SONAF BUSINESS LTD
RISK MANAGEMENT DISCLOSURES

YEAR ENDED 31 DECEMBER 2013

May 2014

ACCORDING TO CHAPTER 7 (PAR. 34-38) OF PART C AND ANNEX XII OF THE CYPRUS SECURITIES AND EXCHANGE COMMISSION DIRECTIVE DI144-2007-05 FOR THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS

Scope of application

The Management of SONAF Business Limited (hereinafter the "Company"), in accordance with the provisions of Chapter 7 (Sub-Chapter A, Paragraphs 34 - 38) of Part C and Annex XII of the Cyprus Securities and Exchange Commission (hereinafter the "CySEC") Directive DI144-2007-05 of 2012, For The Capital Requirements of Investment Firms, has an obligation to publish information relating to risks and risk management on an annual basis at a minimum.

The Company obtained its license with number CIF 174/12, to act as a Cyprus Investment Firm, on 25 July 2012. The information provided in this report is based on procedures followed by the Management to identify and manage risks for the year ended 31 December 2013 and on reports submitted to CySEC for the year under review.

Risk Governance

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's Risk Management Framework.

The Company implements and maintains adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify. The Investment Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.

Risk Reporting

The Company maintains a system in place to record any risk event incurred on a special form duly completed by personnel of each department and is submitted to the Compliance officer and Risk manager when such events occur.

The Company does not undertake any hedging activities and therefore does not have any policies in place.

1. Credit Risk

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The Company has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the CySEC Directive DI144-2007-06. The Company continuously monitors the fair value calculations, forecast and actual cash flows, and cost budgets so that to ensure that the carrying level of Company's own funds and consequently the Capital Adequacy ratio meet the regulatory requirements at all times.

The Company also mitigates risks by appropriately diversifying funds between high rated institutions located within Europe

Some concentrations of credit risk with respect to trade receivables exist due to the small number of clients. Trade receivables are shown net of any provision made for impairment. The management believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in the trade 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 where applicable.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk.

	Maximum exposure to credit risk	
	2013	**2012**
	€000	**€000**
Total risk weighted assets	**250**	**150**
***Credit Risk** (8% of total risk weighted assets)*	***20***	***12***

2. Market Risk

2.1. Foreign Exchange Risk

The Company's reporting currency is the Euro. Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's reporting currency. The main currencies, whose fluctuations may have an impact on the results of the Company, are the US Dollars. At the year-end the cash balances and receivables denominated in US Dollars were significant.

Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The table below shows the Company's exposure to Foreign Exchange Risk (Market Risk):

	Exposure to foreign exchange risk		
	Net Position		
	Assets (Long)	Liabilities (Short)	**Overall Net FX Position**
2013	€000	€000	**€000**
USD	280	338	**58**
Total foreign exchange risk	280	338	**58**
Capital Base			***69***
2 % Capital Base			**1**
Market Risk (8% of total foreign exchange risk)			***5***

	Exposure to foreign exchange risk		
	Net Position		
	Assets (Long)	Liabilities (Short)	**Overall Net FX Position**
2012	€000	€000	**€000**
USD	7	2	**5**
Total foreign exchange risk	7	2	**5**
Capital Base			***143***
2 % Capital Base			**3**
Market Risk (8% of total foreign exchange risk)			***0***

2.2. 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. Other than cash at bank, which attracts interest at normal commercial rates, the Company has no other significant interest bearing financial assets or liabilities.

The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

2.3. Liquidity Risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has policies and procedures with the object of minimizing such losses.

3. Other Risks

3.1. Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide range of issues.

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by a program of audits undertaken by the Internal Auditors of the company and by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

The Company calculates its operational risk using the basic indicator approach and takes the average over three years of the sum of its net income. As audited figures are available only for two periods, the Company takes the projection for one year of operations as shown under column Year 3 for year 2013.

The tables below show the Company's exposure to Operational Risk:

2013	**Year 1**	**Year 2**	**Year 3**	**Average**
	€000	**€000**	**€000**	**€000**
Total Net Income from Activities	159	5	197	**120**

2012	**Year 1**	**Year 2**	**Year 3**	**Average**
	€000	**€000**	**€000**	**€000**
Total Net Income from Activities	5	197	219	**140**

Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15% of the above relevant indicator, resulting in an operational risk of Euro18.000 (2012: Euro21.000)

3.2. Concentration Risk

This includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc.

Some concentration of credit risk with respect to trade receivables exists due to the Company's small number of clients. The Company's experience in the collection of trade receivables has

never caused debts which are past due and have to be impaired. Due to these factors, management believes that no additional credit risk beyond any amounts provided for collection losses is inherent in the Company's trade receivables.

The Company has a policy in place to monitor debts overdue by preparing debtors ageing reports. Fees receivable which are past due the payment period are chased for collection.

3.3. Reputation Risk

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor customer service, fraud or theft, customer claims and legal action, regulatory fines.

The Company has transparent policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company provides high quality services to clients. In addition, the Company's Board of Directors is made up of high caliber professionals who are recognized in the industry for their integrity and ethos; this adds value to the Company.

3.4. Strategic Risk

This could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

3.5. Business Risk

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. These are analyzed and taken into consideration when implementing the Company's strategy.

3.6. Capital Risk Management

This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company. Such procedures are explained in the Procedures Manual of the Company.

The Company is further required to report on its capital adequacy quarterly and has to maintain at all times a minimum capital adequacy ratio which is set at 8%. The capital adequacy ratio

expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of management accounts to monitor the financial and capital position of the Company.

