Veles International

VELES INTERNATIONAL LIMITED

2018 Pillar III Disclosures Report

According to Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

Contents

1. General Information and Scope of Requirements of the Legislation

1.1. Corporate Information

Veles International Limited ('*VIL*' or '*the Company*') is regulated by the Cyprus Securities and Exchange Commission ('*CySEC*') under authorization number CIF075/06 issued on 20 September 2006 by which it is licensed to operate as a Cypriot Investment Firm ('*CIF*') and to provide investment and ancillary services in relation to financial instruments in accordance with its license.

The principal activities of VIL are the provision of the following investment services and ancillary services:

Investment Services

- Reception and transmission of orders in relation to one or more financial instrument.
- Execution of orders on behalf of clients.

Ancillary Services

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

1.2. Pillar III Regulatory Framework

This 2018 Pillar III Disclosures Report ('*this Report*') has been prepared in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ('*CRR*') and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission for the prudential supervision of investment firms (the '*Directive DI144-2014-14*'), under which, an investment firm has an obligation to publish the information referred to in Part Eight of the CRR at least on an annual basis.

Regulatory Framework Overview

The current legislation, the CRR, establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRR introduced significant changes in the prudential regulatory regime applicable to financial institutions including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding.

The Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ('*CRD IV*') governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, which allows national regulators to impose additional capital buffer requirements. CRD IV was implemented in Cyprus via the Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the prudential supervision of investment firms and the Directive DI144-2014-15 on the discretions of the Cyprus Securities And Exchange Commission arising from Regulation (EU) No 575/2013.

The current regulatory framework comprises three pillars:

- Pillar I covers the calculation of the minimum capital requirements for credit, market and operational risks

- Pillar II covers the Supervisory Review Process (SREP), which assesses the internal capital adequacy processes and provides for the monitoring and self-assessment of a bank's capital adequacy and internal processes.
- Pillar III covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

Basis and Frequency of Disclosure

This Report sets out both quantitative and qualitative information required in accordance with Part Eight 'Disclosure by Institutions' of the CRR. Articles 431 to 455 of the CRR specify the Pillar III framework requirements.

This Report is published annually on VIL's website http://veles-international.com in accordance with regulatory guidelines. This Report provides additional information to the audited Financial Statements information on the capital and risk profile of VIL.

The information contained in this Report has been compiled by VIL's Risk Manager and was reviewed and verified for management purposes. The review and verification found no material inconsistencies as regards the reasonableness of the disclosures and compliance with the disclosure requirements of Part Eight of the CRR.

1.3. Scope of Application

The Company is controlled by IC Veles Capital LLC, incorporated in Russia, which owns 92,31% of the Company's shares.

The Company prepared this Report on an individual basis.

2. Risk Management Framework and Structure

VIL aims to embed explicit and robust risk management practices in all areas of its business, from the initial design of its business strategy to the sale of services to its customers, so as to ensure that the level of risk it faces is consistent with VIL's risk appetite and corporate objectives. This is achieved by implementing a sound, coherent and comprehensive risk management framework for the identification, assessment, monitoring and control of risks within VIL. VIL's risk management framework improves the service provided to customers and protects and maximizes shareholder value. It also allows VIL to adapt and meet challenges in a structured way, so that it can continuously align its strategy and business objectives against a background of changing risk and uncertainty.

VIL's risk management framework is based on four key elements: a) Risk Governance; b) Organizational model and risk functions (policies, guidelines, monitoring and reporting); c) Risk Appetite; and d) Risk Culture.

VIL's risk management framework has been developed to:

- Ensure that the level of capital adequacy as approved from time to time is maintained and safeguards that the total risk taken across VIL is not greater than VIL's ability to absorb losses.
- Allow VIL to proactively manage its risks in a systematic and structured way and to continuously refine its processes in order to reduce its risk profile and ultimately its capital requirements.
- Ensure appropriate strategies are in place to mitigate or transfer risks.
- Ensure that risk management is an integral part of VIL's process of strategic decision making and capital planning.
- Help create a culture of risk awareness at all levels within VIL.
- Engage VIL's management in monitoring, reviewing, reporting and managing of identified risks, as well as consider new and emerging risks on a continuous basis.

VIL's risk management framework is monitored by its executive managers and the Board of Directors ('*the Board*' or '*BoD*'). The framework and its constituents are subject to compliance and internal auditor reviews that endorse its effectiveness or where necessary identify issues to be addressed.

VIL's management and the Board are satisfied that these arrangements are appropriate given VIL's risk profile.

2.1. Board of Directors

The overall responsibility for VIL is undertaken by the Board of Directors comprising five directors, two of which are executive and another three - non-executive.

The Board of VIL bears the principal responsibility for setting and monitoring VIL's business strategy and overseeing the operations of VIL's management.

The Board of Directors is a critical part of systems of checks and balances that lies at the heart of VIL's corporate governance system. The Board members, both individually and as a group, have the following general responsibilities:

- Undertaking overall responsibility for VIL.
- Establishing corporate values and governance structures of VIL to ensure that the business is conducted in an ethical, competent, fair, and professional manner.
- Ensuring that all legal and regulatory requirements are met and complied with fully and in a timely fashion.
- Establishing long-term strategic objectives for VIL with a goal of ensuring that the best interests of clients and shareholders come first, avoiding any conflict of interest, and that VIL's obligations to

other stakeholders are met in a timely and complete manner.

