May 2018

Disclosure under Pillar 3 of the Capital Requirements Directive

Introduction

The Capital Requirements Directive ("the Directive") of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. In In the UK, this is being implemented by our regulator, the Financial Conduct Authority ('the FCA') who has created rules and guidance specifically through the creation of the General Prudential Sourcebook ('GENPRU'), Prudential Sourcebook for Investment Firms ('IFPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The purpose of the Pillar 3 disclosure is to encourage the stability of the financial markets by allowing market participants to assess key information on firms' capital adequacy and risk and control processes.

The three Pillars aim to implement a more risk sensitive framework for the calculation of regulatory capital:

- Pillar 1: Sets eligible capital resources of the firm and calculations of minimum levels of Own Funds Requirement ("OFR");
- Pillar 2: Ensures that a firm has sufficient capital to support the risks not fully captured by the minimum capital requirements, in accordance with the firm's internal models and assessment;
- Pillar 3: Covers external communication of the firm's regulatory capital and risk exposures and is designed to increase transparency and confidence about the firm's exposure to risk and the overall adequacy of its regulatory capital.

The FCA's rules for implementing Pillar 3 as set out in the EU Capital Requirements Directive ("CRD") are contained in Articles 431 - 455 of the Capital Requirements Regulation ("CRR") (Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (EU) No 575/2013 and amending Regulation (EU) No 648/2012).

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This must be done in accordance with a formal disclosure document. The disclosure of this document meets our obligation with respect to Pillar 3. The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Where we have considered a disclosure to be immaterial, we have stated this in the document.

In addition, we may also omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. Where we have omitted information for either of these two reasons we have stated this in the relevant section and the reasons for this.

Quantitative disclosures are made as at 31 March 2017.

Frequency of Disclosure

The Pillar 3 disclosures are made for the year ending 31st December 2017.

Pillar 3 disclosures will be updated on an annual basis and can be found on the Cresco Capital Markets (UK) website www.crescofx.com

The Pillar 3 disclosures are not subject to external audit.

Corporate Governance

The Directors and senior management of Cresco Capital Markets (UK) Ltd are fully aware of the benefits of robust and effective corporate governance. Clarity and accountability add value to the firms operation. The board of Directors reviews the strategic objectives regularly. The governance structure is regularly reviewed and monitored and any changes are subject to Board approval and amended as required to ensure its regulatory responsibilities. The objectives of the corporate governance structure are:

- to satisfy the needs of the business for proper consideration and decision making;
- to provide a clear management support and monitoring framework to add value to the business and identify and control risks;
- to ensure internal controls and risk management systems are appropriate and implemented in line with Board approved policies and procedures; and
- to ensure good governance principles are followed, including:
  - to provide clear definitions of responsibility, authority, accountability and lines of reporting;
  - to provide a framework to facilitate effective checks and balances in management and oversight processes;
  - to apply best practice governance principles appropriate to the business.

Risk Appetite statement

The objectives of the firm are:

- Increase of client base
- Increase of product offering
- Expand into new and developing markets

The aim of the Risk Appetite statement is to summaries the level and types of risk the firm is willing to take in order to achieve its business objectives.

Risk for Cresco Capital Markets (UK) Ltd

There are 3 areas of risk:

- Business and strategic risks;
- Financial risks; and
- Operational risks.

The principal risks comprise of the main risks:

- Credit risk;
- Liquidity risk;
- Market risk;
- Business change risk;
- Business continuity and disaster recovery risk;
- Financial crime risk;
- Information and data security risk;
- Information technology and infrastructure risk;
- Legal (commercial / litigation) risk;
- Operations (processing) risk;
- Outsourcing and procurement risk;
- People risk; and
- Regulatory and compliance risk

Capital Resources

Regulatory Capital

Tier 1 capital resources	125,000
Tier 2 capital resources	0
Tier 3	0
Deductions form total capital e.g. illiquid assets	(0)

Total capital resources as at 31st December 2017	125,000

Cresco Capital Markets (UK) Ltd has as of 31st December 2017 had a surplus of 14.27% of the required T1 Capital.

Capital Resource Requirements

The Firm's Pillar 1 requirement is calculated as the higher of:
1. The Base Capital Requirement (€125k)

2. The sum of :
    The Credit Risk Capital Requirement; and
    The Market Risk Capital Requirement.
3. The Fixed Overheads Requirement (3 months expenditure of the firm)

In the opinion of the Board of Directors, the higher of these three is likely to be the Fixed Overhead Requirements.

Summary: Pillar 1 and Pillar 2

As at the date of this report, the Firm has a surplus of capital resources over its Pillar 1 and Pillar 2 capital resources requirements.

