ARGO CAPITAL MANAGEMENT (CYPRUS) LIMITED

DISCLOSURES IN ACCORDANCE WITH PART EIGHT OF EUROPEAN REGULATION (EU) 575/2013 (PILLAR III DISCLOSURES)

YEAR 2017

MARCH 2018

ACCORDING TO CIRCULAR C064 OF THE CYPRUS SECURITIES AND EXCHANGE COMMISSION ON PRUDENTIAL REQUIREMENTS FOR CREDIT INSTITUTIONS AND INVESTMENT FIRMS AND AMENDING REGULATION (EU) No 648/2013

TABLE OF CONTENTS **PAGE**

1. SCOPE OF APPLICATION

The following information is disclosed in accordance with Circular 064 of the Cyprus Securities and Exchange Commission and Part Eight of the European Regulation (EU) 575/2013, Article 433, which states that *"Institutions shall publish the disclosures required by this Part at least on an annual basis. Annual disclosures shall be published in conjunction with the date of publication of the Audited financial statements…".*

Paragraph 32(1) of Part II of DI2014-144-14 for the Prudential Supervision of Investment Firms states that *"The information referred to in Part Eight of Regulation (EU) No 575/2013, shall be audited in accordance with the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and shall be published, where possible, as an annex to the annual financial statements or, where applicable, to the consolidated financial statements of the CIF concerned, or on the CIF's website. The CIF will be responsible to submit its external auditors' verification report to the Commission the latest within five months from the end of each financial year".*

Based on the above, CIFs are obliged to publish the disclosures required under Part Eight of the Regulation (Pillar III disclosures) by the end of April each year and submit to CySEC the external auditors' verification report by the end of May each year, the latest.

Argo Capital Management (Cyprus) Limited ("Argo" or "Company") was established in 2000 and was licensed in 2004 by CySEC with license no 023/04 to provide portfolio management and advisory services. Under CySEC rules, Argo is classified as KEPEY with a base capital requirement of CYP150K. Argo does not hold client money since it manages a Collective Investment Scheme (CIS) and the investors in the funds it manages are Eligible Counterparties and Professional Clients. 'Argo Capital Management (Cyprus) Ltd' is not authorized to hold clients' money and is only authorized for the investment service of portfolio management it should have been categorized under art. 95 (2) of the CRR (minimum own funds requirement €50.000).

Argo is 100% owned by Argo Group Limited ("AGL", "Parent"), a holding management company listed on the London Stock Exchange's AIM market.

During the year, the Company acted as an ancillary advisor to a number of Funds. Since 30 March 2004, the Company has been operating as a Cyprus Investment Firm, having obtained the necessary licence from the Cyprus Securities and Exchange Commission.

1.1 Pillar III Disclosures

As described above, most of the disclosures of Pillar III do not apply to Argo since its only asset is cash and fees receivable from the Fund it manages. As a result of this simplistic Balance Sheet, there are no complex exposures or relevant mitigating factors. A number of the articles listed in Part Eight of 575/2013 do not apply to Argo and elaborating on them might prove unnecessary and misleading to readers of this disclosure. The detailed disclosure below will concentrate on the main articles such as risk management policies as far as the cash held by Argo is concerned (only major asset), its related credit risk to institutions and counterparty risk. Additionally, liquidity risk, operational risk using the standardised approach and the impact of the above to the capital adequacy of the company

will be discussed. These are all factors taken into consideration in maintaining the Internal Capital Adequacy Assessment Process ("ICAAP") of the Company. Finally as required by regulation, Argo details below the fixed and variable remuneration policy. The audited financial statements of the Company are prepared in accordance with IFRS7 as required by the EU regulations.

Furthermore the holding company of Argo Capital, the Argo Group is listed on the AIM market of the London Stock Exchange and complies with the required disclosure requirements. Hence there is enhanced transparency and public disclosure through the AIM market and by the website www.argogrouplimited.com about capital structure, capital adequacy, risk profile, remuneration and others.

2. COMPANY RISK MANAGEMENT

The Board of Directors (BoD) has the ultimate responsibility for the risk appetite and the monitoring of risks on a regular basis. Additionally, the BoD is responsible for monitoring the capital adequacy of the Company.

2.1 Internal Capital Adequacy Assessment Process ("ICAAP")

The Company's risk matrix contains a listing of business, credit, liquidity and operational risk categories which were recognised as the Company's main types of risks. In considering the individual risks facing the Company, the following were judged to be the most material:

i. Loss of Key staff
ii. Poor performance
iii. Investor redemptions
iv. Adverse Market Conditions
v. Business Continuity

Whilst some of the risk is mitigated by controls and actions already in place, there remains a level of risk which is unavoidable in running a business of this type.

Argo have adopted an ICAAP based upon the Pillar 1 minimum capital requirement and assessed the extra capital proportionate to the non-Pillar 1 risk.