- Establishing clear lines of responsibility and a strong system of accountability and performance measurement in all phases of VIL's operations.
- Ensuring that management has supplied the Board with sufficient information for it to be fully informed and prepared to make decisions that are its responsibility, and to be able to adequately monitor and oversee VIL's management.
- Meeting frequently enough to adequately perform its duties, and meeting in extraordinary session as required by events, and
- Acquiring adequate training so that members of the Board are able to adequately perform their duties.

2.2. Risk Committee

The Risk Committee is set to provide focused support and advice on risk governance to VIL's Board. The Risk Committee's main purpose is the establishment of overall current and future risk appetite and assisting the Board in overseeing the implementation of that strategy by senior management. The Risk Committee shall be composed of three Directors, who shall collectively possess appropriate knowledge, skills and expertise necessary to fully understand and efficiently monitor the risk strategy and risk appetite for VIL.

The Risk Committee shall have adequate access to information on the risk profile of VIL and, if necessary and appropriate, to the Risk Management function and to external expert advice.

The Risk Committee determines the nature, the amount, the format, and the frequency of the information on risk which it is to receive. The Risk Committee met twice during 2018.

The Risk Committee consists of the three Non-Executive Directors of the Company, of which one is the Chairman.

2.3. Nomination Committee

To ensure the criteria for selection of nominees to VIL's Board of Directors does not favor executive management's best interests at the expense of the interests of VIL's shareholders and other stakeholders, the Nomination Committee is established with the main purpose of selecting nominees to the Board.

It is essential that the qualifications of these members be carefully reviewed in assessing the long-term investment prospects of VIL. Particular attention should be paid to evaluating their independence, the qualities of those selected for senior management positions, and the success of businesses with which they've been associated. This information is usually available in the regulatory filings of the Company.

The Committee reports its actions and any recommendations to the Board after each Committee's meeting, and consists of the three Non-Executive Directors of the Company, of which one is the Chairman.

2.4. Remuneration Committee

The Remuneration Committee is established with a view to provide VIL's Board with competent and independent judgment on VIL's remuneration policies, practices and the incentives created for managing risk, capital and liquidity at VIL. Members of this Committee shall be appointed by VIL's Board of Directors upon the recommendation of the Board's Nomination Committee and may be removed by the Board of Directors in its discretion.

The purpose of the Remuneration Committee is to carry out the Board of Directors' overall responsibility relating to organizational strength and executive compensation.

The Committee reports its actions and any recommendations to the Board after each Committee's meeting, and consists of the three Non-Executive Directors of the Company, of which one is the

Chairman.

3. Risk Management Objectives and Policies

VIL's risk management procedures (which include the general Risk Management policy and separate credit and operational risk management, and ICAAP Policies) are regularly (on at least yearly basis) reviewed on the level of the Board's Risk Committee.

VIL has developed its risk management policies with consideration of the major risks faced by VIL at present or in the near future. The policies are effectively translated into procedures, processes and tools, for significant number of individual risks as identified by the Risk Manager.

The aforementioned procedures, arrangements, processes and mechanisms are perceived to be satisfactory and allow VIL to achieve its business objectives effectively and efficiently, and the staff and management's adherence to these was maintained at high levels throughout the reporting year.

3.1. Risk Management Function

The Risk Management function leads and coordinates the actions on identifying, measuring, advising on, monitoring and managing the risks relating to VIL's activities, processes and systems (except for specific compliance risks which VIL's Compliance function is responsible for), as well as reporting on these issues internally to the Board and externally to the regulators.

VIL's Risk Management function regularly, and whenever a material change occurs, reviews and monitors the effectiveness of the Company's policies and relevant arrangements with a view to identify and, where appropriate, correct any deficiencies.

Risk Management function reports annually on the effectiveness of VIL's Risk Management policies to the Board, who consider the appropriate action to be taken.

3.2. Compliance Function

Compliance function (or '*Compliance*') of VIL is established to lead and coordinate the actions on identifying, assessing, advising on, monitoring and mitigating specific compliance risk, as well as reporting on these issues internally to the Board, and externally to the regulators.

The compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation VIL may suffer as a result of its failure to comply with laws, regulations and rules applicable to its activities, as well as VIL's internal policies and procedures. The Compliance's work program is developed on the basis of the compliance risk assessment. The identified risks are reviewed on a regular and an ad-hoc basis to ensure that all emerging risks are taken into consideration.

Compliance activities aim to assure the commitments of VIL's Board and senior management to always act ethically, diligently and in compliance with the current legislation, regulatory guidance and best practice. Under the Cyprus and international laws ultimate responsibility for compliance rests with the Board. It is VIL's directors who are ultimately responsible for compliance issues and compliance culture with the Compliance Officer (Head of Compliance) being the Board's agent aiding directors with their responsibilities, so delegated, and implementing the compliance policy on a day-to-day basis. VIL's Compliance Policy, as adopted by the Board, must be observed by all VIL's employees who are responsible to the Chief Executive Officer for actually doing compliance (being compliant) under the Compliance's supervision and guidance.

The Compliance function's activities are supervised by the Board and annually reviewed by the Internal Audit with the respective report provided to the Board.

3.3. Money Laundering Compliance Function

The basic principles of functioning, reporting, supervision and powers of VIL's Money Laundering Compliance function are identical to those applicable to Compliance function described in the respective section above. However, the Money Laundering Compliance Officer (Head of Money

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Laundering Compliance function or '*MLCO*') deals separately and independently with the particular risks associated with money-laundering ('*ML*'), terrorist financing ('*TF*') and financial sanctions. Importantly, Compliance and the MLCO always act in tandem backing-up each other where the synergy is obvious, such as in applying Know Your Client ('*KYC*'), Client Due Diligence ('*CDD*'), Anti-Corruption or Anti-market Abuse measures.

