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DISCLOSURE AND MARKET DISCIPLINE REPORT

2014

orbex

Disclosure and Market Discipline Report – V.2

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I. Scope of the Report

Orbex Limited (hereafter the "Company") is regulated by the Cyprus Securities and Exchange Commission (hereafter "CySEC") and authorised to operate as a Cypriot Investment Firm since 1 May 2011, under the licence number 124/10.

The Company has prepared this report to fulfil its obligations regarding the public disclosure of information laid down in Directive DI144-2014-14 for the Capital Requirements of Investment Firms (hereafter the "Directive"), issued by CySEC.

This report constitutes a summary of the disclosure and market discipline policy of the company, applying the rights granted in Article 432 of EU 575/2013.

The Disclosure and Market Discipline report has been reviewed and approved by the auditors of the company Messrs. M. Marnerou & Co. Limited.

The Directive is based on the "three Pillar concept" as follows:

- Pillar 1 - Minimum Capital Requirements: the calculation of the total minimum capital requirements for credit, market and operational risk is presented, in addition to the calculation of the minimum ratio of capital to risk weighted-assets which is set to 8%.

- Pillar 2 - Supervisory Review Process: the key principles of supervisory review, transparency and risk management are discussed, with emphasis to be given to the development of an internal capital adequacy assessment process for ensuring compliance with regulatory requirements regarding capital adequacy.

- Pillar 3 - Market Discipline: the introduction of disclosure requirements and recommendations enhances comparability through the dissemination of information to the market that enables better assessment of the financial strength of investment firms.

The Company's Disclosures below have been prepared using 31 December 2014 data in accordance with the Directive, and shall be published on annual bases on the Company's Website www.orbex.com in conjunction with the date of publication of the financial statements.

II. Risk Management Objectives and Policies:

II.1 Risk Management policy:

Managing risk effectively in a multidimensional organisation, operating in a continuously changing risk environment, requires strong risk management principles. As a result, the Company has established an effective risk oversight structure and the necessary internal organisational controls to ensure that the Company identifies and manages its risks adequately, establishes the necessary policies and procedures, sets and monitors relevant limits and complies with the applicable legislation.

II.2 Structure of Risk Management Function

The principal responsibilities of the Board (Four Members), the Senior Management, the Internal Auditor, the Risk Management Committee and the Risk Management function in relation to the management of the Company’ s risks include the following:

- The Board combine various expertise and educational backgrounds (i.e. Finance, Legal, Marketing and Physics) enables the management to look over the various risk types the Company might encounter during the Company operations.

- The Board reviews and discusses, during its meetings, the written reports prepared by the Risk Manager and identifies the risks faced by the Company;

- The Company’ s Senior Management also reviews the written reports prepared by the Risk Manager, applies the decisions of the Board with respect to risk management and monitors whether all the Company’ s risk management procedures are followed;

- The Internal Auditor evaluates the adequacy and effectiveness of the Company’ s internal control systems, policies and procedures with respect to risk management;

- The Risk Management Committee, inter alia, scrutinizes, and decides on various risks associated with the operation of the Company with the view to increase the awareness of, formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company. Moreover, the Risk Management Committee reviews the risk management procedures in place (monitors and controls the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department), the Risk Manager ensures efficient management of the Company’ s risks in the provision of the investment and ancillary services to Clients, as well as the risks underlying the operation of the Company.

III. Analysis Of The Risks Faced By The Company

III.1 Credit Risk

Credit Risk arises when failures by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

During 2014, the Company had increased concentration of credit risk compared to the 2013 while it has been implementing the Standardized Approach to Credit Requirements for the calculation of its credit risk.

Cash balances during the year were held with credit institutions in Cyprus, United Arab Emirates, Jordan and Kuwait. Furthermore, 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 CySEC Directive DI144-2007-06/DI144-2014-14 and Regulation (EC) 575/2013, as applicable.

In addition, the Company has policies in place to ensure that services are provided to Clients with an appropriate credit history. All the custodians of the Company have been assessed in accordance with the provisions of the Company's IOM and CySEC's Directive DI144-2007-01.

