EXOTIX CAPITAL

Pillar III Disclosures

Overview

Exotix Partners LLP ('Exotix' or 'The Firm') is authorised and regulated by the Financial Conduct Authority ('FCA'). The capital requirements for firms such as Exotix to which the FCA Prudential Sourcebook for Banks, Building Societies and Investment Firms applies (as contained in FCA handbooks GENPRU and BIPRU) consist of three pillars.

- **Pillar I** is a variable capital requirement based on the sum of operational, market and credit risk requirements. A firm must maintain at all times capital resources equal to or in excess of the amount specified. Capital requirements are prescribed by the FCA based on assumptions on the profile of the firm and a survey of the risk profile of regulated entities.

- **Pillar II** requires each firm to review whether additional capital should be held against (i) risks not covered in Pillar 1 or (ii) a risk profile that deviates from that assumed by the FCA when setting Pillar I capital requirements. Here principal risk mitigants are the systems and controls employed by the firm to control risk. Additional capital requirements only need to be assessed to the extent that these controls are ineffective in controlling the risk.

- **Pillar III** requires firms to publish certain details of capital and risk management and to review and update this information at least annually. Under the rules a firm may omit one or more disclosures where the information provided by such disclosure is not regarded as material.

Disclosure

Exotix is permitted to omit required disclosure information if Exotix believes that the information is immaterial and such that an omission would not change or influence the decision of a user relying on that information for making economic decisions regarding the firm.

In addition, Exotix may omit required disclosure information if Exotix believes that the information is deemed proprietary or confidential. Exotix considers proprietary information is that which, if it were shared, would undermine the competitive advantage of the firm. Information considered confidential is that which is binding us to confidentiality with our clients, suppliers and counterparties.

Exotix has made no omissions on the grounds that information is immaterial, proprietary or confidential.

Disclosure Frequency

The Pillar III disclosure will be issued on an annual basis, as soon as is practical after the audited annual accounts are finalised. The Pillar III disclosure will be published on the company website.

The Company

Exotix is an IFPRU €730k limited activity investment firm (Non-significant IFPRU firm).

Exotix is a broker dealer and investment banking operation focused on Frontier Markets. Founded in 1998, it is now a market leader in its field. As a consequence, Exotix is a service business which makes revenues from "riskless" or "matched principal" broking of fixed income securities, agency execution of listed equities and fees through investment banking advice. It also provides research.

Exotix is owned by IPGL, PBAC Ltd (which is owned by Bart Turtelboom), Nex Group plc and management, which creates a focused shareholder Group with both deep industry experience and, if necessary, significant resources to support the business.

Risk Identification and Monitoring

The Executive Management Board ('EMB') is responsible for providing leadership to the Firm. The EMB defines the purpose and values of the Firm, identifies stakeholders, develops strategies and ensures that those strategies are implemented. It is collectively responsible for the long-term success of the Firm and is represented by a team with an appropriate balance of skills, experience, independence and knowledge of the Firm. Four out of five EMB members are also representatives of the Firm's shareholders. The Risk Committee is also represented by these members and meetings are held monthly.

The key areas of risk which have been identified by the Risk Committee are as follows:

Exotix Key Risks

- **Business Risk** – Sustained low market volumes resulting in weak earnings
- **Credit Risk** – Counterparty default in matched principal trades causing an unwanted exposure to market risk
- **Liquidity Risk** – Local currency controls in frontier markets 'locking in' cash in the local region with lack of repatriation capability
- **Operational Risk** – Loss of key staff, sustained failures in key technology systems, reputational and regulatory risks

Market Risk

Market risk is low due to Exotix not having a trading book or taking any proprietary positions.

Business Risk
From a very general standpoint, business risk arises when a firm is unable to realise its business plan and achieve its strategy targets due to changes in the external environment. For example, Exotix would be affected by a market-wide reduction in volumes, which would result in weak earnings.

Exotix was recapitalised in December 2015 through cash injections from its main corporate stakeholders, and with the new senior management team in place, has enhanced control over its planning process and consideration of the prevailing economic conditions. As a result, it is now in a position to adopt an appropriate business strategy and establish new business lines, in order to allow it to preserve its reputation in the market and to maintain sufficient regulatory and liquidity resources. The Firm has continued to engage professional advisors in respect of all business developments both in the UK and overseas.

Credit Risk
Exotix is exposed to limited credit risk. Exotix's main exposure to credit risk is the risk that fees cannot be collected and the exposure to banks where Exotix's revenue is deposited. Exotix's credit risk appetite is low so all cash is held in banks with good credit ratings. Exotix is exposed to the risk that its counterparties in matched principal broking fail during the settlement process of a trade, which may result in a loss to Exotix due to Exotix having to settle the 'open position' created. The crystallisation of this risk is considered in more detail within the operational risk assessment. Other than the risks described above, management of Exotix has no appetite for any additional credit risk.

Exotix's policy in relation to all clients is to negotiate terms of payment when agreeing terms of transactions to ensure that those clients are made aware of the terms of payment and to abide by those terms. This is monitored by senior management as part of their review of Exotix's financial position.

