PARUS FINANCE

Parus Finance (UK) Limited

Pillar 3 Risk Disclosure

Introduction

Parus Finance (UK) Limited ("Parus" or the "Firm") is required by the FCA to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline.

The Capital Requirements Directive ("CRD") created a revised regulatory capital framework across Europe covering how much capital financial services firms must retain. In the United Kingdom, rules and guidance are provided in the General Prudential Sourcebook ("GENPRU") for Banks, Building Societies and Investments Firms ("BIPRU").

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital requirements that companies need to retain to meet their credit, market and operational risk;
- Pillar 2 requires companies to assess whether their Pillar 1 capital is adequate to meet their risks and is subject to annual review by the FCA; and
- Pillar 3 requires companies to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position. These disclosures are seen as complimentary to Pillar 1 and Pillar 2.

Chapter 11 of BIPRU sets out the provisions for Pillar 3 disclosure. The rules provide that companies may omit one or more of the required disclosures if such omission is regarded as immaterial. Information is considered material if its omission or misstatement could change or influence the decision of a user relying on the information. In addition, companies may also omit one or more of the required disclosures where such information is regarded as proprietary or confidential. The Firm believes that the disclosure of this document meets its obligation with respect to Pillar 3.

Firm Overview

Parus is incorporated in the UK and is authorised and regulated by the FCA as a Full Scope Alternative Investment Fund Manager ("AIFM") and is categorised by the FCA for prudential regulatory purposes both as a Collective Portfolio Management Firm ("CPMI") and a BIPRU firm.

The Governing Body of Parus has the daily management and oversight responsibility. It generally meets quarterly and is composed of:

- Edouard Vecchioli
- Fabrice Vecchioli

The Governing Body is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Board decides Parus' risk appetite or tolerance for risk and ensures that Parus has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Governing Body for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of Parus.

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Capital Resources and Requirements

Capital Resources

Pillar 1

Parus was authorised by the FCA on 23 May 2013 and, as at 31 January 2018, held regulatory capital resources of **€17,025,998**, comprised solely of core Tier 1 (i.e. share capital contributions and audited retained profit).

The Firm has calculated its BIPRU capital resources in accordance with GENPRU 2.2:

As a limited company its capital arrangements are as follows:

Share Capital	€635,000
Audited reserves	€18,883,267
Hybrid Capital	0
Tier 2 Capital	0
Deductions from Tier one capital	
Material holdings	-€2,492,269
Total	€17,025,998

The Firm’s capital requirements in accordance with BIPRU are the greater of:

- Its base capital requirement of €50,000;
- The sum of its market and credit risk requirements; or
- Its fixed overhead requirement (FOR).

As a CPMI firm, the firm is required to maintain at all times ‘own funds’ which equal or exceed the higher of:

- Its funds under management requirement of €125,000 plus 0.02% of the AIF AUM exceeding €250,000,000;
- The sum of its market and credit risk requirements; and
- Its fixed overhead requirement (which is essentially 25% of the firm’s operating expenses less certain variable costs).

  PLUS

- Its PII Capital requirement based on having an appropriate PII policy in place as well as own funds covering the excess for professional liability risk;

The Firm's Pillar 1 capital requirement is €2,208,697.99.

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Satisfaction of Capital Requirements

Pillar 2

The Firm has adopted the "Structured" approach to the calculation of its Pillar 2 Minimum Capital Requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 which takes the higher of Pillar 1 and 2 as the ICAAP capital requirement. It has assessed Business Risks by modeling 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.

Since the Firm's Internal Capital Adequacy Assessment Process (ICAAP or Pillar 2) process has not identified capital to be held *over* and *above* the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the Firm over the next year. No additional capital injections are considered necessary and the Firm expects to continue to be profitable.

Risk Management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Firm's directors.

As risks are identified within the business, appropriate controls are put in place to mitigate these and compliance with them is monitored on a regular basis. The frequency of monitoring in respect of each risk area is determined by the significance of the risk. The Firm does not intend to take any risks with its own capital and ensures that risk taken within the portfolios that it provides advice to is closely monitored. The results of the compliance monitoring performed is reported to the partners by the Compliance Officer.

