NFX CAPITAL CY LTD

11, Grigori Afxentiou Street
Centro Imperio, 1st floor, Office 102
Mesa Geitonia, 4003 Limassol, Cyprus
Tel: +357 25030341
Fax: +357 25558112

Email: support@nordfx.com.cy
Website: nordfx.com.cy

DISCLOSURE
&
MARKET DISCIPLINE REPORT

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Introduction

NFX CAPITAL CY LTD (the "Company"), being regulated by the Cyprus Securities and Exchange Commission (CySEC), under License No 209/13, which permits the Company to provide investment and ancillary services in relation of financial instruments and in order to enhance market discipline, hereby discloses information relating to its internal capital adequacy assessment and to mitigation of various types of risks that it faces.

Scope of Report

This Report has been prepared in accordance with the requirements of Directives DI144-2007-05 of 2012 and DI144-2014-14. This Report contains information in relation to the risks the Company faces and the strategies it has in place to manage and mitigate those risks, its own funds and its capital adequacy.

This Report together with our External Auditor's verification has been submitted to CySEC.

The Report is prepared annually and is available on our website http://nordfx.com.cy/.

Directive DI144-2007-05 is based on the "three Pillar concept" as follows:

- **Pillar 1** - Minimum Capital Requirements: the calculation of the total minimum capital requirements for credit, market and operational risk is presented, in addition to the calculation of the minimum ratio of capital to risk weighted-assets which is set to 8%.
- **Pillar 2** - Supervisory Review Process: the key principles of supervisory review, transparency and risk management are discussed, with emphasis to be given to the development of an internal capital adequacy assessment process for ensuring compliance with regulatory requirements regarding capital adequacy.
- **Pillar 3** - Market Discipline: the introduction of disclosure requirements and recommendations enhances comparability through the dissemination of information to the market that enables better assessment of the financial strength of investment firms.

Under Pillar 3, the Company is required to publicly disclose information about the capital it holds and each material category of risk it faces, including the strategies and processes it has in place in order to manage and monitor these risks. Disclosures are made regarding the risks referred to under points 1 to 14 of Part 2 of Annex XII, Part C of the Directive and in case that these are not applicable, no reference is made. The aforesaid disclosures aim to strengthen market discipline and encourage transparency.

Risk Management Objectives and Policies

The Company will seek as far as possible to manage all of the risks that arise from its operations. The Company's risk management framework is commensurate with the size and scope of the Company and its operations. It identifies the key risks faced and reports them to the Board of Directors, which then determines the firms' risk appetite and ensures that an appropriate amount of capital is maintained. The Company's Senior Management and Members of the Board will receive at least annually information relating to risks and risk management for assessment and acting appropriately to address any deficiencies.

The Company identifies the risks relating to its activities, processes and systems as follows

a) Credit risk
b) Liquidity risk
c) Market risk
d) Operational risk
e) Concentration risk
f) Securitisation risk
g) Interest risk arising from non-trading book activities
h) Risk of excessive leverage

Credit Risk

Credit risk is the risk of loss that the Company would incur if any counterparty to the Company fails to perform its contractual credit obligations.

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.

Market Risk

Market Risk is the risk of adverse movements in the level of interest rates, in the rate of exchange between currencies and the current prices of securities, commodities and other financial instruments.

Operational Risk

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

Concentration Risk

The concentration risk arising from exposures to each counterparty, including central counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures such as a single collateral issuer, must be addressed and controlled including by means of written policies and procedures.

Securitisation Risk

(1) The risks arising from securitisation transactions in relation to which the CIFs are investors, originator or sponsor, including reputational risks, such as arise in relation to complex structures or products, must be evaluated and addressed through the appropriate policies and procedures, to ensure that the economic substance of the transaction is fully reflected in the risk assessment and management decisions.

(2) Liquidity plans to address the implications of both scheduled and early amortisation must exist at CIFs which are originators of revolving securitisation transactions involving early amortisation provisions.

Interest Risk arising from non-trading book activities

CIFs must implement systems to identify, evaluate and manage the risk arising from potential changes in interest rates that affect a CIF's non-trading activities.

Risk of Excessive Leverage

(1) CIFs must have policies and processes in place for the identification, management and monitoring of the risk of excessive leverage. Indicators for the risk of excessive leverage shall include the leverage ratio determined in accordance with Article 429 of Regulation (EU) No 575/2013 and mismatches between assets and obligations.