The Company's Board has primary responsibility for the design and implementation of the AML/CTF measures across the Company including the Company's AML/CTF Manual. The Board allocates to VIL's MLCO overall responsibility for the establishment and maintenance of the AML&CTF systems and controls. The MLCO is responsible for implementing and maintaining VIL's AML/CTF Manual on a daily basis, for monitoring its being up-to-date and effective, for dealing with any queries on its interpretation and providing respective training and guidance to the staff, for receiving and investigating internal suspicious activity reports, as well as for reporting to the Board and to the authorities (CySEC and MOKAS). The Board ensures that the MLCO has sufficient resources, including competent staff and systems, for the effective discharge of his/her duties.

The MLCO monitors the Company's business activity on a regular basis, closely investigates every case of suspicion identified and reports the results internally (to the Board) and, if deemed necessary, to the authorities. The MLCO has the right to suspend, for indefinite time, transactions which are currently being considered if they may in his/her opinion give reasonable grounds for knowledge or suspicion of ML&TF.

3.4. Internal Audit Function

The Internal Audit function reviews and evaluates the appropriateness, effectiveness and adequacy of the Company's policies, practices, measures, procedures and control mechanisms applied for compliance with relevant to VIL legislation and for prevention of money laundering and terrorist financing. The Internal Audit function carries checks on control environment, concentrating on the risk areas as identified by the Company's management. The function also have advisory role.

The Internal Audit Function performs the following procedures:

- Inspection of the Company's systems and premises.
- Interviewing key personnel of the Company.
- Assessing the Company's internal policies and procedures manual (the '*Manual*').
- Documenting the procedures in accordance with the Manual and performing walk-through tests to establish the actual performance of procedures by the Company.
- Assessment of procedures as documented in the Manual in terms of their efficiency and effectiveness.
- Assessment of procedures as documented in the Manual in terms of their compliance with the Law (selected areas).
- Performing walk-through tests of transactions processed through the systems, on a sampling basis.
- Accessing the risk level of the findings, where and as applicable.
- Recognizing and recording the problematic areas.
- Providing recommendations on areas which need improvement.

4. Internal Capital Adequacy Assessment Process

In accordance with the Article 73 of the CRD IV as implemented by the Directive DI144-2014-14, VIL shall have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that VIL considers adequate to cover the nature and level of the risks to which VIL is or might be exposed. This regulatory requirement is implemented via VIL's Internal Capital Adequacy Assessment Process Policy (*'ICAAP Policy'*) approved by the Board's Risk Committee and adopted by VIL's Board. The strategies and processes covered by ICAAP Policy are subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the Company.

VIL's ICAAP Policy also takes into account the relevant guidelines of CySEC for the Internal Capital Adequacy Assessment Process (the *'ICAAP'*) and comprises of all the procedures and measures adopted with the purpose of ensuring the following:

- The appropriate identification and measurement of risks.
- An appropriate level of internal capital in relation to VIL's risk profile.
- The application and further development of suitable risk management and internal control systems.

VIL adopted the Minimum Capital Requirement Approach in the design of its ICAAP, given the low complexity of its operations and its relatively small size. Specifically, the process followed for the preparation of VIL's ICAAP documents is implemented in the following steps:

- Identification and articulation of future business plans and objectives resulting in compilation of three Year Budgets and of projected Statement of Financial Position (Balance Sheet) and Statement of Profit or Loss (Income Statement).
- Identifying and assessing risks pertinent to VIL's operations before and after internal controls.
- Aggregation of identified risks.
- Formulating stress test scenarios and performing stress testing (with assumptions and results).
- Assessment of the impact of stress test scenarios on forecasted capital plan.
- Capital allocation in accordance with the profile of the risks identified and in line with stress test results.

5. Risk Management Framework

5.1. Risk Appetite Statement

Risk appetite is the amount and type of risk that VIL is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, business, regulatory, operational, credit, and reputational risk. The Board approves and annually reviews VIL's risk appetite, expressed along multiple dimensions, with zero tolerance for compliance and regulatory risks.

5.2. Risk Culture

The Board has a critical role in strengthening risk governance, including setting the 'tone at the top', reviewing strategy, and approving VIL's risk appetite. The Board is ultimately responsible and accountable for risk governance at VIL.

A robust risk culture is a substantial determinant of whether VIL will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that VIL wishes to build is reflected in its policies and procedures and these are closely aligned to its risk appetite. Risk culture is manifested in the day-to-day decisions that indicate how risk is identified, understood, discussed, and acted upon.

VIL has focused primarily on the implementation of a firm-wide effective and pervasive risk culture. This is achieved through the following:

- Embedding risk culture at all levels of VIL with clear ownership and accountability of tasks.
- Conducting firm-wide risk assessments.
- Implementing formal risk education presentations.
- Changes in job content and descriptions of key personnel.
- Changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions.
- Changes in key personnel.
- Training of front-line personnel.

Furthermore, VIL takes risks in connection with its normal business and as such, the following principles underpin the inherent risk culture:

- Risk is taken within a defined risk appetite.
- Every risk taken needs to be approved within the risk management framework.
- Risk taken needs to be adequately compensated.
- Risk should be continuously monitored and managed.

