Leverate Financial Services Ltd

Regulated by the Cyprus Securities and Exchange Commission License no. 160/11

DISCLOSURE AND MARKET DISCIPLINE

April 2018

Table of Contents

INTRODUCTION 4
LEGAL FRAMEWORK 4
OVERVIEW 5
Risk Appetite Framework 6
RISK MANAGEMENT STRUCTURE OF THE COMPANY 8
Definition of Risk Management 8
Risk management objectives 9
Risk Culture 9
Stress testing 9
CAPITAL RISK MANAGEMENT 11
Capital Resources: Equity & Reserves as at 31st December 2017 11
Capital Adequacy ratio (CAR) 11
Leverage Ratio 12
RISKS EXAMINATION / MANAGEMENT 12
Credit Risk 12
Market Risk 13
Operational Risk & Fixed Overhead requirements 14
Liquidity Risk 15
Money laundering and Terrorist Financing Risk 17
CORPORATE GOVERNANCE 19
Board Recruitment Criteria 19
Diversity with regards to selction of the Board of Directors 19
Number of Directorships held by members of the management body 19
REMUNERATION POLICY 19

Remuneration System 20

Performance Appraisal 21

Remuneration of Key Management Personnel and Directors 22

FINANCIAL INFORMATION 22

INTRODUCTION

LEVERATE FINANCIAL SERVICES LIMITED (hereafter the "Company" or "LFS"), was incorporated in Cyprus on 07 July 2011 under the name PIM PRIME INVESTMENTS LIMITED. On 26 January 2012, the Company changed its name from PIM PRIME INVESTMENTS LIMITED to LEVERATE FINANCIAL SERCVICES LIMTIED. On 27 December 2011 the Company received authorization from the Cyprus Securities and Exchange Commission (hereafter the "CySEC") to operate as a Cyprus Investment Firm under the license number 160/11.

The Company is licensed to provide the following services: Investment services

- Reception & Transmission of Clients Orders
- Execution of orders on behalf of clients Ancillary services
- Safekeeping and administration of financial instruments, custodianship and related services such as cash/collateral management
- 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
- Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.

On 3rd March 2017 the company also obtained the license to offer the services of Portfolio Management and Investment Advice.

LEGAL FRAMEWORK

According to the Directives DI144-2014-14 and DI144-2014-15, the Company is required to disclose information relating to its capital, the risks that the Company is exposed to, as well as to promote market discipline. These shall constitute a report which will be published on the Company's website at www.lfsbusiness.com on an annual basis and where necessary, the Company shall proceed with amendments of the report, approved by the Board of Directors.

The regulatory framework set in place and implemented by the Company regarding the Disclosure and Market Discipline Report, comprises of the following legislation:

- Law 144(I)/2007, The Law regarding the provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereafter "the Law");

- Regulation (EU) No. 575/2013 regarding prudential requirements for credit institutions and investment firms

- Regulation (EU) No. 648/2012 regarding the OCT derivatives, central counterparties and trade repositories
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms
- Directive 2002/87/EC regarding the supplementary6 supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate

The Basel II Accord has been implemented in the European Union through the Capital Requirements Directive (hereafter the "CRD").

The CRD consists of three "pillars":

Pillar 1: sets out the minimum capital requirements of firms to cover credit, market and operational risk.

Pillar 2: requires firms to assess whether additional capital should be maintained against any risks not adequately covered under Pillar 1.

Pillar 3: specifies a set of disclosure requirements which enables market participants to assess information on firms' risks, capital and risk management procedures. The company is disclosing all relevant information on an annual basis.

OVERVIEW

The Board of Directors and the Senior Management have the overall responsibility for the internal control systems in the process of "Capital Adequacy Assessment", therefore they have established effective processes for the identification, assessment, monitoring and the management of each risk. The Company's business effectiveness is appeared and based on the guidelines of the risk management policies and procedures. The risk management policy forms part of the Company's internal control and corporate governance arrangements, furthermore, it explains the Company's underlying procedures in respect to risk management, documents the roles and responsibilities of the Risk Managements Committee, the Risk Management Departments and other key parties, setting out the process the Risk Managements Committee will use to evaluate the effectiveness of the Company's internal control procedures.