(2) CIFs must address the risk of excessive leverage in a precautionary manner by taking due account of potential increases in the risk of excessive leverage caused by reductions of the CIF's own funds through expected or realised losses, depending on the applicable accounting rules. To that end, CIFs must be able to withstand a range of different stress events with respect to the risk of excessive leverage.

Risk Management and Mitigation Strategies

Credit Risk Management

NFX CAPITAL CY LTD has no significant concentration of Credit Risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. 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.

Our clients may not commence trading unless funds have been deposited into their account and their deposits have been cleared. Once trading begins, a given margin is tied, or held as collateral, protecting the Company if the position goes against the client. If account equity drops below a certain predefined level, under normal market conditions all client positions are automatically closed, therefore eliminating the risk that clients will lose more money than already deposited in their account.

Liquidity Risk Management

NFX CAPITAL CY LTD has procedures in place with the object of minimising the risk of losses which may arise as a result of an unmatched position. These procedures include maintaining sufficient cash and other liquid current assets and having available an adequate amount of committed credit facilities.

NFX CAPITAL CY LTD also ensures that the Company has sufficient cash on demand to meet any operational expenses that arise.

Market Risk Management

The Company's activities expose it to Market Risk, which includes Foreign Exchange risk and Interest Rate Risk.

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Foreign Exchange Risk

Foreign Exchange Risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates. As the Company's principal activity is trading in foreign currencies, it is exposed to Foreign Currency Risk because of the existence of open currency positions in the currencies in which it performs transactions with its customers. The Company’s management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company's income and operating cash flows are substantially independent of changes in market interest rates, as the Company has no significant interest-bearing assets. Furthermore, the Company’s management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Operational Risk Management

Operational risk is the risk of loss arising from inadequate or failed internal processes, error, omission, inefficiency, systems failure or external events. The Company's policies and internal controls outline the processes and procedures to be followed by its employees, the reporting lines in place, and each department's functions and responsibilities. The aim of the policies and controls is to minimize the Operational Risk the Company faces. This is supported by a program of audits undertaken by the Internal Auditors of the Company.

In particular, the Company's Business Continuity Policy ensures that the Company's operations will continue in the event of the occurrence of circumstances beyond its control.

Concentration Risk Management

The Company has Credit Risk Mitigation strategies including the management of large exposures to a single credit institution or counterparty.

Securitisation Risk Management

The Company has not carried out any securitisation transactions.

Interest Risk Management arising from non-trading book activities

The Company keeps a short-term fixed deposit in an EU regulated credit institutions.

Excessive Leverage Risk Management

The Company falls under Article 95 (1) of the Regulation (EU) No 575/2013. The Company’s RWA is calculated according to the new requirements of the law, not equal any more to the total RWAs for Credit, Market and Operational Risks. In accordance with Article 95 (1), the Company calculates its Total Risk Exposure amount (RWA) using the formula below:

Total Risk Exposure Amount = Max [total risk exposure amount for credit and market risk (i.e. excluding Operational Risk); Fixed Overheads of the preceding year x 12.5 x25%]

Under the CRR, the Fixed Overheads are calculated using the most recent audited annual financial statements.

The Company monitor the Capital Adequacy on an ongoing basis, checks it daily to ensure that it can absorb a reasonable amount of loss and that it complies with statutory Capital requirements. These requirements are put into place to ensure that NFX CAPITAL CY LTD does not take on excessive leverage and become insolvent.

The Capital adequacy ratio is also used to ensure that the Company is meeting on time its liabilities and other risks such as Credit Risk, Operational Risk etc.

The Risk Management Function

Structure and Responsibilities

The Company has put in place procedures in order to ensure that the full spectrum of risks it faces, is properly identified, measured, monitored and controlled to minimize adverse outcomes, while Internal Audit and Risk Management Committee have the responsibility of auditing the risk management function and of proposing recommendations, where needed.

The responsibilities of the risk management function include, without limitation:

- establishing, implementing and maintaining adequate risk management policies and procedures
- adopting effective mechanisms and processes to manage the risks the Company is exposed to
- monitoring the adequacy and effectiveness of the risk management policies and procedures
- monitoring the level of compliance and the effectiveness of measures taken to tackle any deficiencies.

The Risk Management Report is prepared on an annual basis regarding the status of the Company's risk management policies and procedures and any remedial measures taken to tackle any deficiencies. The report is prepared by the Risk Manager who heads the Company’s Risk Management Committee. The report is presented to the Company's Board of Directors for approval and is subsequently submitted to the CySEC.

The risk management function is further strengthened by the following functions:

- Internal Audit
- Legal and Compliance
- Accounting.

