



OX CAPITAL MARKETS LIMITED  
67 Spyrou Kyprianou, Samos Centre, 2nd floor, CY-4042, Limassol, Cyprus  
Registration Number: HE 338839

# **ANNUAL RISK MANAGEMENT REPORT**

## Table of Contents

### Contents

Introduction .....	3
Scope of Report.....	3
Risk Management Objectives and Policies .....	4
Credit Risk .....	4
Liquidity Risk .....	5
Market Risk.....	5
Foreign Exchange Risk .....	5
Interest Rate Risk .....	5
Operational Risk .....	5
Concentration Risk.....	6
Interest Risk arising from non-trading book activities.....	6
Money Laundering and Terrorist Financing Risk.....	6
Compliance & Legal Risk.....	6
Reputational Risk.....	7
The Risk Management Function Structure and Responsibilities .....	8
Board of Directors.....	9
Capital Adequacy Ratio, Capital Adequacy Requirements, Own Funds.....	10
Training .....	11
Risk Management Reviews .....	11
Risk Management Department.....	11

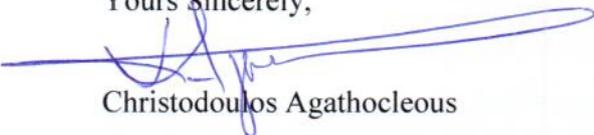
## Introduction

I hereby present you the Annual Risk Management Report (hereinafter, the “**Report**”) of OX Capital Markets Ltd, CIF License No. 274/15 (hereinafter, the “**Company**”), 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, during the year under review.

The material presented in the Report is based on the actions taken by the Risk Management function of the Company during 2016.

I remain at your disposal for any explanations and/or clarifications you may require on any of the contents of the Report.

Yours Sincerely,



Christodoulos Agathocleous

Risk Manager

## Scope of Report

This report is prepared in line with paragraph 9 (2) and (3) of the Directive DI144-2007-01 of 2012 of the Cyprus Securities and Exchange Commission for the authorization and operating conditions of Cyprus Investment Firms (“the Directive”) and Law 144(I)/2007, as amended, (“the **Law**”), Law 188(I)/2007-2014 on the Prevention and Suppression of Money Laundering and Terrorist Financing, as amended, and any relevant Circulars issued by CySEC. The Report is addressed to the Board of Directors of OX Capital Markets Ltd, (“the Company”).

The Report covers the period from 1<sup>st</sup> January 2016 until 31<sup>st</sup> December 2016 and is intended to present to the Company’s Senior Management and Board of Directors information on the following matters and, whether appropriate, the remedial actions taken in the event of identified deficiencies:

- Risk management policies and procedures, identifying the risks relating to the Company’s activities, processes and systems as well as the level of risk tolerated by the Company;
- The arrangements, processes and mechanisms to manage the risks related to the Company’s activities, processes and systems, given the level of risk tolerance, as well as the compliance of the Company and relevant persons with the aforementioned;

- The monitoring of the adequacy and effectiveness of the risk management policies and procedures;

The monitoring of the adequacy and effectiveness of measures used to address deficiencies in the policies, procedures, arrangements, processes and mechanisms, including failure to comply with these arrangements, processes, mechanisms, policies and procedures.

## 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.

Given the Company's operations, OX Capital Markets Ltd. may be exposed to credit risk, liquidity risk, market risk, operational risk, concentration risk, interest rate risk, arising from non-trading book activities, money laundering and terrorist financing risk, compliance & legal risk and reputation risk. This Section of the Report focuses on an analysis of each type of risk, the measures and policies taken by the Company to manage these risks.

### Credit Risk

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

The Company uses the Standardized Approach for the calculation of credit risk own funds requirements.

As regards to the geographic distribution of the Company's credit risk exposures, as at the year end, these were concentrated mainly in Europe. It is noted that the Company had no significant concentration of credit risk to a single counterparty at the year end.

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.

The Company manages its exposure to credit risk using the following techniques:

- Implemented policies to ensure that services are provided to clients with an appropriate credit history. Analysis of the client's credit history forms an integral part of the Company's KYC procedure.

