

**ADMIRAL MARKETS CYPRUS LTD  
PILLAR III DISCLOSURES  
BASEL III**

**YEAR ENDED 31 DECEMBER 2014**

**May 2015**

ACCORDING TO SECTION 4 (PAR. 32) OF THE CYPRUS SECURITIES AND EXCHANGE COMMISSION DIRECTIVE DI144-2014-14 FOR THE PRUDENTIAL SUPERVISION OF INVESTMENT FIRMS OF INVESTMENT FIRMS

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## Overview

### 1.1 Background

This report has been prepared in accordance with Section 4 (Paragraph 32) of the Cyprus Securities and Exchange Commission (hereinafter the “CySEC”) Directive DI144-2014-14 of 2014 (the ‘Directive’) for the prudential supervision of investment firms which implements the Regulation (EU) 575/2013 (the “Regulation”) and the European Directive 2013/36/EU (the “European Directive”).

The Regulation framework consists of a three “Pillar” approach:

- **Pillar I** establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating RWA.
- **Pillar II** requires firms and supervisors to take a view on whether a firm should hold additional capital against risks considered under Pillar I that are not fully captured by the Pillar I process (e.g. credit concentration risk); those risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk); and factors external to the firm (e.g. business cycle effects). Pillar II connects the regulatory capital requirements to the Company’s internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.
- **Pillar III - Market Discipline** requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds. In addition the results and conclusions of ICAAP are disclosed as applicable.

According to the Directive, the risk management disclosures should be included in either the financial statements of the investment firms if these are published, or on their websites. The Pillar III disclosure requirements are contained in Articles 431 to 455 of the Regulation. In addition, these disclosures must be verified by the external auditors of the investment firm. The investment firm will be responsible to submit its external auditors’ verification report to CySEC. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures has been made by the external auditors and sent to CySEC.

## **1.2. Disclosure Policy: Basis and Frequency of Disclosure / Location and verification**

The following sets out the Company's Disclosure Policy as applied to Basel III Pillar III Disclosures.

### **1.2.1. Information to be disclosed**

**Admiral Markets Cyprus Ltd's** (the "Company") policy is to meet all required Pillar III disclosure requirements as detailed in the Regulation.

### **1.2.2. Frequency**

The Company's policy is to publish the disclosures required on an annual basis (*Article 433*, Frequency of disclosure of the Regulation). The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

### **1.2.3. Medium and location of publication**

According to *Article 434*, Means of disclosures, of the Regulation, Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements. In this respect, the Company's Pillar III disclosures are published on the Company's website: <http://www.admiralmarkets.com.cy/>

### **1.2.4. Verification**

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. The Company's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures have been reviewed by the Risk Management Committee.

## **1.3. Scope of application**

The Company was incorporated in in the Republic of Cyprus on 09 April 2012 as a private limited liability company with registration number HE310328 and it is a financial services firm. The Company was licensed by the CySEC with number 201/13 to provide financial services, on 14 June 2013 and the licence was activated on the 31 January 2014. The Company Licence was amended on 1st July 2014 as per the partial lapse of the Company Licence regarding the ancillary service of investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.

The Company's CIF Licence was further amended on 21st October 2014 to reflect the change of name of the Company from "Admiralex Ltd" to "Admiral Markets Cyprus Ltd".

The Company is authorised to provide the following **Investment Services**, in accordance with Part I of the Third Appendix of the Law 144(I)/2007-2014):

1. Reception and transmission of orders in relation to one or more financial instruments
2. Execution of orders on behalf of clients
3. Portfolio Management

The Company is also authorised to provide the following **Ancillary Services**, in accordance with Part II of the Third Appendix of the Law 144(I)/2007-2014):

1. Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
2. Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.  
Foreign exchange services where these are connected to the provision of investment services.
3. Foreign exchange services where these are connected to the provision of investment services.

