of business in order to ensure that clients' interests are not impaired by the remuneration policy and practices of the Company in the short, medium and long term horizon. For instance, the remuneration of any supervisory function shall not be linked with the profitability performance of the Company. This policy has been designed in such a way so as not to create incentives that may lead persons to favor their own interests, or the Company's interests, to the potential detriment of clients.

Remuneration consists of all forms of payments and/or benefits provided directly or indirectly to relevant persons in the provision of investment and/or ancillary services to clients. Remuneration can be either financial, such as cash, shares, options, cancellations of loans to relevant persons at dismissal, pension contributions, remuneration by third parties (e.g. through carried interest models, wage increases) or non-financial, such as career progression, health insurance, discounts or special allowances for car, mobile phone, generous expense accounts, seminars in exotic destinations etc.).

All employees of the Company are covered by the Policy including any employee who can have a material impact on the services provided, on the conduct of business risk profile, and who can influence corporate behaviour. This includes but is not limited to:

- a) client-facing front-line staff;
- b) sales force staff, and/or;
- c) other staff indirectly involved in the provision of investment services whose remuneration may create inappropriate incentives to act against the best interests of the clients.

The following principles apply to the Company to the extent that is appropriate to the size, internal organization and the nature, the scope and the complexity of the Company's activities:

- a) Complete and effective risk management is promoted which is not encouraging risk-taking that exceeds the level of tolerated risk of the Company;
- b) the management body, in its supervisory function, of the Company adopts and periodically reviews the general principles of the remuneration policy and is responsible for its implementation;
- c) staff engaged in control functions are independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control;
- d) the remuneration of the senior officers in the risk management and compliance functions is directly overseen by the management body in its supervisory function;
- e) where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of

the business unit concerned and of the overall results of the Company and when assessing individual performance, financial and non-financial criteria are taken into account;

f) Fixed and variable components of total remuneration are appropriately balanced and 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 policy and practices of the Company should allow the operation of a flexible policy on variable remuneration. In this respect, the Company may decide not to pay variable remuneration at all in case where such a variable remuneration may decrease the employees' interests to act for the best interest of the Company's clients.

The Company must ensure that the basic remuneration primarily reflects the relevant professional experience and organizational responsibility as set out in an employee's job description as part of the terms of the employment.

The remuneration of the key management personnel of the Company in 2016 stood at EUR 101.827.