VIL's RM focuses his/her efforts on monitoring the extent to which the risk culture is embedded in the day-to-day operations. Measures to monitor the degree to which this is achieved include, but are not limited to, tracking:

- The number and frequency of risk limits exceeded.
- Causes of limit breaches.
- The number of issues identified in internal audit reports.
- The manner in which audit issues have been addressed.
- The percentage of self-reported risk problems.

- The degree to which information is filtered as it is escalated.
- How VIL deals with staff that have violated risk policy, including how many unintentional mistakes are addressed.

6. Board Declaration

The Company's Board of Directors, in consideration of the procedures and systems established by the Company for the management of risks, declares that the Company has adequate risk management systems in place, with regards to its profile and strategy.

7. Governance Arrangements

7.1. Number of Directorships Held by the Members of the Board

Table 1 below provides the number of directorships each member of VIL's Board holds at the same time in other entities, excluding VIL and any other companies belonging to the same group as VIL. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below.

Table 1: Directorships of Board Members			
Name	Position with VIL	Directorships - Executive in other companies	Directorships – Non Executive in other companies
Aleksandr Krasnopevtsev	Chairman/Non-Executive Director	-	-
Ganna Dotsa	Executive Director	-	-
Alexey Gnedovskiy	Executive Director	-	-
Demos Nicolaides	Non-Executive Director	1	-
Stylianos Procopiou	Non-Executive Director	-	2

Note: The information in this table is based only on representations made by the Company

7.2. Recruitment Policy for the Selection of Members of the Board

VIL's shareholders and the Board of Directors realize that in order to safeguard proper and prudent management of VIL, as well as to enhance its efficiency and competitiveness, the Board members should have appropriate actual knowledge, qualifications and skills.

VIL's Board designed the Management Body Members Selection Policy: Knowledge, Skills and Expertise on the premise that collectively, the Board should have a full understanding of the nature of the business and its associated risks and have adequate expertise and experience relevant to each of the material activities VIL is conducting or intends to pursue in order to enable effective governance and oversight.

VIL's Chairman of the Board of Directors (the '*Chairman*') is responsible for the implementation of VIL's Management Body Members Selection Policy: Knowledge, Skills and Expertise and respective internal and external reporting on the achievements of this policy objectives. Using the instruments and powers assigned to him by the Board, the Chairman identifies and recommends, for the evaluation of the Board, candidates to fill its vacancies. The Board evaluates the balance of knowledge, skills, diversity and experience of each candidate and prepares a description of the role and capabilities for a particular appointment, and assesses the time commitment expected. The Board then recommends the selected candidate for approval of the general meeting.

Members of the Board shall at all times be of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board shall reflect an adequately broad range of knowledge and experiences. Collectively, members of the Board shall:

- Have extended knowledge of the financial industry, financial products and services, as well as relevant business practices.
- Have sound understanding of the business specifics and risks of the geographical areas, in which VIL operates.
- Have sufficient general knowledge of the relevant legislation and regulation of the main jurisdictions where VIL conducts its business; at least one director should have a valid industry certificate issued by a respective financial regulator of the state of VIL's major business activities.
- Have appropriate skills in finance and accounting; at least one director should have a specialized degree in finance, e.g. CFA or relevant university degree.
- Have appropriate skills in management; at least one director should have a university degree in management, e.g. MBA, MSc, BSc (Hons), etc.
- Have sound proven skills and experience in risk management.
- Have appropriate practical skills and experience in audit.
- Have appropriate skills in corporate governance and compliance.

Additionally, each member of the Board shall:

- Have at least 10 years' work experience on managerial (directorship) positions with well reputed institutions.
- Be able to prove his/her skills and competences by providing respective references and certificates.
- Not have been suspended from occupying his/her position by any regulator or court.
- Not have been involved in the process of managing risks or finance at a financial institution that went bankrupt or financially insolvent.
- Not have been involved in plagiarism while conducting any academic activity.

Other factors equal, to promote diversity of standpoints and mindsets, a candidate will have an advantage while being assessed by the Board if he/she has an additional experience in a non-financial industry (real economy) or with a regulatory body.

7.3. Policy on Diversity with Regard to Selection of Members of the Board

VIL's shareholders and the Board of Directors realize that in order to enhance the Board's efficiency, to mitigate the negative effect of 'groupthink' (inadvertent suppression of contradictory views and doubt) in decision making and to facilitate independent opinions and critical challenge with variety of views, standpoints and experiences, the Board and the senior management team should be sufficiently diverse as regards age, gender, geographical provenance and educational and professional background.

VIL's shareholders and the Board also understand that diversity is crucial in implementing changes and launching initiatives, especially in the situations of environmental instability and changing regulation. Moreover, dissimilar views and knowledge can trigger innovations giving VIL's business advantages in highly competitive environment of the financial services industry.

Also, gender, age, ethnic origin balance and other diversity issues are of particular importance to ensure adequate and fair representation of population, promote equality and counter discrimination. For these purposes, VIL is implementing the principle of equal treatment irrespective of racial or ethnic origin, religion or belief, disability, age or sexual orientation.

VIL's Chairman is responsible for the implementation of VIL's Board of Directors' Members Selection Policy: Diversity and respective internal and external reporting on the achievements of the policy objectives.

As part of his/her responsibilities on diversity, the Chairman ensures that the Board's decision making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of VIL as a whole.