The Role of the Board of Directors

The Board of Directors, being responsible for monitoring risk management undertakes the following:

- approves and periodically reviews risk strategy and policies
- approves the risk appetite annually and monitors the Company's risk profile against this appetite
- ensures that management takes steps necessary to monitor and control risks

- ensures that management maintains an appropriate system of internal control and reviews its effectiveness
- ensures that the Company's overall Credit Risk exposure is maintained at prudent levels and is consistent with the available capital
- reviews and approves changes/amendments to the risk management framework
- reviews and approves risk management procedures and controls for new products and activities
- periodically receives risk reports from the management highlighting key risk areas, controls failures and remedial action steps taken by the Management (this is to be done at least once every quarter)
- ensures that the Management as well as individuals responsible for credit risk management possess the requisite expertise and knowledge to accomplish the risk management function
- ensures that the Company implements a sound methodology that facilitates the identification, measurement, monitoring and control of risk
- ensures that detailed policies and procedures for risk exposure creation, management and recovery are in place.

The Company is monitoring its risk exposure on a continuous basis.

The Company is identifying the key risks faced and reports them to the Board of Directors, which then determines the Company's risk appetite and ensures that an appropriate amount of capital is maintained.

The Company's Members of the Board receive at least annually information relating to risks and risk management for assessment and take appropriate measures to address any deficiencies.

Internal Audit

The Internal Audit function examines and evaluates the adequacy and effectiveness of the Company's policies, procedures and internal control mechanisms in relation to its legislative obligations. On-site inspections are carried out at the headquarters of the Company, recommendation reports are issued and the Company's compliance with its legislative obligations is verified. An Internal Audit report is prepared on an annual basis and is presented to the Company's senior management and Board of Directors. The approved report is then sent to CySEC.

Legal and Compliance

The Company has in place a legal and compliance function that establishes implements and maintains adequate procedures that detect the risk of the Company failing to comply with its legislative obligations, adequate measures to minimise its risk of compliance and to assist CySEC in effectively exercising its powers. This function operates independently, monitors and assesses the adequacy and effectiveness of the internal compliance policies and procedures and the actions taken to address any deficiencies. It also acts as an information point to the Company's employees with reference to the Company's legislative obligations. Reports on compliance and Anti-Money Laundering and terrorist financing are prepared on an annual basis and presented to the Company's Senior Management and Board of Directors. As a final step, the reports are submitted to CySEC.

Accounting

The accounting function plays a key role in the Company complying with its financial reporting obligations to CySEC. The accounting function is responsible for preparing the Company's consolidated financial statements in accordance with applicable accounting standards and rules in order to reflect a fair and true view of the Company's financial position. The consolidated financial statements are audited by the Company's External Auditors and presented to the Board of Directors for approval.

In addition, the accounting function prepares the appropriate capital adequacy and large exposures forms for submission to CySEC on a quarterly basis in accordance with the Company's legislative obligations.

Own Funds & Capital Adequacy Ratio

Information on Own Funds

In accordance with the Directive, the Company's own funds must be disclosed as the amount of original own funds with separate disclosures of all positive items (share capital, reserves brought forward, less any proposed dividends, translation differences and unaudited current period losses, as applicable).

Capital Adequacy Requirements

The Company, being regulated by the Cyprus Securities and Exchange Commission, needs to adhere to minimum capital requirements and proceeds to disclose such information. According with CySEC, CIFs are legally required to maintain a minimum capital adequacy of 8%, NFX CAPITAL CY LTD maintains a considerably higher ratio.

As far as the Company's internal capital adequacy assessment is concerned this is reported to the Board on a quarterly basis.

Total Eligible Own Funds	345
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	160
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	19
ADDITIONAL RISK EXPOSURE AMOUNT DUE TO FIXED OVERHEADS	1535
TOTAL RISK EXPOSURE AMOUNT	1714
CET1 Capital ratio	20.15%
T1 Capital ratio	20.15%

Total capital ratio	20.15%
According to Article 92 of the Regulation EU No. 575/2013 a CIF shall at all times satisfy the following own funds requirements:	
CET1 Capital ratio	4.5%
T1 Capital ratio	6.0%
Total capital ratio	8.0%

Remuneration Policy

The Board of Directors is responsible for determining remuneration policy in its attempt to motivate, recruit and retain Company staff. The remuneration is mainly fixed which is based on both the individual performance of each employee and the Company's performance. Formal performance appraisals take place annually to evaluate the performance of each employee.