- The Company accepts as counterparties, for the purposes of depositing client funds, only financial institutions (including banking institutions) that the Company internally assesses as financially stable

### **Liquidity Risk**

Liquidity risk is the risk that the Company will be unable to meet its obligations and cash flow needs. Funding liquidity risk may arise from a mismatch of assets and liabilities (i.e. where the Company's assets cannot fund the Company's liabilities).

Policies and procedures have been established for the measurement and management of the Company's net funding position as well as the determination of funding requirements, on an ongoing and forward-looking basis. As part of its procedures, the Company continuously monitors the forecast and actual cash flows to ensure that adequate liquidity is maintained at all times.

### **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.

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

#### **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**

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

The Company's operations are closely dependent on information technology, and subsequently the Risk Manager has prepared a comprehensive business contingency and disaster recovery plan with recovery procedures and actions to be followed, in the case of damage to any vital part of the

Company's structure, and to ensure it will continue to operate in the event of the occurrence of circumstances beyond its control.

### **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.

### **Interest Risk arising from non-trading book activities**

The Company's interest rate risk in the trading book arises from its trading activities and more specifically from the interest charged on the binary options financial instruments (both assets and liabilities) that remain open overnight. Other financial assets and liabilities held at fixed interest rates expose the Company to fair value interest rate risk, however this risk is insignificant to the Company as these assets/liabilities are not material.

### **Money Laundering and Terrorist Financing Risk**

Money laundering and terrorist financing risk mainly refers to the risk that the Company may be used as a vehicle to launder money and/or finance terrorism. The Company has policies, procedures and controls in place in order to mitigate the money laundering and terrorist financing risk. Among others, these include the following:

- (a) the application of appropriate measures and procedures on a risk-based approach to allow the Company to prioritise and focus its efforts in areas where the risk of money laundering and terrorist financing appears higher, thus facilitating a more cost effective system;
- (b) the adoption of appropriate client due diligence and identification procedures, taking into account the risk profile of the client;
- (c) the implementation of ongoing monitoring procedures including KYC review and transactions monitoring, following a risk-based approach;
- (d) obtaining additional data and information from clients, where deemed necessary for the better understanding of the clients' activities, source and use of funds / assets;
- (e) utilising the World-Check as part of the Company's client account opening procedures in order to be able to identify whether its individual clients are Politically Exposed Persons (PEPs);
- (f) ensuring that the Company's personnel receive the appropriate training and guidance.

During the year under review, the Company maintained policies, procedures and controls with respect to money laundering and terrorist financing.

### **Compliance & Legal Risk**

Compliance risk is the current and prospective risk arising from violations of, or non-conformance with, laws, bylaws, regulations, prescribed practices, internal policies, and procedures, or ethical standards. This risk exposes the Company to, among others, financial loss, fines, civil money penalties, payment of damages and the voiding of contracts. Compliance risk is intertwined with

reputational risk since non-compliance may harm the Company's reputation and as such reduce the Company's value, restrict business opportunities and result in an inability to enforce contracts.

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.

It is noted that the Company is authorised and regulated by the CySEC, and holds a cross border license, authorizing it to provide investment services to other member states and countries outside the EU. It is noted that the Company may be exposed to compliance risk from all the aforementioned operations.

In an effort to mitigate the compliance risk facing the Company, as a result of new regulations the Company makes every effort to ensure that its employees attend in-house as well as external trainings on new and upcoming regulations. The Company continuously monitors the personnel's training needs and updated the training program accordingly or engages external consultants, where deemed necessary

In line with Circular C073, investment firms trading in complex products must have in place adequate procedures to, among others, evaluate whether such products are appropriate to the client and to provide specific risk warnings to clients. The aforementioned Circular, also requires the Compliance Function to closely monitor the Company's compliance with the contents of the Circular. To this end, and given the nature of the Company's business, the Company places significant emphasis on the timely performance of the appropriateness test and on adequately informing clients, as regards the risks involved when trading in Binary Options.