The table below shows the exposure to credit risk as at 31 December 2014:

	31/12/2014 (based in CRD IV)	**31/12/2013 (based on audited accounts)**
	Euro '000	**Euro '000**
Risk Weighted Assets		
Institutions	4.785	1.450
Other assets and receivables	126	121
Corporates	824	62
Total risk weighted assets	**5.735**	**1.633**
Credit Risk (8% of total risk weighted assets)	**458**	**131**

Credit Risk calculation

The Company follows the Standardised Approach for the calculation of the capital requirements for credit risk.

III.2 Operational Risk

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The following list presents some event types, included in operational risk, with some examples for each category:

- Internal Fraud - misappropriation of assets, tax evasion, intentional mismarking of positions, bribery.

- External Fraud - theft of information, hacking damage, third-party theft and forgery.

- Employment Practices and Workplace Safety - discrimination, workers compensation, employee health and safety.

- Clients, Products, & Business Practice - market manipulation, antitrust, improper trade, product defects, fiduciary breaches, account churning.

- Business Disruption & Systems Failures - utility disruptions, software failures, hardware failures.

- Execution, Delivery, & Process Management - data entry errors, accounting errors, failed mandatory reporting, negligent loss of Client assets.

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 continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

Furthermore, the Company has in place policies and processes whose implementation assists with the evaluation and management of any exposures to operational risk.

For the calculation of operational risk in relation to the capital adequacy reports, the Company uses the Basic Indicator Approach. Based on the relevant calculations in the Company's capital requirements

Operational risk mitigation:

The Company has established various techniques for the mitigation of operational risk. These techniques include the following:

- Maintaining a four eye structure and implementing board oversight. The Board of Directors reviews significant strategic decisions made by management and monitors their activities.

- The compliance officer must ensure the accuracy of any statements made during the marketing and advertising processes and ensure that the information addressed to the client is fair, clear and not misleading.
- The compliance officer ensures that proper information/reports are sent on time to CySEC.
- Management formally communicates duties and responsibilities to employees through regular meetings, seminars and trainings.
- Internal audit visits are implemented to ensure that employees comply with the Company's internal procedures.
- Several policies and procedures have been established and followed in an attempt to identify and minimize any fraudulent activities.

III.3 Market Risk:

Market risk is the risk that the value of an investment will decrease due to movements in market prices and in particular, due to changes in interest rates, foreign exchange rates and equity and commodity prices. The associated market risk factors are the interest rate risk, the currency risk, the equity risk and the commodity risk.

Market risk mitigation:

The Company follows the following procedures as example to mitigate the market risk:

- The Company employs a risk manager who is responsible for the monitoring of the Company's risk exposure; any deviation ought to be reported to the risk management committee where appropriate action must be taken.

- Risk management committee is an independent unit reporting directly to the Board of Directors.
- Aggregate net exposures are monitored as they develop from the opening and/or closing of positions by clients. If risk exceeds desired levels, appropriate actions should be taken to hedge risk until intended levels are achieved.

The Company must maintain trading accounts with other regulated Companies for engaging in proprietary positions in financial instruments for its own account as a hedging measure and in order to minimize risk.

III.4 Interest Rates Risk:

Interest rate risk is the risk that the value of financial instruments (including currencies) will fluctuate due to changes in the market interest rates. The Company is exposed to interest rate risk in relation to its bank deposits.

During the year under review, the Company's income and operating cash flows were substantially independent from changes in market interest rates, due to the fact that the Company other than cash at bank which attracts interest at normal commercial rates, had no other significant interest bearing financial assets or liabilities.

None-the-less, the Risk Manager monitors the interest rate fluctuations with the assistance of the accounting function and based on the fluctuations of the relevant rates, the necessary hedging activities will be undertaken, as and where applicable.

III.5 Foreign Exchange Risk:

Foreign exchange risk is the effect that unanticipated exchange rate changes have, on the Company.

In the ordinary course of business, the Company is exposed to foreign exchange risk, which is monitored through various control mechanisms.

The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

The Company is mainly exposed to the fluctuation of the United States Dollar (USD) versus the Euro, mainly due to the fact that the Company's main debit balances are denominated in USD, whereas the reporting currency is the Euro.

III.6 Funding Liquidity Risk

Funding liquidity risk is the possibility that, over a specific horizon, the Company will be unable to meet its demands/needs for money (i.e. cash) through mismatch of assets and liabilities (i.e. the ability to settle obligations with immediacy).