The Risk management policy was last updated within the year 2017 and is reviewed on at least an annual basis. The policy will be reviewed in the next Risk Management meeting.

The Board of Directors, Audit Committee, Internal Audit, Risk Manager, Compliance and Anti-Money Laundering Officer, control and supervise the overall risk management system.

The Risk Management Committee, composed of the Risk Manager, the Head of Brokerage Department and two non-executive directors, has responsibility for overseeing risk management within the Company as a whole. The Risk Manager and the Head of Brokerage will support, advice and implement policies approved by the Risk Management Committee, the Company would make conservative and prudent recognition and disclosure of the financial implications of risk and the responsibility for encouraging good risk management practices within their teams and department would be on the Head of each respective Company's department.

To this end, this Report is focused on the following areas:

- examination of the capital adequacy and the financial results of the Company
- monitoring of the risks faced by the Company
- operational risks which consist of internal processes, people, and systems

Risk Appetite Framework

Risk Appetite can be defined as the total risk level that the company is willing to take so as to accomplish its strategic objectives. A clearly defined risk appetite will provide management and staff with a framework that can facilitate the identification and management of risks as well as opportunities.

However, setting the risk appetite without first considering the entity's risk capacity can have serious consequences.

Risk capacity can be defined as the maximum level and type of risk in which the company can operate and also remain within the capital and regulatory constraints.
Risk capacity represents a higher limit and going beyond this can lead to failure.

Setting buffers around the risk appetite is important to ensure that a breach does not force an institution's failure.

The acceptable variability around the set risk limit is referred to as Risk tolerance. Risk tolerance should be set after understanding the level of risk a company is willing to accept against how much it is willing to tolerate. This variability/tolerance is crucial for ensuring that sufficient risk is taken to meet the strategic goals set.

The desired risk appetite of the company is always within the risk capacity as set by the Board.

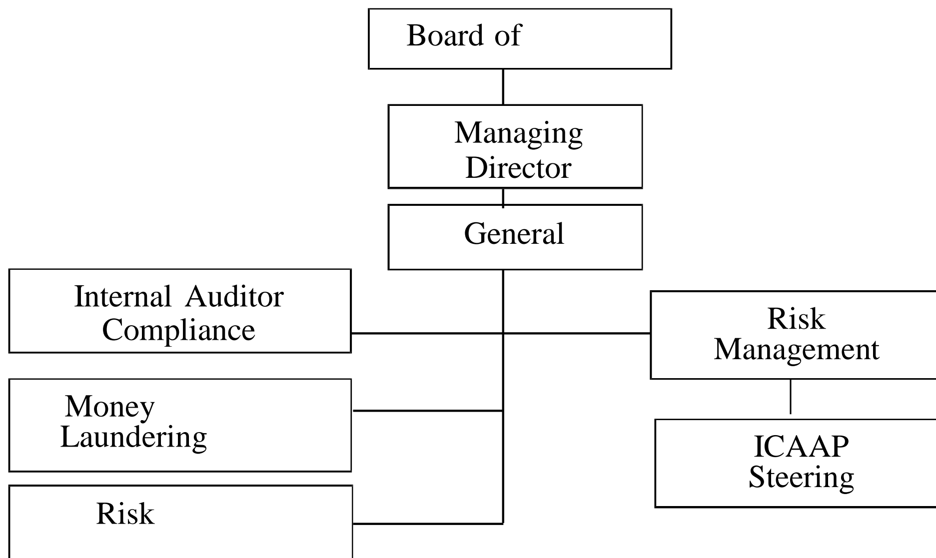
The company has adopted a relatively risk-averse approach to risk. This approach and the company's limits as set above are then communicated from the top and guide the behavior of all employees. Once the Company's risk appetite is developed and communicated,
management, with board support, must revisit and reinforce it. Risk appetite cannot be set once and then left alone for extended periods. Rather, it should be reviewed and incorporated

into decisions about how the Company operates. This is especially important if the Company's business model begins to change.