3.7. Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Procedures 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 at least annually. Therefore the risk of non-compliance is very low.

3.8. Legal and Compliance Risk

This could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

3.9. IT Risk

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

4. Remuneration policy

The Company is in the process of developing a Remuneration Policy. The principles employed within the Company's Remuneration Policy 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 DI144-2007-05 of 2012 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Financial Firms which was introduced with effect from November 26, 2012.

4.1. Remuneration System

The following is applicable with regards to the Company’s remuneration system:

The Company's remuneration system and policy is 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’ are linked to the Company’s performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company’s short and long term success.

The remuneration mechanisms employed are well known management and human resources tools that take into account the staff’s skills, experience and performance, whilst supporting at the same time the long-term business objectives.

The Company’s remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

It is noted that the Company has taken into account its size, internal organisation and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee. Decisions on these matters are taken on a Board of Directors level while the remuneration policy is periodically reviewed.

The total remuneration of staff currently consists of a fixed component. The remuneration varies for different positions/roles depending on each position’s actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

Furthermore there is no variable remuneration component while no remuneration is payable under deferral arrangements (with vested or unvested portions), nor were there any severance payments during the current year.

4.2. Performance Appraisal

The Company implements a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit. The appraisal is being performed as follows:

a. Objectives are set in the beginning of each month, quarter and/or year (each department is being appraised on different periods) defining what the Company functions, departments and individuals are expected to achieve over an upcoming period of time.

b. Performance checks and feedbacks: managers provide support and feedback to the concerned staff during the time periods decided, during the daily activities or during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.

c. Annual performance evaluation: takes place annually, usually at the end of each year.

4.3. Remuneration of Key Management Personnel and Directors

The remuneration of the key management personnel of the Company, including Board of Directors, was as shown in the following tables:

2013		
	Number of Beneficiaries	**Fixed Remuneration**
		€
Remuneration of Directors and Key Management Personnel	2	63.901
Total	**2**	***63.901***

2012		
	Number of Beneficiaries	**Fixed Remuneration**
		€
Remuneration of Directors and Key Management Personnel	2	21.750
Total	**2**	***21.750***

5. Capital Management

The adequacy of the Company's capital is monitored by reference to the rules established by the Basel Committee as adopted by the CySEC. In December 2007 the CySEC issued the Directive DI144-2007-05, as later amended, for the calculation of the capital requirements of Investment Firms adopting the relevant European Union directive. Basel II consists of three pillars: (I) minimum capital requirements, (II) supervisory review process and (III) market discipline.

5.1. Pillar I – Minimum Capital Requirements

The Company adopted the Standardised approach for Credit and Market risk and the Basic Indicator approach for Operational risk.

According to the Standardised approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, after the consideration of various mitigating factors, according to the exposure class to which they belong. For exposures with institutions, the risk weight also depends on the term and maturity period of the exposure. The categories of exposures the Company is exposed to with regards to credit risk, are deposits with banks, fixed assets and other current assets.

The Standardised measurement method for the capital requirement for market risk adds together the long and short positions of foreign exchange risk according to predefined models to determine the capital requirement. The main sources of foreign exchange risk for the Company are certain bank balances in foreign currencies and exposures in foreign currencies from fees receivables.

For operational risk, the Basic Indicator approach calculates the average, on a three year basis, of net income to be used in the risk weighted assets calculation.

5.2. Pillar II – The Supervisory Review Process (SRP)

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

5.3. Pillar III – Market discipline

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds. In addition the results and conclusions of ICAAP are disclosed as applicable.

According to the CySEC Directive, the risk management disclosures should be included in either the financial statements of the investment firms if these are published, or on their websites. In addition, these disclosures must be verified by the external auditors of the investment firm. The investment firm will be responsible to submit its external auditors' verification report to CySEC. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures has been made by the external auditors and sent to CySEC.

5.4. Capital adequacy ratio

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

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

The CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8%. The CySEC may impose additional capital requirements for risks not covered by Pillar I.

The composition of the capital base of Sonaf Business Ltd is as follows:

	2013	**2012**
	€000	**€000**
Tier 1 Capital (Original Own Funds)		
Share capital	3	2
Share premium	427	298
Reserves (Retained earnings)	(157)	0
Audited loss for the year	(192)	(157)
Total original own funds (before deductions)	81	143
Deductions: Intangible assets	(12)	0
Total Own Funds	**69**	**143**

The Company had fully complied with all externally imposed capital requirements as shown in the table below:

	2013	**2012**
	€000	**€000**
Eligible Own Funds		
Original Own Funds (Tier 1 Capital)	69	143
Deductions	(126)	(75)
Total Eligible Own Funds	**(57)**	**68**
Capital Requirements/Risk Weighted Assets		
Credit risk	20	12
Foreign Exchange Risk	5	0
Operational Risk	18	62
Total Risks	**43**	**75**
Minimum Capital Adequacy Ratio	**(10.69%)**	**7.23%**

Own Funds mean the capital base as defined in the existing capital base directive. The capital base of CIFs is made up of Tier 1 original own funds, Tier 2 additional own funds, less deductions from capital. Tier 1 capital consists mainly of paid up share capital, reserves brought forward, less any proposed dividends, translation differences and unaudited current period losses, as applicable.

During 2014 the Company increased its share capital by 1.000 shares of nominal value €1 each issued at a premium of €199 above the initial capital requirement and diversified funds appropriately in order to rectify the large exposure and bring the Company within the adequate by the Law limits.