In particular the Compliance Officer has assessed the Company's risk of failure to comply with the legal obligations governing the Company's operations. In this respect the Compliance Officer performs ongoing monitoring, taking into account all areas of the investment services and activities as well as any ancillary services offered by the Company. The monitoring programme aims to set priorities following a compliance risk assessment to ensure the comprehensive monitoring of compliance risk and to ensure that the control measures of the Company remain appropriate and robust.

The Company aims to minimize compliance risk to the lowest possible level and, as such, the Company's management has reviewed and examined in detail the Internal Auditor's and Compliance Officer's recommendations and shall take all necessary remedy measures/actions in order to fully comply with the regulatory framework.

### **Reputational Risk**

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company by clients, counterparties, shareholders, investors, employees or regulators. Reputation risk could be triggered by poor performance / poor client service, the loss of one or more of the

Company's directors or key staff, the loss of large clients, fraud or theft, legal action, regulatory fines, negative publicity, etc.

To manage public perceptions, the Company ensures that the Board of Directors oversees the process of disclosure and communications and ensures, that any advertising and marketing material is approved prior to publication. The Company ensures that all information provided to clients is fair, clear and not misleading and that the Company maintains at all times effective complaints handling procedures. The Company ensures that all relevant staff have access to, and are aware of, the Company's complaints handling policy.

During the reporting year the Company received 3 formal clients' complaints, to which the Company duly responded within the relevant timeframe imposed by CySEC and resolved them justifying that no wrongdoing was done by the Company. In line with CySEC's requirements, the Company maintains a complaints log, assigning a unique reference number. The Company takes the management of complaints very seriously and as such, the Company has assigned a relevant department to assess complaints reports on a monthly basis to ensure that the Company identifies and addresses any recurring or systematic problems. Complaints are also scrutinised by both the Compliance and Risk Management department.

## 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 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 . 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

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

➤ Accounting

The accounting function plays a key role in the Company`'s 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.

## Board of Directors

The responsibility of the overall risk management and/or assessment lies with the Board of Directors of the Company. The Board of Directors needs to identify, assess, monitor and control each type of risk on a continuous basis.

More specifically, when managing and/or assessing risks, the responsibilities of the Board of Directors and Senior Management may be summarized as follows:

- Assess on a continuous basis the effectiveness of the policies, arrangements and procedures in place;
- Decide on the Company`'s risk bearing capability and strategy;
  - Ensuring they are on the same page in terms of appetite for risk in executing the company`'s strategy and making sure the stakeholders understand the stance of the company.
- Review the identified risks and take appropriate action if necessary;
- Ensure that the Company has the ability to cover its financial needs and capital requirement at any time.
- 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

## Capital Adequacy Ratio, Capital Adequacy Requirements, Own Funds

This is the risk that the Company will not comply with capital adequacy requirements or may not be able to continue as a going concern. During the year under review, the primary objectives of the Company with respect to capital management were to ensure that:

- it complied with the own funds requirements imposed under Section 67 of the Law, to ensure that own funds were at all times more than or equal to the Company's own funds requirements and that own funds in no case fall below the level of initial capital (€125,000);
- the Company at all times meets the capital ratios set by Article 92 of the CRR, and Directive DI144-2014-15, i.e. Common Equity Tier 1 ("CET1") ratio of 4,5%, Tier 1 ratio of 6% and Total Capital Ratio of 8%;

The table below presents an overview of the Company's Own Funds, Own Funds Requirements and Capital Ratios reported as at 31<sup>st</sup> December 2016.

As at 31 December 2016	EUR ('000)
Total Eligible Own Funds	148
Risk weighted exposure amounts for Credit, Counterparty, Dilution Risk and free deliveries	199
Total risk exposure amount for position, foreign exchange and commodities	74
Additional risk exposure amount due fixed overheads	1.344
Total risk exposure amount	1.616
CET1 Capital ratio	9,13%
T1 Capital ratio	9,13%
Total capital ratio	9,13%
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%

The Company will be applying the methodologies which are approved by the regulatory framework in order to calculate the capital requirements for Pillar 1 risks and the most recent applicable methodologies for those risks that are either not adequately covered by Pillar 1 or relate to Pillar 2 risks.