The table below illustrates the current licence information of the Company:

**Company Licence Information (based on the Third Appendix of the Law 144(I)/2007-2014)**

		Investment Services and Activities								Ancillary Services						
		1	2	3	4	5	6	7	8	1	2	3	4	5	6	7
Financial Instruments	1	✓	✓	-	✓	-	-	-	-	✓	✓	-	✓	-	-	-
	2	✓	✓	-	✓	-	-	-	-	✓	✓			-		-
	3	✓	✓	-	✓	-	-	-	-	✓	✓			-		-
	4	✓	✓	-	✓	-	-	-	-	✓	✓			-		-
	5	✓	✓	-	✓	-	-	-	-	✓	✓			-		-
	6	✓	✓	-	✓	-	-	-	-	✓	✓			-		-
	7	✓	✓	-	✓	-	-	-	-	✓	✓			-		-
	8	✓	✓	-	✓	-	-	-	-	✓	✓			-		-
	9	✓	✓	-	✓	-	-	-	-	✓	✓			-		-
	10	✓	✓	-	✓	-	-	-	-	✓	✓			-		-

Moreover, following the implementation of CRD IV and based on Article 95(1) of the Regulation, the Company is categorised as “**Limited Licence**” CIF with minimum/initial capital requirement of Euro 125.000.

Based on *Article 436*, Scope of the Application, of the Regulation, the Company is neither consolidated nor deducted from own funds.

## 2. Governance - Board and Committees

### 2.1 The Board of Directors

The Board of Directors has the overall responsibility for the establishment and oversight of the Company’s Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust. The Board comprises of 2 executive directors and 2 independent non-executive directors.

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company’s leadership framework.

The Company implements and maintains adequate risk management policies and procedures which identify the risks relating to the Company’s activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The

Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify. The Investment Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.

## 2.2 Number of Directorships held by members of the Board

Based on Directive, Section 4, Paragraph 32 (*Article 435(2)(a)* of Regulation) the CIF discloses the number of directorships held by members of the management body, as follows:

<b>Director</b>	<b>Internal Directorships</b>	<b>External Directorships</b>
Mr Dmitri Laus	1	0
Ms Riina Amalie Aab	1	0
Mr Agamemnon Ioannides	1	0
Mr Marinos Haralambous	1	3

## 2.3 Governance Committees

In order to support effective governance and management of the wide range of responsibilities the Board has established the following Sub-Committees:

### 2.3.1 Risk Management Committee

The role of Risk Management Committee is to provide oversight, review and challenge of the material risks both current and future affecting the business whilst ensuring that there is effective management and control of all key risks and issues facing the Company. It is noted that the composition of the Risk Committee should be members of the board of directors who do not perform any executive function in the company concerned. The members of the Risk Management Committee are shown in the table below:

<b>Member Name</b>	<b>Function</b>
Mr Dmitri Laus	Managing Director
Ms Riina Amalie Aab	General Manager
Mr Agamemnon Ioannides	Independent, Non-Executive Director
Mr Aleksandr Ljubovski	Admiral Market AS, outsourced, EE-based, ex officio and without any voting rights

The Risk Management Committee assists the Board in:

- identifying and evaluating the risks to which the Company is exposed to
- Ensuring the adequacy and effectiveness of controls in place for managing the Risks
- Reviewing the applicable risk limits and recommending amendments
- Addressing control failures and suggesting remedial action.

Furthermore, the work of the Risk Manager during the period under review was to ensure that the Company’s policies and procedures in place, relating to the management of the various risks faced by the Company, were followed, as well as to assess and restructure the said policies and procedures, when and if it was deemed necessary.

To this end, the Risk Manager’s work during the period under review was focused on the following areas:

- reporting risk management issues to the Company’s Senior Management and the Board of Directors (hereinafter, the “Board”),
- monitoring the risks faced by the Company,
- monitoring the overall risk governance of the Company, including aligning business strategy with risk appetite, and ensuring that all key risks are controlled via a robust risk management framework,
- ensuring compliance with any new legislation from a risk management point of view,
- examining the capital adequacy and the financial results of the Company,
- providing appropriate advice/support and training to the Company’s personnel,
- identifying any problematic areas.