For the year under review, the Company did not appear to be exposed to funding liquidity risk.

Policies and procedures for the measurement and management of the Company's net funding position and requirements, on an ongoing and forward-looking basis, have been established in order to mitigate any funding liquidity risk.

IV. Own Funds

The Company's eligible own funds consist entirely of Tier 1 items (Equity Share Capital, Share Premium and Reserves). The total eligible own funds of the Company are not subject to any capital deductions, restrictions or limits. The Company must have own funds which are at all times more than or equal to the sum of its capital requirements. In addition, they must not fall below the level of its initial capital in no case.

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

The Company fulfilled its obligations by successfully submitting, on a monthly basis, the Capital Adequacy and Large Exposures Reports.

Furthermore, CySEC requires every Cyprus Investment Firm to maintain a minimum ratio of capital to risk weighted assets of 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. CySEC may impose additional capital requirements for risks not covered by Pillar I of Basel II.

Moreover, the minimum Capital Adequacy Ratio (i.e. 8%) was maintained by the Company during the year under review. It is noted that the Company’s Capital Adequacy Ratio as at December 2014 was 19.58%.

The Company’s Own Funds, Capital Requirements and Capital Adequacy Ratio reported as at 31st of December 2014, were the following:

	31/12/2014	**31/12/2013 (based on audited accounts)**
Eligible Own Funds – Tier 1	**Euro '000**	**Euro '000**
Shares	1000	1000
Shares Premium	500	500
Reserves	1.666	1.091
Total Common Equity Tier 1	**3.166**	**2.591**
Additional Tier 1	0	0
Total Tier 1 Capital	**3.166**	**2.591**
Tier 2	**0**	**0**
Total Eligible Own Funds	**3.166**	**2.591**
Capital Requirements/Risk Weighted Assets		
Credit Risk	459	131
Position, Foreign Exchange and Commodity Risk	622	178
Operational Risk	212	405
Total Capital Requirements	**1.293**	**714**
Capital Adequacy Ratio	**19.58%**	**29.04%**

Internal Capital Adequacy Assessment Process

The Company is in the process of establishing an Internal Capital Adequacy Assessment Process (hereinafter, the "ICAAP"), document it in an ICAAP Manual and produce in this regard an ICAAP Report, as per the Guidelines GD-IF-02 & GD-IF-03. Upon CySEC's request the ICAAP Report shall be submitted to CySEC.

The ICAAP report will describe how the Company implemented and embedded its ICAAP within its business. The ICAAP will also describe the Company's Risk Management framework e.g. the Company's risk profile and the extent of risk appetite, the risk management limits if any, as well as the adequate capital to be held against all the risks (including risks other than the Pillar 1 risks) faced by the Company.

IV. Remuneration Disclosures

In accordance with the requirements of the Directive, the Company publicly discloses information regarding the remuneration policy and practices for those categories of staff whose professional activities have a material impact on the risk profile of the investment firm.

The remuneration of staff is dependent on various elements such as jurisdiction legal and regulatory requirements, employment law requirements, market and industry practices and competition analysis. The Human Resources Department and the Board of Directors decide the remuneration of the Company's Senior Management and employees with reference to the above elements.

The Company does not retain external consultants although external consultants are used

from time to time to asked advice on specific issues. The Board also seeks advice from the HR Department and Managing Directors/Senior Managers, who may provide relevant information and advice to the Board.
The setting of remuneration supports the business objectives and corporate values of Orbex Limited and is aimed at promoting prudent risk management and to avoid excessive risk taking by attracting, retaining and motivating the key talent needed to achieve these outcomes, accordingly, the Company Directors and Senior Management are entitled to fixed remuneration, while only the sales staff are eligible to variable remuneration based on achieving their targets.

The Company's remuneration arrangements represent a combination of salary, bonuses and long term incentive schemes that are designed to align the interest of the Company and its employees with those of its clients and other stakeholders to ensure the Company's continued long term profitability. Non-salary remuneration plans are completely variable, based on the Company's performance and individual performance.

V. Further Information

For further information regarding this report, please contact the Compliance Department at compliance@orbex.com