7.4. Description of the Information Flow on Risk to the Board

The Board is updated regarding any risk issue by VIL's Risk Manager and is informed of the Risk Committee's resolutions. In addition, it receives reports on internal audit, compliance and money-laundering issues at least annually. The following table presents the main pieces of information provided to the Board on risk-related issues:

Table 2: Information flow on risk to the Board

Information	Report prepared by:	Report received by:	Frequency
Risk Management Report	Risk Manager	Board, CySEC	Annually
Internal Audit Report	Internal Auditor (outsourced)	Board, CySEC	Annually
Compliance Report	Compliance Officer	Board, CySEC	Annually
AML Compliance Report	Money Laundering Compliance Officer	Board, CySEC	Annually
Suitability Report	External Auditor	Board, CySEC	Annually
Audited Financial Statements	External Auditor	Board, CySEC	Annually

8. Capital Management

VIL's objectives in managing its capital are: (i) to comply with the capital requirements set by the regulators, (ii) to safeguard the Company's ability to continue as a going concern, and (iii) to maintain a strong capital base to support the development of the business. VIL's capital management processes aim to maintain the capital base sufficient to uphold the confidence of clients, creditors, other market participants and to secure the future development of the Company.

Capital adequacy and the use of the regulatory capital are closely monitored by VIL's executive management. The required regulatory returns on capital adequacy ratios are filed with CySEC on a quarterly basis and as of 31 December 2018 the Company was in compliance with the minimum capital requirements.

9. Own Funds

VIL's own funds consist solely of Common Equity Tier 1 capital. Common Equity Tier 1 capital is comprised of share capital, share premium, retained earnings and the audited profit from current year. Intangible assets and Investors Compensation Fund (ICF) contribution are deducted from the Common Equity Tier 1 capital.

As of 31 December 2018, the level of VIL's own funds was $17.874 thousands and the Capital Adequacy Ratio was of 63,29%.

Table 3 below shows a breakdown of VIL's own funds as at 31 December 2018.

Table 3: Capital Base	31 December 2018 $'000
Common Equity Tier 1 Capital	
Share Capital	1.530
Share Premium	13.301
Retained earnings	3.147
Profit for the year	15
Intangible assets	-
ICF contribution	(119)
Total Common Equity Tier 1 Capital (CET1)	**17.874**
Additional Tier 1 (AT1)	-
Total Tier 1 (T1 = CET1+AT1)	**17.874**
Tier 2	-
Total Eligible Capital (=T1+T2)	**17.874**

Share Capital

The authorized share capital of VIL consists of 650.000 shares with par value of €1,71 per share, all of which are issued and fully paid. There was no movement in the share capital of VIL during the year 2018. In addition, all issued ordinary shares carry the same rights.

10. Capital Requirements

CySEC requires each CIF to maintain a minimum ratio of capital to risk weighted assets of 8% for Pillar I risks plus additional capital buffers as applicable, while it may also impose additional capital requirements for risks not covered by Pillar I. As at 31 December 2018, VIL was subject to a minimum Pillar I capital adequacy ratio of 8%.

The total capital requirements of the Company as at 31 December 2018 amounted to $2.259 thousand and are analyzed in Table 4 below:

Table 4: Minimum Capital Requirements Risk Type	Capital Requirement $'000	Risk Weighted Asset $'000
Credit Risk	2.227	27.838
Market (FX) Risk	32	405
of which FX market risk	32	405
OPR Risk	409	5.114
Total	**2.259**	**28.243**
Capital Adequacy Ratio	63,29%	

Principal Risks

The financial risk factors of the Company are:

- Credit risk
- Market risk
- Operational risk
- Regulatory risk

10.1. Credit Risk

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 reporting date.

VIL's Credit Risk Management Policy establishes the framework for credit assessment, structure of limits and process of approval and monitoring of credit risks.

The Company manages the credit risk inherent in its entire portfolio as well as the risk attributable to individual credits or transactions. Credit exposures from related accounts are aggregated and monitored on a consolidated basis. The evaluation of client or counterparty creditworthiness involves the analysis of financial and non-financial information, including submitted pledge to cover credit risk.

Credit risk management objectives during 2018 were to:

- Maintain a framework of controls to ensure credit risk taking is based on sound credit risk management principles.
- Identify, assess and measure credit risk clearly and accurately across VIL and within each separate business line, from the level of individual facilities up to the total portfolio.
- Control and plan credit risk-taking in line with external stakeholder expectations and avoiding undesirable concentrations.
- Monitor credit risk and adherence to agreed controls, and
- Ensure that risk-reward objectives are met.

The Standardized Approach was used to calculate the minimum capital requirement in accordance with the requirements laid down in Article 92 of the CRR.

Table 5 below presents the allocation of credit risk in accordance with the Standardized Approach exposure classes.

Table 5: Exposure Classes and Minimum Capital Requirements

Exposures at 31 December 2018	Risk-weighted amounts	Minimum Capital Requirements
	$'000	$'000
Exposure Class		
Corporate	15.372	1.230
High Risk	0	0
Institution	12.359	988
Other Items	107	9
PSE	0	0
Retail	0	0
Total	**27.838**	**2.227**

Nominated External Credit Assessment Institutions ('ECAIs') for the application of the Standardized Approach

In accordance with Article 138 of the CRR, VIL has nominated the following three ECAIs to be used for the determination of risk weights to be assigned to its assets and off-balance sheet items: Standard and Poor's Rating Services ('*S&P*'), Fitch Ratings ('*Fitch*') and Moody's Investors Service ('*Moody's*') (together referred to as the '*nominated ECAIs*'). Further on, following the approach of Article 138 (d)-(f) of the CRR:

- where more than two credit assessments are available from the nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned;
- where two credit assessments are available from the nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned; and
- where only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the risk weight for that item.