The Company accepts risks considered as immaterial while risks interpreted as material would fall outside the Company's Risk Appetite.
There is a regular monitoring of the company's risk profile against the risk appetite as set and company is ready to take mitigating actions so as to align the company's risk profile with the risk appetite when needed.

Furthermore, this is an ongoing procedure that also involves a review of risk appetite in light of any possible business changes.

RISK MANAGEMENT STRUCTURE OF THE COMPANY



Definition of Risk Management

Risk Management is defined as the identification, analysis, assessment, control, and avoidance, minimization, or elimination of unacceptable risks. An organization may use risk assumption, risk avoidance, risk retention, risk transfer, or any other strategy (or combination of strategies) in proper management of future events.

Risk management objectives

The main objectives of the risk management function are summarized below:

- The adequate risk identification and management;
- Compliance with any new legislation affecting the risk management function;
- Examination of the capital adequacy of the Company;
- The setting and monitoring of the relevant limits.
- Provision to the Company's personnel with the appropriate advice/support and training, and;
- Identification of any problematic areas.

Risk Culture

By cultivating a culture within an organization in which every individual is aware of what is considered acceptable is really important to keep the Company's goals in line with the risk appetite of the company.
The Company's risk appetite is communicated to each individual responsible for implementing risk management in a clear manner to ensure the consistent implementation across all departments of the Company. Furthermore, an effective monitoring should be in place with on- going evaluations to monitor whether there are variations from the risk appetite as set by the Company.
The Board critically evaluates the applied risk management framework, and assesses the measures taken to form a risk-averse mentality of the workforce, thus establishing and nurturing a risk-averse culture within the Company. The Board will continue exercising its strong oversight and influence over the Risk Management function of the Company, in promoting the ICAAP and its provisions into an essential building block of the Company and nurture its risk management culture.

Stress testing

An integral element of the Company's ICAAP is the use of Stress Testing, through which the Company analyses and manages the risks inherent in its business and/or its future strategic plans. The Company's Stress Testing framework enhances the Company's strategic planning and decision making processes, as well as its Risk Management framework, by providing the Board with additional information, as derived through quantitative and qualitative techniques, about all material risks borne by the Company, in relation to its risk tolerance and strategy in stress.
The Company's Stress Testing framework implies the application of sufficiently sophisticated methodologies, through which the Company obtains a forward looking

overview of the potential adverse outcomes of exceptional but possible events and their impact on:

- the Company's current positions and performance, as this is reflected through its Balance Sheet and Profit & Loss Statements,

- the Company's future strategic plans, as these are portrayed through the Company's projected budgets

Further, the main stress testing methodologies applied by the Company are the following:

- **Sensitivity Analyses**

This method is used to assess the Company's position and strategic plan in the case where a single risk factor changes.

- **Scenario Analyses**

Under this method, the Company's position and strategic plan are stressed against the combined impact of the simultaneous changes in several risk factors

In order to ensure that Stress Testing is truly embedded in the Company's corporate governance and Risk Management procedures, the following conditions shall always have to be met when using Stress Tests:

- the Board is actively engaged in Stress Testing, and is responsible for establishing an effective Stress Testing framework within the Company,
- the Board undertakes a key role in implementing the Company's Stress Testing by being involved throughout the process, including the selection of the Stress Test methodology to be used,
- the Company's Stress Testing framework needs to cover all relevant operational levels of its business, as well as all material risks, as these are identified based on the provisions of Section 6 above,
- the Board shall act, based on the results of Stress Testing, and integrate these results in the Company's decision making and strategic planning processes,
- the Company's Stress Testing framework shall need to be periodically evaluated and reviewed by the Senior Management for its continued effectiveness,
- Stress tests will be re-run frequently (at least yearly) and as deemed necessary by the Risk Manager and the Risk Management Committee, or if the Board of the Company suggests so.

The ICAAP was last updated and approved by the Risk Management Committee on the 14th December 2017. It is expected that the next update of the ICAAP will be done by the end of June 2018.

CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

Capital Resources: Equity & Reserves as at 31st December 2017

Share Capital (Ordinary and Premium)	$701,116
Accumulated Profits	$40,388
Total Capital Resources	$741,504

Capital Adequacy ratio (CAR)

The Company prepares and submits to the CySEC on a quarterly basis the capital adequacy reports, as required by the Law. The CAR is prepared on a solo basis and the reporting currency is Euro.

- The Company maintains both Tier 1 and Tier 2 Capital as eligible own funds
- According to the Capital Adequacy Directive the minimum capital adequacy ratio is 8%

CAR *=* *Tier One Capital + Tier Two Capital* *Risk Weighted Assets*

The Company's regulatory own funds, capital requirements/risk weighted assets and capital adequacy ratio for the last quarter of 2016 and all year 2017, were as follow:

DESCRIPTION	USD '000 Q4/2016	USD '000 Q1/2017	USD '000 Q2/2017	USD '000 Q3/2017	USD '000 Q4/2017
Original Own Funds (Tier 1 Capital)	**365**	**364**	**359**	**206**	**355**
Eligible additional Own Funds (Tier 2 Capital)	**0**	**0**	**0**	**0**	**0**
Credit Risk	**2,141**	**2,182**	**2,634**	**501**	**781**
Foreign Exchange Risk	**648**	**465**	**725**	**87**	**253**
Risk due to Fixed Overheads	**0**	**0**	**0**	**929**	**484**

Total Capital Requirements	2,789	2,648	3,358	1,518	1,518
Capital Adequacy Ratio	13,10%	13.76%	10.69%	13.57%	23,39%

Leverage Ratio

The Leverage Ratio of the Company as at 31/12/2017 is 45%, according to Article 429 of CRR (Capital Requirements Regulation) and is calculated as per below:

	USD '000	
Tier 1 Capital	= 355	= 0.45 (45%)
Credit Risk Requirement	781	

RISKS EXAMINATION / MANAGEMENT

As with all Investment Firms, the Company is exposed to a variety of risks. In particular the Company is exposed to credit risk, operational risk, foreign exchange risk, interest rate risk, counterparty risk, funding liquidity risk, money laundering and terrorist financing risk, compliance risk, and technology risk as follows:

Credit Risk

The Company follows the **Standardised Approach** for Credit risk.

Credit Risk arises when counterparties fail to discharge their obligations towards the Company, thus reducing the amount of future cash inflows from the financial assets at hand on the Company's balance sheet. In particular, the Company has specific credit risks arising from its current banking accounts with credit institutions, as well as other credit risks stemming from tangible fixed assets, assets held under the Investor Compensation Fund, and as regards Debtors and Prepayments.

Mitigation Strategies

Some of the mitigation strategies that the Company follows are the following:

- Regular credit review of counterparties.
- To minimize credit risk of bank defaults, the Company:

  i. Uses European banks (lower default risk)
  ii. Deposit funds with banks that have high ratings issued by Moody's, S&P or Fitch.
  iii. Diversify funds over several European banks

A further analysis based on the following was also performed:

- Total exposure
- Industry exposure
- Residual Maturity

Asset Class	Exposure	Risk Weighted Assets	Capital requirements
CORPORATE	629,153.97	629,153.97	50,332.32
INSTITUTION	88,355.75	79,969.34	6,397.55
OTHER ITEMS	71,448.12	71,448.12	5,715.85
Grand Total	788,957.83	780,571.43	62,445.71

Industry	Exposure	Risk Weighted Assets	Capital requirements
Financial	88,355.75	79,969.34	6,397.55
Not applicable/other	700,602.09	700,602.09	56,048.17
Grand Total	788,957.83	780,571.43	62,445.71

Maturity	Exposure	Risk Weighted Assets	Capital requirements
Below 3 months	88,355.75	79,969.34	6,397.55
N/A	700,602.09	700,602.09	56,048.17
Grand Total	788,957.83	780,571.43	62,445.71

The credit ratings were made based on Moody’s credit rating agency.