### 2.3.2. Investment Committee

An Investment Committee ensures the practice of a proper investment policy and the monitoring of the provision of adequate investment services to Clients. The Investment Committee shall report to the Senior Management and the members of the Committee are shown in the table below:

<b>Member Name</b>	<b>Function</b>
Mr Dmitri Laus	Managing Director
Ms Riina Amalie Aab	General Manager
Mr Andreas Kyprianou	Head of Portfolio Management Department
Mr Marinos Haralambous	Independent, Non-Executive Director

The responsibilities of the Investment Committee shall be:

- to supervise the proper choice of investments (framework for investment decisions)
- to analyze the investment potential and contribute to the elaboration of the investment policy, as applicable
- to determine the Company’s pricing policy
- to decide upon the markets and types of Financial Instruments in which the Company shall be active
- to determine the mode, content and frequency of the Client’s briefing. Also, to monitor that *Retail Clients* are informed about their right to request different time frequency of the provision of their periodic statement by the Company, about their investment transactions
- to brief the Internal Auditor, as applicable
- to establish, approve, adjust and monitor the Company Investment Policy in relation to the Portfolio Management Department by using the recommendations of the Head of the relevant Department through the Investment Reports, as applicable



- to review the Company Investment Policy whenever a material change occurs
- to establish risk profile categories for each Client (e.g. cautious, balance, growth, aggressive)
- to analyze the economic conditions and the investment alternatives based on a thorough examination of third party reports
- to select appropriate benchmarks for different type of portfolios, where applicable
- to examine the returns and the associated risks of the Client portfolios, as applicable
- to monitor the collection of the Client information through the filling of the Investment Questionnaire, or information obtained through interviews

### 3. Own Funds

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

During the year under review, the Company's own funds never dropped below the minimum initial capital requirement (i.e. Euro 200.000) and the Company fulfilled its obligations by successfully submitting, on a quarterly basis, the Capital Adequacy and Large Exposures Reports. It is noted that the capital requirements of the Company as of December 2014 have been reduced to Euro 125.000 following the latest regulatory developments of CRDIV application to CIFs. Additionally, the minimum Total Capital Ratio remains at 8%.

In this respect, the minimum Total Capital Ratio (i.e. 8%) was maintained by the Company during the period under review. The Table below illustrates the Company's Capital Adequacy Ratio for the corresponding reporting months of the year 2014 (i.e. quarterly):

Month in 2014	Total Capital Adequacy Ratio
March	44.08%
June	40.04%
September	35.12%
December	38.04%

#### 3.1 Tier 1 & Tier 2 Regulatory Capital

According to *Article 437 (1)* of the Regulation, Own Funds Disclosures, Institutions shall disclose information to own funds of the institution. Furthermore, Institutions shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 2 instruments and Tier 2 instruments issued by the institution. In this respect, the Company's Tier 1 capital is wholly comprised of Core Tier 1 Own Funds. Specifically, Equity capital comprises share capital, share premium, Profit and loss reserves.

The composition of the capital base and capital ratios of the company is shown in the following table:

	2014	2013
	€000	€000
<b>Core Tier 1 Capital (Original Own Funds)</b>		
Share capital	2	2
Share premium	248	248
Reserves (Retained earnings)	7	-
Profit or Loss Eligible	-70	6
<b>Regulatory Deductions</b>		
Intangible Assets	-	-
<b>Core Tier 1</b>	<b>187</b>	<b>256</b>
<b>Tier 2 Capital</b>	<b>129</b>	<b>125</b>
<b>Total Own Funds</b>	<b>316</b>	<b>381</b>
<b>Core Tier 1 Capital Ratio</b>	<b>22.46%</b>	<b>24.09%</b>
<b>Tier 1 Capital Ratio</b>	<b>22.46%</b>	<b>24.09%</b>
<b>Total Capital Ratio</b>	<b>38.04%</b>	<b>35.89%</b>

### 3.2 Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

Article 437 of the Regulation requires disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments.

Additionally, in order to meet the requirements for disclosure of the main features of these instruments, as referred to in point (b) and (c) of Article 92(3), the company discloses the capital instruments' main features as outlined below:

Capital Instruments Main Feature	CET1	AT1	T2
Issuer	Admiral Markets Cyprus Ltd	N/A	Admiral Markets Ltd
<b>Regulatory Treatment</b>			
Eligible at Solo/(sub-)consolidated/solo	Solo		
Instrument type	Common Equity		
Amount recognized in regulatory capital	€250k		€129k
Nominal amount of instrument	€1		
Issue Price	€1		
Accounting classification	Shareholders Equity		Shareholders Equity
Original date of issuance	€1k 09/08/2012 €249k 05/07/2013		
Perpetual or dated	Perpetual		dated
Original maturity date	No maturity		
Issuer call subject to prior supervisory approval	No		Yes

It is noted that the Company does not have any forms of hybrid capital.