VIL has used the credit quality step mapping presented in Table 6 below to map the credit assessment to credit quality steps.

Table 6: Credit Quality Step Mapping

Credit Quality Step	Fitch	Moody's	S&Ps
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

A breakdown of VIL's exposures by Credit Quality Step ('*CQS*') is given in the following Table 7:

Table 7: Breakdown by CQS by counterparty

Exposures at 31 December 2018	Exposure Value before Credit risk mitigation $'000	Exposure Value after Credit risk mitigation $'000
Credit Quality Step		
1	9.263	9.263
4	13.382	13.382
5	16.768	16.768
Unrated/Not applicable	2.208	2.208
Total	**41.621**	**41.621**

Average exposure

Table 8: Average exposure classes		
Exposure Class	Original exposure amount, net of specific provisions	Average exposure
	$'000	$'000
Corporates	15.089	18.851
Institutions	26.400	21.643
High risk	-	1
Other Items	132	138
Total	**41.621**	**40.633**

Residual Maturity of Credit Risk Exposures

Table 9: Exposure Classes and Residual Maturity			
Exposure Class	Maturity ≤ 3 months	No Maturity	Total
	$'000	$'000	$'000
Corporates	15.063	26	**15.089**
Institutions	26.400	-	**26.400**
Other Items	25	107	**132**
Total	**41.488**	**133**	**41.621**

Geographic Distribution of Credit Risk Exposures

Table 10: Exposures per Asset Class per Country of Incorporation of Counterparty						
Exposure Class	Belize	Cyprus	Latvia	Russia	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Corporates	-	24	-	15.030	34	**15.088**
Institutions	9.263	16.334	621	-	182	**26.400**
Other Items	-	133	-	-	-	**133**
Total	**9.263**	**16.491**	**621**	**15.030**	**216**	**41.621**

Industry of Credit Risk Exposures

Table 11: Exposure Classes by Industry			
Exposure Class	Financial	Other	Total
	$'000	$'000	$'000
Corporates	15.060	28	15.088
Institutions	26.400	-	26.400
Other Items	-	133	133
Total	**41.460**	**161**	**41.621**

Counterparty Credit Risk

Counterparty credit risk arises from derivatives and similar contracts, repurchase transactions, long settlement transactions and margin lending transactions.

All new business counterparties selected in the period were assessed by the Risk Manager before any new counterparty business relationship was established by VIL. All existing business counterparties were subject to regular review performed by the Risk Manager during the reporting period. Only reviewed by the Risk Manager counterparties were presented to Executive Management's consideration and further presentation to the Board for the counterparty approval. Only after Board's approval (in the format of written resolutions) and the Risk Manager's notification of the Board's decision and relevant limits to the interested department, the counterparty relationship was established by relevant department of VIL.

All exposures to business counterparties (including that to banks) were monitored for compliance with established limits on an ongoing basis. During year 2018, six occasions of exposures falling outside established limits (which are set at the highest of internal credit limit as set following VIL's Risk Manager's assessment and 100% or 25% of VIL's eligible capital (the regulatory limit), as applicable). All large exposures that arose during 2018, have been duly reported to CySEC and eliminated within declared deadlines. During the reporting period, there were no occasions of large exposures arising with respect VIL's exposures to a client (or group of connected clients) as a result of margin lending transactions or to business counterparties as a result of dealings in financial instruments.

In discharging her obligations with regards to the assessment, selection, periodic review and monitoring of the third parties, the Risk Manager was guided by relevant provisions of VIL's Credit Risk Management Policy and relevant parts of VIL's Policies and Procedures Manual.

VIL's Credit Risk Management Policy lists the general principles of creditworthiness evaluation, as well as special aspects on credit assessment of commercial banks, enterprises, and that of investment companies. It also contains the detailed methodology for risk evaluation.

In order to mitigate its Repo and reverse Repo transactions, the Company uses as a credit risk mitigation the funded credit protection through the financial collateral comprehensive method.

Past Due and Impaired Assets

Past due exposures are those with delayed payments and/or settlements or in excess of authorized credit limits. Impaired exposures are those which are not considered fully collectable and for which a provision for impairment has been recognized on an individual basis or for which incurred losses exist at their initial recognition.

The Company has adapted the IFRS 9 model as at 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The application of IFRS9 impairment model did not result in additional allowance for impairment to be recognised, since the impact was not significant. As of 31 December 2018, VIL did not have either past due or impaired exposures.

Exposures in equities not included in the trading book

During the year 2018 the Company did not purchase any equities which qualify under this category such as equity in investments, equity in associates or investments that would be classified as available for sale.

Interest rate risk in non-trading book activities

As of 31 December 2018, VIL did not have any positions, which would be subject to this risk.

10.2. Market Risk

Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

As from 1 November 2018, VIL has renounced its 'Trading on Own Account' license and as of 31 December 2018 was not exposed to Position risk which would require special management techniques.

VIL also did not deal in commodities or commodity derivatives for own account, making it also not eligible for Commodities risk requirements. However, due to foreign exchange transactions performed for and on behalf of its clients, VIL was exposed to Foreign Exchange risk arising on its banking book positions during the reporting period.

For the purposes of calculating regulatory capital requirements for Foreign Exchange risk, VIL was guided by relevant provisions of the CRR.