The Firm has undertaken an Internal Capital Adequacy Assessment Process (ICAAP) to determine whether it needs any further regulatory capital due to the risks it faces as set out above.

As a result of this the Firm has concluded that it needs no additional level of capital resources to meet its requirements under Pillar 2

Internal Capital Adequacy Assessment Process (ICAAP)

Cresco Capital Markets (UK) Ltd reviews annually the Internal Capital Adequacy Assessment (ICAAP), which assess the amount of risk-based capital reissuances requirements (Pillar 2).

The soundness, effectiveness and comprehensiveness of the ICAAP are reviewed and approved by the board of directors. The ICAAP is the process of identification, measurement, management and monitoring of the adequacy and allocation of internal capital. Based on this the firm determines the Pillar 2 requirement, which presents the Group's view of the additional amount of capital it should hold against risks not fully covered by the Pillar 1 requirements.

Risk Management

The day-to-day management of the risks of the firm is carried out by two directors of the firm: Mr Derek Colin Mayne (director) and Mrs Irina Chadaeva-Arntvel (CEO) responsible for the oversight of the firm's compliance and financial arrangements. The board of directors meet formally on a quarterly basis with a set agenda and key decisions are documented.

The firm is supported in its compliance and accounting arrangements internally but is assisted in this external providers. The Board of Directors receives monthly management accounts from which it is able to monitor and project its capital resources. It has a compliance manual, a compliance monitoring programme and an ICAAP process that ensures it is able to manage the risks that it faces. Given the nature and activities of the firm, its risk appetite is high. It deals a riskless principle for back-to-back trading and does not act as Market Maker.

Principle Risks

Credit Risk

Cresco Capital Markets (UK) Ltd is exposed to Credit Risk due to the loss of a counterparty, bank, liquidity provider or customer fails to perform its obligations under contractual terms ("default risk") and repay amounts owed to the Company.

Cresco Capital Markets (UK) Ltd has setup policies and procedures to establish and review credit exposure, maintaining collateral, and continually assessing the creditworthiness of all counterparties and banks. Cresco Capital Markets (UK) Ltd is therefore exposed to counterparty, credit and concentration risk. These risks are managed in the main by:

• Fully automated, clear and consistent rules have been established regarding standard margining and the closing out of customer positions in the event of customer losses;
• Review of credit exposures, customer losses and margin requirements are fully automated and, at appropriate levels, the deposit of further funds is requested;
• The creditworthiness of all existing counterparties and banks is reviewed annually,

• Balances with counterparties are reconciled on a regular basis; and
• All customer funds nominated for segregation are held in segregated bank accounts.

The trading software continuously verifies every customer order to ensure that the customer's account holds enough margin/collateral to support the execution of the order, rejecting the order if equity is insufficient; and continuously updating a customer account's equity and margin requirements and, if the account's equity falls below its minimum margin requirements, automatically issuing liquidating orders in a smart sequence designed to minimize the impact on account equity.

Cash balances are held in overnight deposit accounts and readily available. Under Pillar 1, cash balances are risk weighted at 8% of its risk weighted exposure amount (i.e. 8% of 20% of the balance).

The Board of Directors believe that the Pillar 1 risk weight is adequate and that a Pillar 2 adjustment is not required.

Credit Exposures

The table below shows the exposure amount in EUR

Exposure	**31st December 2017**
Institutions	63,146
Corporate	30,172
Other	33,500

Market Risk

Market risk is the risk that the fair value of financial assets and financial liabilities will change due to changes in market prices. Our market risk is managed on a real-time basis Cresco Capital Markets (UK) Ltd receives its prices from its counterparties and will only provide prices for products in liquid financial markets.

The firm will have no exposure to market risk at any point in time as it operates on a riskless principal basis, for back-to-back trading. Our revenue model is a combination of flow-based, whereby income is earned from spread capture on client trading transactions. We do not hedge client transactions as all transactions are transmitted directly to the counterparty. We do not take proprietary positions.

We have a formal market risk policy which includes limits on the size of exposure the Company is prepared to accept consistent with our risk appetite. Our trading systems allow us to continually monitor our exposure against these limits.

Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. We are aware that operational risk can never be completely eliminated, however we seek to minimise the probability and impact of operational risk events. We have implemented a risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner consisting of the following components:

- Complying with FCA regulation
- Maintenance of Risk Registers
- Review of our most significant operational and business risk on an ongoing basis, to ensure that the controls in place are adequate and that the residual post-mitigation risk post mitigation is within our risk tolerance

Liquidity Risk

The liquidity risk that the firm faces is the inability to settle its liabilities as they fall due. Part of the risk management structure noted above monitors the liquidity position of the firm at all times. Bank reconciliations and cash flows are prepared on a regular basis to ensure that all liabilities are understood and able to be settled as they fall due. Cash resources of the firm are maintained in accounts with instant access as noted above.