Market Risk

Foreign exchange risk is the effect that unanticipated foreign exchange rate changes may have on the Company’s assets. In the ordinary course of business, the Company is exposed to minimal foreign exchange risk, which is monitored through various control mechanisms, imposed through the Company’s Risk Management Framework.

The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as the establishment of maximum values/limits of exposure to a particular currency.

As per the CAR calculations on 31st Dec 2017 the Market Risk was calculated to $253k.

<u>Risk policy and management tools:</u>

Based on the company’s internal risk assessment falling within the scope of ICAAP, Market risk (Foreign Exchange Risk) is rated as a B risk. The Company also implements the Standardised Approach to quantify the Credit Requirements that correspond to the Market Risk the Company faces, while the ICAAP risk assessment methodology is used for comparisons.

Operational Risk & Fixed Overhead requirements

The Company follows the **Basic Indicator Approach** for operational risk.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external factors. Operational risk can be further divided into the following sub-categories:

Internal Fraud Risk; External Fraud Risk; Marketing and Advertising Risk; Regulatory Reporting Risk; Internal Procedures and Controls Risk; Damage to Physical Asset, Business Disruption & System Failures Risk; Legal Risk etc.

Mitigation Strategies

Some of the mitigation strategies that the Company follows are the following:

- The Company has a four eyes structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a financial services director and a separate director of operations. The board further reviews any decisions made by management and monitors its activities

- Several detection methods are in place by the accounting department in order to detect discrepancies or other fraudulent activities

- The Compliance Officer ensures the accuracy of any statements made during the marketing and advertising processes. The Officer also ensures that the information addressed to the client is fair, clear and not misleading,

- To mitigate this risk, the Company ensures that one of the responsibilities of the Compliance Officer is to ensure that proper information/reports are sent on time to CySEC.

- The Company outsources the Internal Audit function. The internal audit visits are to ensure that employees comply with the Company's internal procedures.

- The Company has prepared a comprehensive business contingency and disaster recovery plan with procedures and actions to be followed in the case of damage to any vital part of the Company's structure.

- The Company obtains continuous legal advice and suggestions on the preparation of its legal documents.

- The Company's risk manager monitors the compliance of the Company's trading book to the investment policy statement and any deviation is reported to the risk management units and appropriate action is taken,

- Aggregate net exposures, as they develop from the opening and/or closing of positions by clients are monitored by the Company's systems Head of Dealing Room, regarding the level of risk to be maintained. Where risk exceeds desired levels, appropriate actions (i.e., automatic by the system rejection of a client order) are taken until desired levels are achieved.

- Ancillary Services of 'Safekeeping and administration of financial instruments, including custodianship are executed by the Head of Back Office and monitored by the General Manager and subsequently reviewed by the risk management committee and Directors.

In relation to the recent changes in the capital requirements regulation and the introduction of Regulation (EU) No. 575/2013, all investment firms have been reclassified according to the services offered and the risks imposed to retail clients, the financial system and themselves. In line with this, it has been indicated by CySEC, that the Company is a limited scope investment firm and thus it falls under Article 95 (2) & 97 which requires a different approach in calculating risk exposures for capital adequacy purposes.
The Company is now obliged to calculate its market and credit risk and compare this against its fixed overhead requirements. The higher of the two is then used as a measure of capital requirements for the Company at the specified period.
Under the fixed overhead requirement, the Company is required to hold eligible capital of at least one quarter of the fixed overheads of the previous year.
The approach for calculating fixed overheads is a subtractive approach, whereby variable cost items are deducted from the total expenses, as calculated according to the applicable accounting framework. The subtractive approach ensures that changes to the accounting framework are automatically taken into account and cannot be arbitraged by changing the accounting categorization.
Below is the Fixed Overheads Requirement based on the Company's Audited Capital Adequacy Report ("CAR") as of 31 December 2017:

	USD' 000
TOTAL ELIGIBLE CAPITAL	355
Fixed Overheads Requirement (25% * Fixed Overheads)	121