### **3.3 Deductions from Tier 1 Own Funds**

There are no intangible assets and as such no deductions from company's own funds.

## **4. Compliance with the Regulation and the overall Pillar 2 Rule**

### **4.1 Internal Capital**

The purpose of capital is to provide sufficient resources to absorb the losses that a firm does not expect to make in the normal course of business (unexpected losses). The Company aims to maintain a minimum risk asset ratio which will ensure there is sufficient capital to support the Company during stressed conditions. The Company has adopted the Standardized Approach to the calculation of Pillar I minimum capital requirements for Credit Risk.

### **4.2 Approach to assessing adequacy of Internal Capital**

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 Circular 26 (Guidelines GD-IF-02) & Circular 27 (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.

### **4.3. Pillar I Capital Requirements**

The following tables show the overall Pillar I minimum capital requirement and risk weighted assets for the Company under the Standardised Approach to Credit, Market Risk and the Fixed Overheads requirements (new requirement as per the Regulation for Limited Licence CIFs).

#### **4.3.1 Credit Risk**

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises when counterparties fail to discharge their obligations and this could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

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 the Directive. The Company continuously monitors the fair value calculations, forecast and actual cash flows, and cost budgets so that to ensure that the carrying level of Company's own funds and consequently the Capital Adequacy ratio meet the regulatory requirements at all times.

No concentrations of credit risk with respect to trade receivables existed at year end. Trade receivables are shown net of any provision made for impairment. The management believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in the trade receivables. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

#### 4.3.1.1. Credit Risk – Risk Weighted Assets

Based on the Directive, Section 4, Paragraph 32 (*Article 442(c)* of Regulation 575/2013) the CIF shall disclose the total number of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes. The Company's total exposure was as follows:

	<b>Risk Weighted Assets</b>	<b>8% Own Funds Capital Requirements</b>	<b>Risk Weighted Assets</b>	<b>8% Own Funds Capital Requirements</b>
	<b>2014</b>		<b>2013</b>	
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Exposure class</b>				
Institutions	46	4	56	5
Other assets and receivables	91	7	59	5
Public Sector Entities	68	5	68	5
<b>Total</b>	<b>205</b>	<b>16</b>	<b>183</b>	<b>15</b>

*Article 112* of the Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

#### 4.3.1.2. Credit Risk – Analysis of Exposures by Credit Quality Step

Based on the Directive, Section 4, Paragraph 32 (*Article 444(a)* and (*e*) of Regulation 575/2013) the CIF shall disclose the names of the nominated ECAIs and the exposure values along with the association of the external rating with the credit quality steps. In determining risk weightings for use in its regulatory capital calculations, the Company uses Moody's as External Credit Assessment Institution (ECAI) and the exposure values with their associated credit quality steps are as follows:

31 December 2014								
Credit Quality Step								
€000								
Exposure class	1	2	3	4	5	6	Unrated	Total
Institutions	-	-	-	-	-	38	193	231
Other assets and receivables	-	-	-	-	-	-	91	91
Government	-	-	-	-	5	-	-	5
Public Sector Entities	-	-	-	-	68	-	-	68
<b>Total</b>	-	-	-	-	73	38	284	395

Article 112 of the Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

#### 4.3.1.3. Credit Risk – Risk Weighted Assets by Geographical distribution of the exposure classes

Based on the Directive, Section 4, Paragraph 32 (*Article 444(d)* of Regulation 575/2013) the CIF shall disclose the geographical distribution of the exposures, broken down in significant areas by material exposures classes. The geographical distribution of the exposure classes of the Company are as follows:

31 December 2014					
Geographical Distribution of the Exposures					
€000					
Exposure class	EMEA	Asia	Americas	Other	Total
Institutions	231	-	-	-	231
Other assets and receivables	91	-	-	-	91
Government	5	-	-	-	5
Public Sector Entities	68	-	-	-	68
<b>Total</b>	<b>395</b>	-	-	-	<b>395</b>

Article 112 of the Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

#### 4.4. Market Risk

Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. From a regulatory perspective, market risk stems from all the positions included in banks' trading book as well as from commodity and foreign exchange risk positions in the whole balance sheet.