The Company has undertaken a number of capital planning and stress scenario tests to ensure there isn't a requirement for any additional Pillar 2 capital. The Directors feel that the Company's Pillar 1 capital is adequate to address the material risks identified plus cover the additional capital that would be required if additional market and credit risk requirements arise on receipt of additional management fees.

An updated ICAAP Report was prepared in January 2018 and approved by the Board.

3. CREDIT RISK MANAGEMENT

3.1 Definition of Credit Risk

Credit risk is the risk that the Company suffers losses as a result of customers and/or other counterparties defaulting on their contractual obligations.

3.2 Credit Risk Management Procedures

The Company's balance sheet comprises only cash received from the funds as performance fees and ancillary advisory fees. The main concern of the Board is to properly manage the cash for credit risk, liquidity risk and foreign exchange risk. The Board approved a very conservative and risk free policy by not chasing returns on the cash. The Company manages prudently its cash balances by spreading it over two major as a minimum BBB+ rated banks, and keeping the cash in current accounts, since Fixed deposits do not offer attractive interest rates. There is also continuous credit risk monitoring of banking relationships to minimise similar event losses to March 2013 in Cyprus. To further eliminate country risk the Board has approved the opening of banking relationships in more than one country.

4. MARKET AND LIQUIDITY RISKS MANAGEMENT

4.1 Definition of Market and Liquidity Risk

Liquidity risk is the risk of profit or capital reduction arising from the inability of the Company to satisfy its immediate obligations.

Market risk is the risk associated with changes in market prices/rates, such as interest rate changes and changes in foreign exchange rates, which may impact the Company's net income or the value of the Company's balance sheet items. Foreign exchange risk is the risk of losses or volatility in the value of balance sheet items arising from foreign exchange movements.

4.2 Liquidity Risk Management Procedures

The Risk Manager has responsibility for ensuring that there is sufficient liquidity to cover the company's expenses. Our systems produce projected cash flow reports and assets are classed into liquidity buckets. A daily liquidity cash flow projection is produced. Annual budgets and cashflow projections are also approved by the Board and checked during the external audit inspection at Group level.

The Board has approved a very conservative liquidity policy by keeping the cash in current accounts. Liquidity has been properly managed and kept at very high level as a reserve against any unexpected crisis. Liquidity is also affected positively by the prudent expenses control despite the increased taxes and compliance costs.

4.3 Market Risk Management Procedures

Foreign exchange risk arises from the fact that the fee income of the Company is in USD but it pays local expenses in Euro. This is minimised and smoothed over the year by keeping cash in USD and by converting on a monthly basis what is needed for euro expenses and local taxes. The financial statements of the Company are prepared in USD so as to present a fairer picture without foreign exchange distortions.

The Board has approved the policy of no speculation with US Dollar denominated cash. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro and the British pound. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

5. OPERATIONAL RISK MANAGEMENT

5.1 Definition of Operational Risk

The Company has adopted the principles and provisions set out in the guidelines of the CRR – Regulation No. 575-2013 on prudential requirements for credit institutions and investment firms.

Operational risk is the risk of loss arising from inadequate or failed internal procedures, human behaviour and systems or from external events. Operational risk includes legal risk but excludes strategic and reputation risk. However, due to the relatively small number of trades executed and the elaborate system of controls the Company has in place, such errors are rare and minimal.

5.2 Operational Risks Management Procedures

Controls exist at investment level, custodian level (MIBL Luxembourg) and administration level (MUFG). Since 2008, as stipulated by the Cyprus Securities and Exchange Commission, the Investment Manager has adopted Basle II provisions, which require the allocation of capital against operational risk. **As of December 2014 following the introduction of CRDIV the Board has opted for the Standardised Approach and the Fixed Overheads method for the calculation of operational risk capital**. The Company's operational risk framework comprises double checking value dates, amounts and prices using a dual signature process. Segregation of duties also exists and counterparty confirmations are received independently of traders. The daily reconciliation between the two systems of Excel spreadsheets and the TRADAR booking system would capture any operational errors arising. Double signatures are also needed for payments and settlements. There is a further level of controls and checks when the trades are sent to the custodian bank for execution.

5.3 Counterparty Risk

The Company's counterparties are major banks with solid deposit base as described above in credit risk.

5.4 Leverage

The Company employs no leverage since it does not borrow and its only asset is cash.

5.5 Internal Audit

The Internal Auditor of the Firm carries out inspections and advises the Board of Directors and the Chief Executive Officer on the appropriateness of the procedures used for the management of Operational Risk. Internal Audit monitors the implementation of the Company's strategy and policy for the management of operational risks and reports independently to the CySEC.

5. OPERATIONAL RISK MANAGEMENT (CONT'D)

5.6 External Audit

Audits are also carried out by external auditors and the CySEC for the appropriateness and suitability of the procedures used for the management of operational risks.

5.7 Insurance Risk

The Company obtains professional insurance for all director and staff liabilities both at Company level and at Fund level. The premium covers all major professional indemnity clauses.