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to manage liquidity is to ensure, as far as possible, to always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Mitigation Strategies

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses through its overdraft facility, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Money laundering and Terrorist Financing Risk

The probability of risk is low as the Company has adequate procedures in place and has overall high level of compliance. In addition, the Company provides internal and external AML and CTF training to its employees several times a year. The Compliance Officer ensures that any updates on the regulation are distributed to the relevant personnel and carries out checks to ensure that the disseminated material have been read and understood by the respective personnel.
The adopted risk-based approach that is followed by the Company has the following general characteristics:

- recognises that the money laundering or terrorist financing threat varies across Clients, countries, services and financial instruments
- allows the Board to differentiate between Clients of the Company in a way that matches the risk of their particular business
- allows the Board to apply its own approach in the formulation of policies, procedures and controls in response to the Company's particular circumstances and characteristics
- helps to produce a more cost-effective system
- Promotes the prioritisation of effort and actions of the Company in response to the likelihood of Money Laundering and Terrorist Financing occurring through the use of the Investment and Ancillary Services.

The Company's Risk is based on different factors:

(a) Risks based on the Client's nature:

- Complexity of ownership structure of legal persons
- Companies with bearer shares
- Companies incorporated in offshore centres
- PEPs
- Clients engaged in transactions which involves significant amounts of cash
- Clients from high risk countries or countries known for high level of corruption or organised crime or drug trafficking

(b) Risks based on the Client's behaviour:

- Client transactions where there is no apparent legal financial/commercial rationale
- Situations where the origin of wealth and/or source of funds cannot be easily verified
- Unwillingness of Clients to provide information on the Beneficial Owners of a legal person.

(c) Risks based on the Client's initial communication with the Company :

- Non face-to-face Clients
- Clients introduced by a third person.

(d) Risks based on the Company's services and financial instruments :

- services that allow payments to third persons/parties
- large cash deposits or withdrawals
- products or transactions which may favour anonymity.

Measures and Procedures to Manage and Mitigate the Risks:

• adaption of the Client Due Diligence Procedures in respect of Clients in line with their assessed Money Laundering and Terrorist Financing risk

• requiring the quality and extent of required identification data for each type of Client to be of a certain standard (e.g. documents from independent and reliable sources, third person information, documentary evidence)

• obtaining additional data and information from the Clients, where this is appropriate for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from the particular Business Relationship or the Occasional Transaction

• Ongoing monitoring of high risk Clients' transactions and activities, as and when applicable.

CORPORATE GOVERNANCE

The Company has established a Risk Management Committee since 2013 for the determination of what types of risk is acceptable and which are not, determine the appropriate risk appetite or level of exposure and monitor the management of fundamental risks for reducing the like hood of unwelcome surprises. The Risk Management Committee has the responsibility of reviewing the Company's approach to risk management, and approve changes or improvements to key elements of its processed and procedures. The Risk Management Committee, during 2017, has been met 2 times in total for the discussion and approval of all matters that occurred during the aforementioned period that were subject to risk management reviewing.

Board Recruitment Criteria

The persons who effectively direct the business and the operation of the regulated market must be of sufficient good repute, have no bankruptcy order standing against them, sufficiently experienced as to ensure the sound and prudent managements and operation of the regulated market, hold sufficient academic and professional qualifications and have no criminal records.

Diversity with regards to selection of the Board of Directors

The Company's Board of Directors is comprised by people reflecting an adequately board range of experiences. The Board of Directors are possessing an adequate collective knowledge, skills and experience for being able to understand the Company's activities, including the main risks.

Each member of the Board of Directors is acting with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the senior management where necessary and is effectively oversee and monitor management decision-making.

The Company has engaged a broad set of qualities and competences when recruiting the members of the Board of Directors

Number of Directorships held by members of the management body

In 2017, the members of the Board of Directors of the Company given their industry experience have been taking seats in other Company boards. In line with this, one of the Company's Non - Executive Director held another one Non - Executive Director position in another company's boards. Additionally to the aforesaid, an Executive Director held a position as Non-Executive in another company.