Foreign Exchange ('FX') Risk

FX risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. FX risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency.

VIL is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the: Russian Ruble, Euro, British Pound, Canadian Dollar, Ukranian Hryvna, Kazakhstan Tenge and the Swedish Krona. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Company's Market Risk Capital Requirement as at 31 December 2018 was $32 thousand as shown in Table 12 below:

Table 12: Market Risk Exposure Amount and Capital Requirement		
Risk Type	Capital Requirement $'000	Risk Exposure Amount $'000
Market Risk	32	405
of which FX market risk	32	405
Total	32	405

10.3. Operational Risk

Operational risk is the risk that people, processes, systems, or external events impede VIL's ability to meet its objectives. This risk is a function of internal controls, employee conduct, process efficiency, third-party oversight, physical security, and business continuity planning. It also includes:

- legal – the risk of: illegal use of internal information by VIL (insider dealing), legal action as a result of unauthorized disclosure of customer's details, discrimination claims, legal action as a result of public liability or violation of laws, regulations, agreements etc.;
- settlement – the risk of losses arising from failure to settle transactions accurately or on a timely manner; and

- technology – the risk that information technology processing, security, stability, capacity, and performance jeopardizes core VIL's operations.

Management of operational risk is ensured by operating within a strong system of internal controls that enables business to be transacted and risk taken without exposing itself to unacceptable potential losses or reputational damage, and operating the Operational risk framework, which comprises a number of elements allowing VIL to manage its operational risk profile. This framework is implemented across VIL as follows:

- Vertically, through the organizational structure with all VIL's functions and departments required to implement and operate an operational risk framework that meets, as a minimum, the requirements detailed in VIL's Operational Risk Management policy, and
- Horizontally, with VIL's Risk Management function required to monitor information relevant to Operational risk from each operational risk framework element.

The prime responsibility for the management of Operational risk and the compliance with control requirements rests with VIL's departments and functional units where the risk arises. The Risk Management function acts in a 'second line of defense' capacity and provides oversight and challenge of the business operational risk profile escalating issues as appropriate.

Following the renouncement of its 'Dealing on Own Account' license as of 1 November 2018, VIL falls under Article 95(1) of the CRR, and according to Article 95(2) is not required to calculate the own funds requirements in accordance with Title III for operational risk, but rather, in accordance with Article 97 of the CRR, to hold the eligible capital of at least one quarter of the fixed overheads of the preceding year (the '*Fixed Overhead Requirement*'). The Fixed Overhead Requirement for VIL as of 31 December 2018 was of US$ 409 thousand as compared to Total Eligible Capital of US$ 17.874 thousand resulting in VIL's compliance with the requirement of the Article 97 of the CRR.

10.4. Regulatory Risk

Regulatory risk is the risk of VIL's failure to adhere to regulatory, legal and financial crime requirements that may lead to financial and reputational damage. Regulatory risk encompasses:

- Compliance risk – the risk of failure to comply with regulatory requirements, approved practices, accounting and ethical standards.
- Money laundering – the risk of clients undertaking money laundering activities and of inadequate identification systems.
- Treating customers fairly – the risk of inability or inconsistency in providing clients with sufficient information about terms and conditions of services, inadequate tracking of complaints, etc.
- Tax risk – the risk of critical recommendations, sanctions, penalties imposed by the tax authorities to VIL due to non-compliance with tax requirements; and
- Corporate governance – the risk of failure to meet regulatory expectations regarding internal governance.

VIL upholds its regulatory and legal obligations via strong framework of internal controls to ensure effective and regulatory compliant provision of investment services with fair treatment for all our clients being at heart of our business. The need for compliance and/or legal judgment necessitates decision-making to be transparent, supported, and subject to appropriate governance processes.

VIL has no risk appetite for non-compliance with applicable laws and regulations, bribery, and corruption, economic sanctions, equal employment opportunity and diversity principles, ethical standards, and other matters that could compromise the Company's integrity.

Risk is, though, inherent in areas of practical law applications where VIL has discretion, and according to its Risk Appetite Statement, VIL may accept slightly more risk to remain nimble in responding to the changing investment services business landscape subject to acceptable level of the regulatory risk component.

Regulatory risk for VIL is also the risk of changes in laws and regulations, which may materially impact financial markets in general or VIL's business sector in particular. VIL proactively manages this part of Regulatory risk by undertaking detailed assessments of the newly introduced and proposed regulatory requirements and their impact on the capital requirements and relevant policies, procedures, and systems of VIL producing the gap-analysis addressing the main anticipated changes.

11. Remuneration Policy

VIL's Remuneration Policy sets forth VIL's policies and procedures for establishing remuneration of VIL's staff based on the accepted industry practices and in accordance with the current legislation. For the purposes of this policy, remuneration includes wages, salaries and other financial and material incentives, including benefits associated with retirement.

VIL's Remuneration Policy applies to the following staff categories (the *'covered staff categories'*):

- Senior management (Executive and Non-executive Directors).
- Employees, whose activities are associated with risk taking (Head of Brokerage).
- Employees entrusted with control functions (Risk Manager, Compliance, MLCO, and Internal Auditor).
- Employees with management functions (Chief Accountant, Head of Treasury, Head of Back-Office, and Head of Middle Office).
- Any employee receiving total remuneration that takes him/her into the same remuneration bracket as senior management and risk takers, whose professional activities have a significant and/or material influence on the risk profile of VIL.