5.8 Other Residual Risks, Reputational risks and Business Risks

The Company monitors and discusses developments in the Fund Management Industry that will affect investor confidence and attitude to Fund Managers. Professionalism and Reputation are of utmost importance. These are enhanced by continuous training and participation in seminars and conferences.

6. CAPITAL BASE

The Company's regulatory capital based on the Directive 2013/36/EU is analysed as follows:

- Core Tier 1 capital, which includes the share capital and retained earnings.

The table below presents the analysis of the Company's own funds at 31 December 2017:

Own funds	**2017**
	$'000
Original own funds	
Share capital	318
Retained earnings	1.966
Deductions due to Article 3 CRR	(28)
Total Core Tier 1 capital	**2.256**

The Company's policy is to maintain a strong capital base, in order to maintain investor and market confidence and support the future development of the Company's operations.

The capital adequacy of the Company as at 31 December 2017 which was calculated based on the audited financial statements was 73,56% (2016: 55,46%) as reported by the Company to the CySEC. The Company has chosen to use the standardised approach for the measurement of capital adequacy. Therefore, for operational risk, capital was allocated based on the Company's turnover of the last three financial years, as required by the standardised method. Credit risk arises only from cash deposits in current accounts with local and foreign banks and the risk weighting used is 20%. As at 31 December 2017, the Company had no other risk asset investments on its balance sheet or off balance sheet.

Short term Credit risk exposure also arises from the fees receivable by Argo from the funds. This exposure is assigned a weighting of 100% since it is considered corporate exposure.

7. CAPITAL REQUIREMENTS

The Company has chosen to use the standardised approach for the measurement of capital adequacy.

The capital adequacy at 31 December 2017 was:

Own Funds	**$'000**
Common Equity Tier 1 Capital	2.256
Tier 1 Capital	2.256
Total own funds	**2.256**
Risk weighted exposures	
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	1.217
Additional risk exposure amount due to fixed overheads	1.850
Total risk exposure amount	**3.067**
CET1 Capital ratio	**73.56%**
T1 Capital ratio	**73.56%**
Total capital ratio	**73.56%**

8. REMUNERATION POLICY AND PRACTICES

8.1 Basic principles of the Company's remuneration policy

The Remuneration committee was established in November 2008. In accordance with authority delegated by the Board of Directors the terms of reference of the Remuneration Committee cover the following:

- To determine and agree with the BoD the framework or broad policy for the remuneration of the Chief Executive and such other members of the executive management
- To ensure the Company's remuneration policy for all staff is compliant with the applicable framework
- To review the framework or broad policy for remuneration to ensure it remains appropriate and relevant and in formulating proposals, be sensitive to the need for an appropriate balance between long and short-term elements of pay

The number of staff employed by the Company at 31 December 2017 was 2. All staff have formal employment contracts which include confidentiality, non-solicitation and non-competition clauses.

Compensation terms for all employees include a base salary and discretionary bonus as well as options in Argo Group Ltd that takes into account personal and firm performance. Staff members are not compensated directly on the performance of the Fund. Remuneration policy is compliant with AIFMD for a small Company like Argo and is dictated by the remuneration committee of Argo Group Ltd (AGL) consisting of three independent non-executive directors.

The remuneration of the personnel of the Company for 2017, which includes salaries as well as employers' contributions for social insurance etc., is analysed as follows:

	2017 **US$**
Wages and salaries	492.494
Social insurance costs and other funds	9.071
Social cohesion fund	4.827
	506.392
Average number of employees (including Directors in their executive capacity)	2
Directors' remuneration	206.624

8.2 Share-Based Incentive Plans

On 14 March 2011 the parent company of the Company granted options over 5,900,000 shares to directors and employees under The Argo Group Limited Employee Stock. This plan also covers the Cypriot based staff of the Group. All options are exercisable in four equal tranches over a period of four years at an exercise price of 24p per share.

No share options were issued or exercised during the year ended 31 December 2017.

8.3 Variable Rate (Bonus) compensation

Argo Capital Management Limited operates a discretionary cash bonus scheme. The size of the pool available is determined by the operating results at Group level, the liquidity position of the Group, the need to pay dividends i.e. Argo Group Limited and typically the Board will seek to allocate in aggregate 30-50% of profit before tax to the bonus pool. The Chief Executive of Argo Capital Management limited is a member of the Group Board and will therefore participate in decisions on the allocation of the pool between the various subsidiaries. Once the pool allocated for Argo Capital Management Limited is known, the Chief Executive will allocate bonuses to individuals on the basis of performance review that is carried out towards the end of each calendar year. As well as taking into account the contribution of individuals to the performance of the funds, other factors such as work ethic, self-advancement, interaction with colleagues, clients and counterparties are all taken into account before determining individual bonuses. These bonuses are paid in cash at or around the time of preparation of the Company's annual financial statements and there is no deferred element. Employees are eligible for a bonus pertaining to the year that they commence employment, providing there is a pool created by the board and their contribution merits it.