REMUNERATION POLICY

The Company has established a Remuneration Policy in order to ensure the Company's compliance with the general organizational requirements according to the regulation and furthermore, to ensure the consistent implementations of the conflicts of interest and conduct

of business requirements under the Law in the area of remunerations. The principles employed within the Company's Remuneration Policy are appropriate to its size, internal organization and the nature, the scope and the complexity of its activities whilst adhering to the provisions of the Directive DI144-2007-05 of 2012 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Financial Firms which was introduced with effect from November 26, 2012.

Remuneration System

During 2017, the following was 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 Senior Management, members of the Board of Directors and the Heads of the departments. 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 aimed 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 organization and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee. Decision on these matters is taken on a Board of Directors level while the remuneration policy is periodically reviewed.

The total remuneration of staff consists of fixed and variable components. Fixed and variable components are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration, to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component.

a. Fixed 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. Fixed remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

b. Variable remuneration is designed to ensure that the total remuneration remains at competitive levels and to reward the staff for its performance whilst remaining aligned with the department's and/or the Company's performance. Other factors taken into account are the following:

- the financial viability of the Company,
- the general financial situation of the state in which the Company operates,
- Each employee's personal objectives (such as personal development, compliance with the Company's systems and controls, commitment and work ethics).

The variable remuneration component is mainly awarded in the form of cash while no remuneration is payable under deferral arrangements (with vested or unvested portions), nor were there any severance payments during the current year.
The Company's variable remuneration is approved by the Board of Directors for the employees of the compliance department and by the Senior Management for the employees of the back office department, dealing department and customer support department. Variable remuneration is set to incorporate the following principles:

a. Promote sound and effective risk management, avoid excessive risk taking and protect the long-term interests of the Company
b. Avoid conflicts of interest between the staff and the Company's clients
c. Alignment with the Company's compliance, profitability, cost of capital and risk tolerance
d. Element of long term commitment to the Company
e. Remuneration is directly linked to the performance of the staff and as result no guaranteed variable remuneration is promised or unconditionally awarded to the staff
f. Remuneration of staff in control functions is based on the successful performance of the specific objectives of their functions (Key Performance Indicators) and is independent to the performance of the business units they control.

The Board in its supervisory function adopts and periodically reviews the general principles of the remuneration policy and is responsible for its implementation. Also, the Board reviews the remuneration policy at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the Board in its supervisory function.

Performance Appraisal

The Company implements a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit. 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.

Remuneration of Key Management Personnel and Directors

The remuneration of the key management personnel of the Company, including Board of Directors, in 2017, was as shown in the following tables:

Broken down by Management area	Number of Beneficiaries	Fixed Remuneration	Variable Remuneration	2017
		$000	$000	$000
Board of Directors	5	84	-	84
Senior Management	1	38	-	38
Heads of Departments	5	127	-	127

Any information that was not included in this report was either not applicable on the Company's business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.

FINANCIAL INFORMATION

Regulatory Capital

	31 December 2017
	$
Total Equity as per Financial Statements	732,278
Share Capital	396,424
Share Premium	304,692
Retained Earnings	40,388
Total Common Equity Tier 1	741,504
Additional Tier 1 Capital	0
Total Tier 1 Capital	741,504
Tier 2	0
Total Own Funds	741,504

Balance Sheet

	31 December 2017 $
Assets	858,401
Liabilities	116,897
Equity	741,504
Total Liabilities and Equity	858,401

Capital Requirements under Pillar I

Capital Requirements Pillar 1	31 December 2017 $’000
Core Equity Tier 1 (CET 1)	355
Additional Tier 1 Capital (AT 1)	0
Total Tier 1 Capital	355
Tier 2	0
Total Own Funds	355
Risk Weighted Assets	0
Credit Risk	781
Market Risk	253
Operation Risk	0
Fixed Overhead Requirement	484
Total Risk Exposure Amount	1,518
CET1 Capital Ratio	**23.39%**
T1 Capital Ratio	**23.39%**
Total Capital Ratio	**23.39%**