As per requirement of *Article 445* of the Regulation, the Company shall disclose the own funds requirements for Market Risk exposures.

#### 4.4.1. Foreign Exchange Risk

The Company's reporting currency is the Euro. Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's reporting currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar. Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

At the year end, there was no exposure to Foreign Exchange Risk (Market Risk) since the exposure to Foreign Exchange was less than 2% of the own funds of the Company as follows:

	Exposure to foreign exchange risk		
	Net Position		
	Assets (Long)	Liabilities (Short)	Overall Net FX Position
<b>2014</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
USD	22	24	2
<b>Total foreign exchange risk</b>	<b>22</b>	<b>24</b>	<b>2</b>
<i>Capital Base</i>	316		
2 % Capital Base	6		
<b>Market Risk (8% of total foreign exchange risk)</b>	<b>0</b>		

#### 4.4.2. Position Risk

The risk involved with a certain trading position, commonly incurred due to the changes in price of the debt and equity instruments. The Company calculates its capital requirements for position risk as the sum of the own funds requirements for the general and specific risk of its positions in debt and equity instruments. Securitisation positions in the trading book are treated as debt instruments.

#### 4.4.3. Commodities Risk

The risk of the unexpected changes in commodities prices. These commodities are split into precious metals (except gold), base metals, agricultural products and other energy products (oil gas). The Company calculates its capital requirement with respect to commodities risk using the Simplified Approach.

#### **4.4.4. Interest Rate Risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company's income and operating cash flows are substantially independent of changes in market interest rates. Other than cash at bank, which attracts interest at normal commercial rates, the Company has no other significant interest bearing financial assets or liabilities.

The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

#### **4.4.5. Liquidity Risk**

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has policies and procedures with the object of minimizing such losses.

#### **4.4.6. Securitisation Risk**

The CIF is not an active participant in the securitisation market (meaning pooled assets with tranching risk), and accordingly detailed Pillar III disclosures are not made.

### **4.5. Fixed Overheads**

Following the CRDIV implementation, Operational Risk is replaced by Fixed Overheads requirements for "Limited Licence" CIFs pursuant to Article 95(1).

The purpose of this new requirement is to enable CIFs to protect their investors in case of winding down or restructuring their activities and to hold sufficient financial resources to withstand operational expenses over an appropriate period of time. In this respect, investment firms are required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year based on the most recent audited annual financial statements, or projected fixed overheads in the case where an investment firm has not completed business for one year.

In addition to holding eligible capital of at least one-quarter of the fixed overheads of the previous year, CIFs have to calculate their total risk exposure based on fixed overheads. In this respect, the total eligible capital is €316k which is greater than €67k which is the fixed overheads requirement.

Furthermore, Limited Licence CIFs have to calculate their total risk exposure based on fixed overheads. The Total Risk Exposure Amount for Limited Licence CIFs is the greater of the Total risk exposure amount (excluding Operational Risk) and the Fixed Overhead of the preceding year (x 12.5 x 25%).

The Company's Fixed Overheads Risk Exposure amount is provided by the table below:

<b>Fixed Overheads</b>	<b>Fixed Overheads Requirements</b>	<b>Fixed Overheads Risk Exposure Amount</b>	<b>Additional Exposure Amount</b>	<b>Total Risk Exposure Amount</b>
<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
266	67	831	626	831

In this respect, please note that the Fixed Overheads risk exposure amount based on the audited financial statements is €831.000 which is more than the sum of the Credit Risk and Market Risk exposure which is €205.000. Therefore, the total risk exposure amount is €831.000.

#### **4.6. Leverage Ratio**

Based on the Directive, Section 4, Paragraph 32 (*Article 451* of Regulation 575/2013) the CIF shall disclose the Leverage Ratio and how it applies the definition of Tier 1 Capital. Nevertheless, Limited Licence CIFs are not obligated to report their leverage ratio.