The remuneration of the covered staff categories of VIL consists of fixed, non-performance-based portion only. VIL does not have any arrangements for any kinds of variable components of compensation payable to its covered staff categories. No predefined bonus award schemes exist, and VIL does not have any executive incentive schemes in place. Also, VIL does not provide for any benefits for its employees or management upon their retirement.

The fixed portion of the remuneration of each of the covered staff categories is determined by the individual employment contract with that person or in accordance with the service contract concluded with relevant service provider. The amount of such fixed remuneration is determined with reference to the: (i) current labor market trends; (ii) organizational responsibilities as set out in an employee's job description as part of the employment contract; (iii) qualifications, skills and professional experience of relevant person, and is not in any way related to performance.

11.1. Design and Structure of Remuneration

VIL's Board of Directors has the responsibility for deciding on the compensation and benefits for Executive and Non-executive Directors. In discharging this duty, the Board is guided by three goals:

- Compensation should fairly pay directors for work required in a company of VIL's size and scope.
- Compensation should align directors' interests with the long-term interests of shareowners.
- The structure of the compensation should be simple, transparent and easy for the shareholders to understand.

The Board believes these goals are served by providing 100% of both employee and non-employee director compensation in fixed, non-performance based portion. The Board ensures that variable remuneration is not paid through vehicles or methods that facilitate the noncompliance with this policy, including those on the group level.

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Decisions relating to the remuneration of members of VIL's Board, may from time to time be assigned to the General shareholders' meeting, as per the requirements of the Cyprus corporate law. The shareholders' vote may be either consultative or binding. To this end, shareholders should be provided with adequate information in order for them be able to make informed decisions. The Board remains responsible for the proposals submitted to the shareholders' meeting, as well as for the actual implementation and oversight of any changes to the remuneration policies and practices.

VIL's Board of Directors shall also directly control the level of remuneration set for control functions (i.e. for Compliance, MLCO, Internal Auditor, and the Risk Manager). Control functions' remuneration shall be independent of the performance of the business areas they control and shall be set with reference to:

- Objectives linked to their functions and respective responsibilities assigned.
- Market levels of remuneration for such services appropriate to VIL's size, internal organization, and the nature, scope and complexity of the function's activities.
- Qualifications, skills and experience of responsible person.

VIL's Chief Executive Officer (the '*CEO*') shall be responsible for establishing the level of remuneration set for management functions employees (i.e. for Head of Brokerage, Chief Accountant, Head of Treasury, Head of Middle Office, and Head of Back-Office). In discharging his/her responsibilities with this regard, the CEO shall be guided by provisions of VIL's Remuneration Policy. VIL's CEO is also responsible for the implementation of VIL's Remuneration Policy and respective internal and external reporting on the achievements of its objectives.

11.2. Fees and Emoluments of Members of the Board and Other Key Management Personnel

The fees of non-executive directors include fees payable to them as members of VIL's Board as well as for being members of the Board's committees. They include the fees and benefits for the period that they serve as members of the Board.

Remuneration of key managers by business area:

Table 17: Aggregate Remuneration by Business Area			
Business Area	Fixed Salary $'000	Variable Salary $'000	Aggregate Remuneration $'000
Control Functions (including Executive and Non-Executive Directors)	261	-	261
Other Risk Functions	236	-	236
Total	**497**	-	**497**
Other Benefits, according to the Financial Statements, of the Company, were not included			

Control Functions include the Company's Executive and Non-Executive Directors, the Risk Management function, Compliance function and Money Laundering Compliance function. The Other Risk Functions include the Accounting Department, the Treasury Department, the Back Office Department and the Middle Office Department.

Table 18: Aggregate Remuneration by Directors and Senior Management				
Personnel	No. of people	Fixed $'000	Variable $'000	Total $'000
Directors and Senior Management	8	497	-	**497**
Total	**8**	**497**	-	**497**
Other Benefits, according to the Financial Statements, of the Company, were not included				

Appendix I – BALANCE SHEET RECONCILIATION

Balance Sheet Description	Amount $'000
Share Premium, as per audited financial statements	13.301
Share Capital, as per audited financial statements	1.530
Retained Earnings, as per audited financial statements	3.147
Profit for the year	-
Non reciprocal shareholder contribution	15
Intangible assets/Goodwill, as per audited financial statements	-
Additional deductions due to the CRR	(119)
Deferred Tax assets, as per audited financial statements	-
Adjustments to Own Funds for the purposes of Own Funds	-
Total Own Funds	**17.874**

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Appendix II – OWN FUNDS DISCLOSURE TEMPLATE

At 31 December 2018	Transitional Definition $'000	Full - phased in Definition $'000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	14.831	14.831
Retained earnings	3.162	3.162
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-	-
Funds for general banking risk	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**17.993**	**17.993**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	-	-
Additional deductions of CET1 Capital due to Article 3 CRR	(119)	(119)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(119)**	**(119)**
Common Equity Tier 1 (CET1) capital	**17.874**	**17.874**
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	**17.874**	**17.874**
Total regulatory adjustments to Tier 2 (T2) capital	-	-
Tier 2 (T2) capital	-	-
Total capital (TC = T1 + T2)	**17.874**	**17.874**
Total risk weighted assets	**28.243**	**28.243**
Capital ratios and buffers		
Common Equity Tier 1	63,29%	63,29%
Tier 1	63,29%	63,29%
Total capital	63,29%	63,29%

Definitions:

The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The Total Capital ratio is the own funds of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.