Accounts are reviewed and monitored on a regular and on-going basis both internally and in conjunction with the clearing and settlement service providers. Credit risk relates in large part to trades in the process of settlement and balances held with settlement service providers (being commissions owed and collateral requirements). Further, in underlying product markets, business is settled on a delivery versus payment basis which reduces the risk exposure.

Liquidity Risk
The Firm remains subject to the FCA's Liquidity Rules at BIPRU 12, as an IFPRU Firm. The Firm is subject to the Overall Liquidity Adequacy Rule (BIPRU 12.2.1), however as it is classified as a Non-ILAS Firm, it is exempt from BIPRU 12.5 to 12.7 and BIPRU 12.9. Hence, Exotix has in place Liquidity Systems and Controls, which include the management of liquidity risk via scenario and stress testing of the Firm's Cash Flow Forecast and the establishment of management actions and contingency funding plans. These Liquidity Systems and Controls and a "Liquidity Risk Tolerance" under BIPRU 12.3.8R are set out in the Firm's "Liquidity Risk Management Framework and Policy".

The Firm is also obliged, because of SUP 16.12, to report annually to the FCA that it has adequate “Liquidity Systems and Controls”. This is undertaken via GABRIEL using Data Item FSA055.

Exotix is exposed to potential Liquidity Risk arising from failed trades. This is since Exotix may be required to fund any adverse market movements during a voluntary or enforced ‘buy-in’ process, which is undertaken to settle a failed trade. The liquidity risk is that this funding requires Exotix’s cash which may take time to retrieve from the failing party. Historically the occurrence of such an event has been extremely rare.

Exotix is also exposed to foreign exchange controls in some local regions it operates in, which results in difficulties repatriating funds out of the region. Nigeria (Naira) and Pakistan (Rupee) are two such countries that restrict currency leaving the country and there is the liquidity risk that cash is effectively locked in and unable to be repatriated to the UK. Exotix’s liquidity requirements and balance sheet are closely monitored by the Finance Director. Monthly analysis and reporting of the liquidity position takes place, when the liquidity buffer is also calculated. Any issues arising in respect of the financial or liquidity situation in the intervening periods are reported to senior management for action to be taken as required.

Operational Risk

A risk to which Exotix has exposure is operational risk, defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

Exotix undertakes, using an Operational Risk Register, robust risk identification and scoring exercises. Operational Risk is regularly assessed by the Risk Committee with the help of the Finance and Compliance Departments. Operational risks mainly relate to legal, people, technology, process and data information risks. In order to manage, monitor and mitigate the foregoing risks, Exotix has established a wide series of controls including:

- Segregation of duties with appropriate reporting lines
- Regular Management meetings
- Conflicts of Interest policy
- Regular Management Information
- Annual Risk Assessment using risk matrices
- Compliance monitoring
- Due Diligence templates
- Document quality assurance
- Security standards
- Business continuity planning and disaster recovery planning
- Daily reconciliations
- Adequate trading systems for volume of transactions
- Third party matching
- In-depth analysis of (potential) new lines of business (considering not only prospective opportunities, but also the additional risks that they may bring, including any issues that may arise when integrating those businesses into the current Firm’s infrastructure)

Market Risk
As an IFPRU Limited Activity Firm, Exotix does not have a Trading Book. The only potential exposures are Non-Trading Book Exposures, i.e. to foreign currency held on deposit and assets or liabilities denominated in foreign currency, such as debtors, on the Firm's balance sheet. Exotix's appetite for market risk is low and management have no appetite for any further market risk.

Exotix holds substantial liquid cash balances that are not exposed to market risk (but are exposed to interest rate risk) and fully maintains a neutral foreign exchange position (from a GBP perspective).

Capital Resources and Requirements

Pillar I Capital Resources
As at 31st December 2016 (£000's)

Exotix employs a simple capital structure consisting of paid up member's capital less a 100% deductible position held in the subsidiary Exotix USA Inc. and the current year profit or loss.

Members' capital classified as equity	£ 12,470
Losses for the current year	£ (1,632)
100% deducted positions	£ (2,633)
Total Own Funds	**£ 8,205**

Pillar I Capital Requirements
As at 31st December 2016 (£000's)

	Risk Exposure £ 000's	**Multiplier**	**Reportable Position £ 000's**
Credit Risk – non trading book			
Corporates	£ 8,144	100%	£ 8,144
Institutions	£ 4,654	20%	£ 931
Other	£ 1,464	100%	£ 1,464
Foreign Exchange Risk	£ 200	12.5	£ 2,502
Settlement Risk	£ 15	12.5	£ 192
Fixed Overheads Requirement	£ 3,433	12.5	£ 42,908
Total Risk Exposure			**£ 56,141**
Total Own Funds Requirement		**0.08**	**£ 4,491**
Total Own Funds			**£ 8,205**
Surplus / (Deficit)			***£ 3,714***

Pillar II Assessment

Exotix has adopted the “Structured” approach to the calculation of its Pillar I Minimum Capital Requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 which takes the higher of Pillar I and Pillar II as the ICAAP capital requirement. It has assessed Business Risks by modelling the effect on its capital planning forecasts and assessed Operational Risk by considering if Pillar 2 capital is required taking into account the adequacy of its mitigation.

The Pillar II minimum capital requirement Exotix has assessed is required is £6,215,000, which is an increase of £1,724,000 over its current Pillar I requirement.