Legal & Regulatory Risk

Legal & Compliance Risk is the risk of Cresco Capital Markets (UK) Ltd:

• not being compliant with industry standards and requirements, regulations or industry prescribed practices, including treating customers fairly, or indeed breaking the law, either deliberately or accidentally because its understanding of the law or the regulations is incomplete or not current, including laws or regulations relating to money laundering or other financial crimes, employee legislation or Health and Safety Regulations;

• not filing regulatory returns in an accurate and timely manner

• not having an adequate Corporate Governance framework in place

• failing to enforce a contractual obligation against a counterparty

• failure to have in place an effective internal control process

These risks are managed by maintaining documented policies and procedures to assist with the management of these risks. Legal and compliance issues are handled promptly and correctly. They are assisted by professional advisors who are utilized, wherever necessary, to ensure legal developments in all areas and amendments to regulatory requirements are identified and the appropriate action taken in good time.

Third party dependency risk

Cresco Capital Markets (UK) Ltd uses a number of third party providers to carry out our business operation. There is a financial risk of third parties increasing the costs of services or withdrawing the service. We mitigate this by regularly reviewing contracts, maintaining good relationships with suppliers and by having resilience in the form of multiple suppliers

IT Risk

IT Risks arise from various aspects:

• Insufficient IT technology;

• An IT strategy that is incomplete or flawed in its conception of what is required or what are the processes required to implement it; and

• Failure in the implementation of an IT strategy or specific IT projects, including the risk that an essential improvement to a system, will not deliver the functionality as expected or on time.

• Compromising security surrounding the systems in use

• System failures

• Failure of telecommunication due to lack of access to markets and exchanges which result in financial claims from clients suffering losses

• Data not being sufficiently or securely backed up

To mitigate the above mentioned points Cresco Capital Markets (UK) Ltd is continuously developing new systems and enhancing existing systems, throughout all areas of the business.

Reputational risk

Reputational risk arises as a result of failure to manage other business risks, consequentially places the highest importance on risk management at all levels throughout the organisation.

A loss of reputation, for whatever reason, will have a significant impact on the profitability of the firm. The vast majority of reasons why a business could suffer damage to its reputation are covered by the Pillar 1 risk requirements and thus the controls adopted to manage such risks are covered above.

There are obviously risks over and above those covered by Pillar 1 requirements, including those external to the company itself, which could damage the reputation of the company so that it suffers a material loss. Examples of such risks could be a major fraud occurring at a direct competitor, bringing the industry into disrepute or the arrest of a senior executive for a non-business related crime. These types of risk are virtually impossible to manage prior to an event taking place.

Business Risk

Cresco Capital Markets (UK) Ltd faces the risk that its business strategy will be poorly executed or that it will not be sufficient to cope with major changes in the constantly changing sector in which it operates. It also faces the risk that the implementation of a change in strategy may have an impact on the controls put in place to manage risk. The firm views this as the fundamental concern; specifically, that the revenues the firm derives from providing value to its customers may fall below the cost of doing business at some point of time in the future.

Remuneration risk

Given the nature and small size of the business, remuneration for all employees is set by the board of directors. The board of directors reviews the performance of all employees and based thereon determines each employee's overall level of remuneration and the split of that between base salary, bonus etc.

Employee Risk

Employee Risk is the risk of:

• The management Cresco Capital Markets (UK) Ltd is not able operate effectively and efficiently;
• Employment or workplace practices are inadequate

• Qualifications and work ethics of employees are inadequate
• Recruitment policies are not followed
• Key personnel staff is leaving at short notice or staff becoming unavailable through illness, resulting in the loss of specific skills and knowledge
• Fraudulent activity is not identified

Cresco Capital Markets (UK) Ltd manages these risks in a number of ways. Staff are recruited in accordance with documented procedures, with references taken on every occasion. Staff are appraised on an annual basis. HR policies are in place and are communicated to all staff through a Compliance Manual.

Further information

Should you require additional information, please contact admin@crescofx.com or call +44 (0) 20 7952 68 25

Certain statements in this Pillar 3 Disclosures document are forward looking. Although we believe that the expectations reflected in these statements are reasonable, we give no assurance that these expectations will prove to be an accurate reflection of actual results. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these statements