#### **4.7. Return on Assets**

Based on the Directive, Paragraph 19, CIFs must disclose in their annual report among the key indicators their return on assets, calculated as their net profit divided by their total balance sheet. In this respect, please note that the Company's Return on Assets for the year is -17.67%.

#### **4.8 Other Risks**

##### **4.8.1. Concentration Risk**

This includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc.

As at 31 December 2014, there were no large exposures to affiliated entity in the trading/banking book.

##### **4.8.2. Reputation Risk**

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor customer service, fraud or theft, customer claims and legal action, regulatory fines.

The Company has transparent policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company provides high quality services to clients.



### **4.8.3. Strategic Risk**

This could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

### **4.8.4. Business Risk**

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. These are analyzed and taken into consideration when implementing the Company's strategy.

### **4.8.5. Capital Risk Management**

This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company. Such procedures are explained in the Procedures Manual of the Company.

The Company is further required to report on its capital adequacy quarterly and has to maintain at all times a minimum capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of management accounts to monitor the financial and capital position of the Company.

### **4.8.6. Regulatory Risk**

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Procedures Manual. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore the risk of non-compliance is very low.

#### **4.8.7. Legal and Compliance Risk**

This could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

#### **4.8.8. IT Risk**

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

#### **4.8.9. Risk Reporting**

The Company maintains a system in place to record any risk event incurred on a special form duly completed by personnel of each department and is submitted to the Compliance officer and Risk manager when such event occur.

The Company does not undertake any hedging activities and therefore does not have any policies in place.

### **5. Remuneration policy**

The Company is in the process of developing a Remuneration Policy. The principles employed within the Company's Remuneration Policy shall be appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities whilst adhering to the provisions of the Directive which was introduced with effect from December, 2014.

The design of the Policy is approved by the people who effectively direct the business of the Company, after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance. The people who effectively direct the business should be responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks that remuneration policies and practices can create.

Furthermore, the Policy should also benefit from the full support of senior management or, where appropriate, the supervisory function, so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures.

Finally, the Policy should also adopt and maintain measures enabling them to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

### **5.1. Remuneration System**

Based on the Directive, Section 4, Paragraph 32 (*Article 450* of Regulation 575/2013), the following is applicable with regards to the Company's remuneration system:

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Key Management and members of the Board of Directors; the said practices are established to ensure that the rewards for the 'executive management' are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long term success.

The remuneration mechanisms employed are well known management and human resources tools that take into account the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives.

The Company's remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

It is noted that the Company has taken into account its size, internal organisation and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee. Decisions on these matters are taken on a Board of Directors level while the remuneration policy is periodically reviewed.

The total remuneration of staff currently consists of a fixed component. The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

Furthermore there is no variable remuneration component while no remuneration is payable under deferral arrangements (with vested or unvested portions), nor were there any severance payments during the current year.

### **5.2. Performance Appraisal**

The Company implements a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit. These Indicators include quantitative as well as qualitative criteria. The appraisal is being performed as follows:

- a. Objectives are set in the beginning of each month, quarter and/or year (each department is being appraised on different periods) defining what the Company functions, departments and individuals are expected to achieve over an upcoming period of time.
- b. Performance checks and feedbacks: managers provide support and feedback to the concerned staff during the time periods decided, during the daily activities or during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.
- c. Annual performance evaluation: takes place annually, usually at the end of each year.

### 5.3. Remuneration of Directors and Key Management Personnel

The amounts of remuneration for the financial year split into fixed and variable remuneration and the number of beneficiaries is as follows:

	<b>Directors</b>	<b>Key Management Personnel</b>	<b>Total</b>
<b>Number of beneficiaries</b>	<b>3</b>	<b>0</b>	
Fixed reward	€50.962	0	<b>€50.962</b>
Variable reward	0	0	<b>0</b>
<b>Total remuneration</b>	<b>€50.962</b>	<b>0</b>	<b>€50.962</b>

Based on Paragraph 5(2) of the Directive, it is required to disclose the number of natural persons that are remunerated Euro 1 million or more per financial year, in pay brackets of Euro 1 million, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. Nevertheless, currently there are no natural persons at the Company that are remunerated Euro 1 million or more per financial year and as such the above disclosure is not applicable to the Company.