Operational Risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks. These relate to disruption of the office facilities, system failures, trade failures and failure of third party service providers. Appropriate policies are in place to mitigate against risks, including appropriate insurance policies and business continuity plans.

Credit Risk

The main credit risk to which the Firm is exposed is in respect to the failure of its debtors to meet their contractual obligations. The majority of the Firm's receivable is related to investment management activities. The Firm believes its credit risk exposure is limited since the Firm's revenue is ultimately related to management fees received from funds. These management fees are drawn throughout the year from the funds managed. Other credit exposures include bank deposits and office rental deposits.

The Firm undertakes periodic impairment reviews of its receivables. All amounts due to the Firm are current and none have been overdue during the year. As such, due to the low risk of non-payment from its counterparties, management is of the opinion that no provision is necessary. A financial asset is overdue when the counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

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The Firm has adopted the standardised approach to credit risk, and therefore follows the provision within BIPRU 3 standardised credit risk of the FCA handbook. The Firm applies a credit risk capital component of 8% to its non-trading book risk weighted exposure. As the Firm does not make use of an external credit rating agency, it is obligated to use a risk weight of 100% to all non-trading book credit exposures, except cash and cash equivalents which are held by investment grade firms and currently attract a risk weighting of 20%.

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The table below sets forth the Firm's credit exposures and corresponding capital resource requirements as at the date of its ICAAP assessment:

Capital	€17,025,998
Funds under management requirement (a)	€285,746
Fixed overheads requirement(b)	€1,559,293
Credit risk + Market Risk (c)	€1,441,614
PII defined excess (d)	€105,373
Total Capital requirement (i.e. higher of (a),(b) and (c) PLUS (d))	€2,208,698
Surplus	€14,817,300

CREDIT RISK	Exposure		Risk Weighted Exposure	
Fixed Assets	€	149,816.00	€	149,816.00
Rent deposit	€	-	€	-
Investments	€	1,972,408.00	€	1,972,408.00
Intergroup loan	€	-	€	-
Debtors	€	1,702,548.00	€	1,702,548.00
Accrued Income	€	-	€	-
Cash	€	14,703,777.00	€	2,940,755.40
Bank short term loan	€	-	€	-
Other	€	-	€	-
Corporation Tax	€	-	€	-
VAT	€	-	€	-
Total	€	18,528,549.00	**€**	**6,765,527.40**
CREDIT RISK COMPONENT AT 8%			**€**	**541,242.19**

Market Risk

MARKET RISK (FX)				**Absolute open currency position**
Foreign currency PRR				
Cash	€	14,104,260.00		
Receivables	€	1,711,532.00		
Investments	€	1,576,288.00		
Creditors	-€	1,523,038.00		
Net currency position	**€**	**15,869,042.00**	**€**	**1,269,523.36**
Equity PRR				
Other equity Investments	€	4,719,526.00		
Deducted as material holdings	€	2,891,032.00		
Net equity position	**€**	**1,828,494.00**	**€**	**292,559.04**
MARKET RISK COMPONENT AT 8%			**€**	**1,562,082.40**

TOTAL OF CREDIT RISK AND MARKET RISK	**€ 2,103,324.59**

Remuneration Code

The Firm has adopted a remuneration policy and procedures that comply with the requirements of chapter 19B of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), and in accordance with ESMA's Guidelines on sound remuneration policies. The Firm have considered all the proportionality elements in line with the FCA Guidance.

As a UK AIFM, the Firm has assessed the proportionality elements and disapplies the Pay Out Rules. Furthermore, the Firm has concluded, on the basis of its size and the nature, scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Instead, the Governing Body sets, and oversees compliance with, the Firm's remuneration policy including reviewing the terms of the policy at least annually.

For the year ended 31 January 2018, remuneration was split as follows:

	Fixed	**Variable**	**Total**
Investment team	£2,400,000	£688,747	£3,088,747
Non-investment team	£479,760	£398,888	£878,648
Total	**£2,879,760**	**£1,087,635**	**£3,967,395**