## Training

Risk Management function, the Risk Manager receives information through various sources such as newspapers, bulletins, journals, magazines and other online sources with respect to the modern risk management practices and any potential new risks.

The Risk Manager provides internal on the job training and support to the members of the Brokerage and Dealing on Own Account departments regarding the risk management policies and limits of the Company.

The recommended training program for 2017 includes the attendance of the Risk Manager and other personnel of the Company in external as well as internal seminars and workshops related to risk management matters and the Risk Management function's duties and responsibilities under the applicable legislation. The attendance/participation in external seminars will depend on their availability during 2017.

The Company aims to find external and/or conduct internally specialized trainings, related to the identification, measurement, monitoring and mitigation of risks (credit risk, operational risk, foreign exchange risk, interest rate risk, funding liquidity risk, money laundering and terrorist financing risk, compliance risk, reputation risk and information technology risk) that Cyprus Investment Firms may be exposed to.

## Risk Management Reviews

During the year under review, the Risk Manager has undertaken a review in order to assess the Company's policies, practices, measures, procedures and controls applied for risk management and the findings of this review are analyzed within the Report. The Risk Management function has initiated a program to supervise and examine in detail the areas relating, directly or indirectly, to risk management.

Following this, the Risk Manager and other personnel of the Company are working together to ensure compliance and to rectify any deficiencies that may be identified during the Company's operations.

## Risk Management Department

During the year under review, the Department of the Risk Management function was staffed by one (1) person, the Risk Manager.

The staffing and the technical resources of the Risk Management function were considered adequate for the identification and mitigation of risks faced by the Company, taking into account the level and type of business activities of the Company during the year

**MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS (HEREINAFTER NAMED THE "BOARD") OF THE OX CAPITAL MARKETS LTD. (HEREINAFTER CALLED THE "COMPANY"), HELD ON THE 04/04/2017 AT THE COMPANY'S PREMISES AT 11:00 AM**

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**PRESENT:** Mr. Christodoulos Agathocleous – Executive Director/ CEO  
Mr. Evros Evripidou- Executive Director/ GM  
Mr. Alexandros Sinka - Non-Executive Director/ Secretary – (by phone)  
Mr. Theodoros Kioutsoukis - Non-Executive Director –(by phone)  
Mrs. Marilena Christofi - Non-Executive Director – (by phone)

Mr. Evripidou was appointed as **Chairman** for the purposes of the Meeting.

**AGENDA:** **Presentation, review and assessment of the Annual Risk Management Report**

**RESOLUTION:** Pursuant to Paragraph 6 of the Directive DI144-2007-01 of 2012 of the Cyprus Securities and Exchange Commission ("CySEC") for the "Authorisation and Operating Conditions of Cyprus Investment Firms" ("the Directive") and; Law 144(I)/2007 "For the Provision of Investment Services, the Exercises of Investment

Activities, and the Operation of the Regulated Markets", as amended, ("the Law") and;

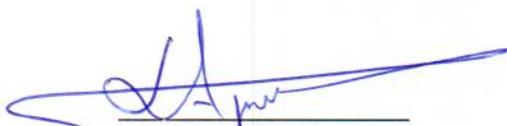
Law 188(I)/2007-2014 for the "Prevention and Suppression of Money Laundering and Terrorist financing", as amended, and any relevant Circulars issued by CySEC,

The Board of Directors have reviewed, discussed and analysed the Risk Management Report, hereby attached as Exhibit A, and duly taken into account the findings and the proposed recommendations/actions included therein, for the accomplishment of the desired outcome, and therefore mitigating and eliminating, where possible, of all identified risks.

As a result the Board approved the Risk Management Report for the year 2016.

The Meeting was declared concluded by the Chairman at 12:30 pm and there were no further issues raised for discussion.

The aforementioned Minutes are a true accurate copy of the held Board Meeting.

  
Christodoulos Agathocleous  
CEO/ Executive Director

  
Evros Evripidou  
GM/ Executive Director