

VPR SAFE FINANCIAL GROUP LTD

PILLAR III DISCLOSURES

According to Directives DI144-2014-14 and DI144-2014-15 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms

YEAR ENDED 31 DECEMBER 2016

April 2017

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1. Overview

1.1 CIF Information

VPR Safe Financial Group Ltd (hereinafter the “Company”) was incorporated in the Republic of Cyprus on 13 May 2013 as a private limited liability company with registration number HE 322134 and it is a Cyprus Investment Firm (hereinafter the “CIF”). The Company was licensed by the Cyprus Securities and Exchange Commission (hereinafter the “CySEC”) with number 236/14 to provide financial services, on 03 June 2014 and the licence was activated on the 02 September 2014.

The Company notified CySEC on 26 January 2016 about the lapse of the Company’s CIF Licence in relation to the ancillary service of “*Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transactions*” and “*Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments*”.

Table 1 below illustrates the current licence information of the Company:

Table 1 - Company Licence Information (based on the Third Appendix of the Law 144(I)/2007, as amended)

		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	✓	✓	-	-	-	-	-	-	✓	-	-	-	-	-	-

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, as amended):

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

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, as amended):

1. Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
2. Foreign exchange services where these are connected to the provision of investment services.

The Company is authorised to provide the aforementioned investment and ancillary services, as applicable for each service, for the following Financial Instruments, in accordance with Part III of the Third Appendix of the Law 144(I)/2007, as amended:

1. Transferable Securities
2. Money Market Instruments
3. Units in Collective Investment Undertakings
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls
8. Derivative instruments for the transfer of credit risk
9. Financial contracts for differences
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

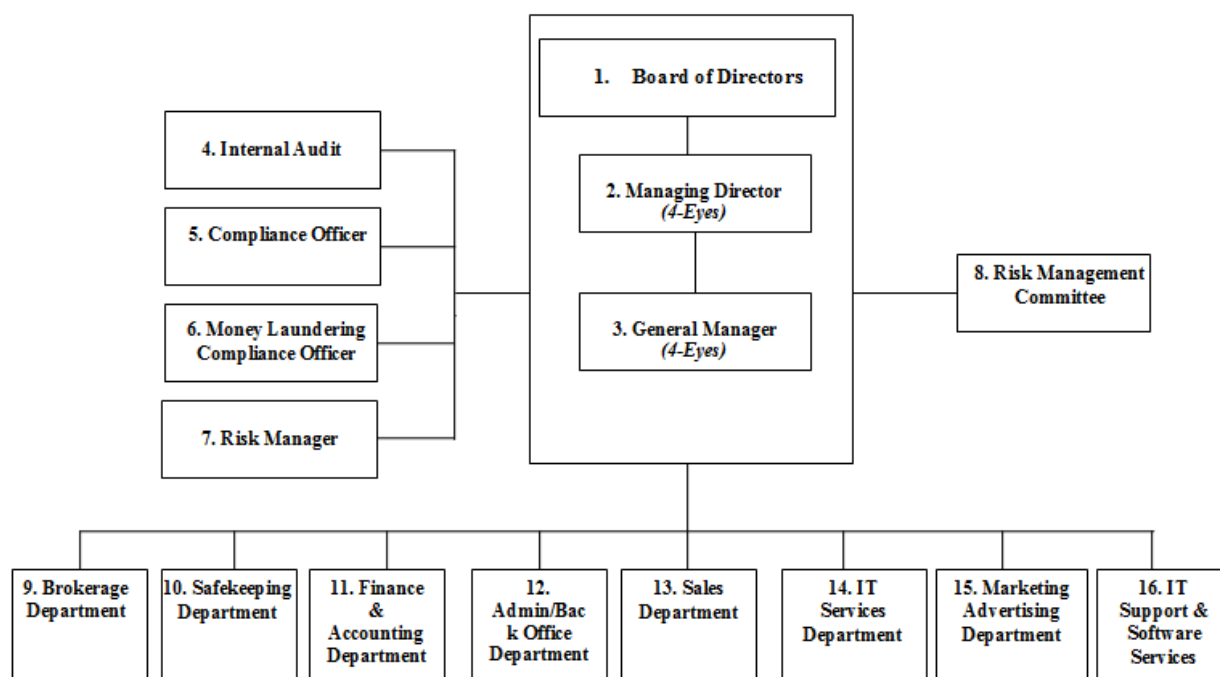
Moreover, based on Article 95(1) of the Regulation (EU) 575/2013 (hereinafter the “CRR”), the Company is categorised as “**Limited Licence**” CIF with minimum/initial capital requirement of **€125,000**.

1.2. Scope of application

The Company is publishing the disclosures on an individual (solo) basis.

Annual Reports and Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Cyprus Company Law, Cap. 113.

1.3. Organisational Structure



1.4. Regulatory framework overview

This report has been prepared in accordance with Section 4 (Paragraph 32) of the CySEC Directive DI144-2014-14 (the “Directive”) for the prudential supervision of investment firms which implements the CRR and the European Directive 2013/36/EU (the “European Directive” or “CRD IV”).

CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. Furthermore, CRR introduces significant changes in the prudential regulatory regime applicable to institutions including amended minimum capital ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. Additionally, CRR permits a transition period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018. CRR is immediately binding on all EU member states. CRD IV governs access to internal governance arrangements including remuneration, Board of Directors (the “Board”) composition and transparency.

The Regulatory 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 process ("ICAAP") and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and institutions on a continuous basis and to evaluate how well the institutions 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 firm, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds.

According to the Directive, the risk management disclosures should be included in either the financial statements of the CIF 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 CIF. The CIF 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.

1.5. Disclosure Policy - Basis and Frequency of Disclosure / Location and verification

The following sets out the Company's Disclosure Policy as applied to Pillar III Disclosures, according to CRR requirements.

1.5.1. Information to be disclosed

The Regulation provides that institutions may omit one or more disclosures, if such disclosures are not regarded as material, except for the following disclosures:

- Regarding the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved (*Article 435(2)(c) of CRR*).
- Own funds (*Article 43 of CRR*).
- Remuneration policy (*Article 450 of CRR*).

Materiality of Disclosures

Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, this was not included in the document.

Disclosures and Confidential Information

The Regulation also provides that institutions may omit one or more of the required disclosures, if such disclosures are regarded as confidential or proprietary. The CRR defines proprietary as if sharing that information with the public would undermine its competitive

position. It may include information on products or systems which, if shared with competitors, would render an institution's investments therein less valuable.

Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding the institution to confidentiality. Under the light of the above, the Company avoided to disclose such confidential information in this report.

1.5.2. Frequency

The Company's policy is to publish the disclosures required on an annual basis. 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.

1.5.3. Medium and location of publication

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 websites:

- www.alvexo.com
- www.alvexo.fr
- www.alvexo.eu
- www.alvexo.ae
- academy.alvexo.com
- academy.alvexo.fr
- m.alvexo.com
- m.alvexo.fr
- m.alvexo.ae

1.5.4. 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.

1.6 Risk Management objectives and policies

To ensure effective risk management, the Company has adopted the three lines of defence model, with clearly defined roles and responsibilities.

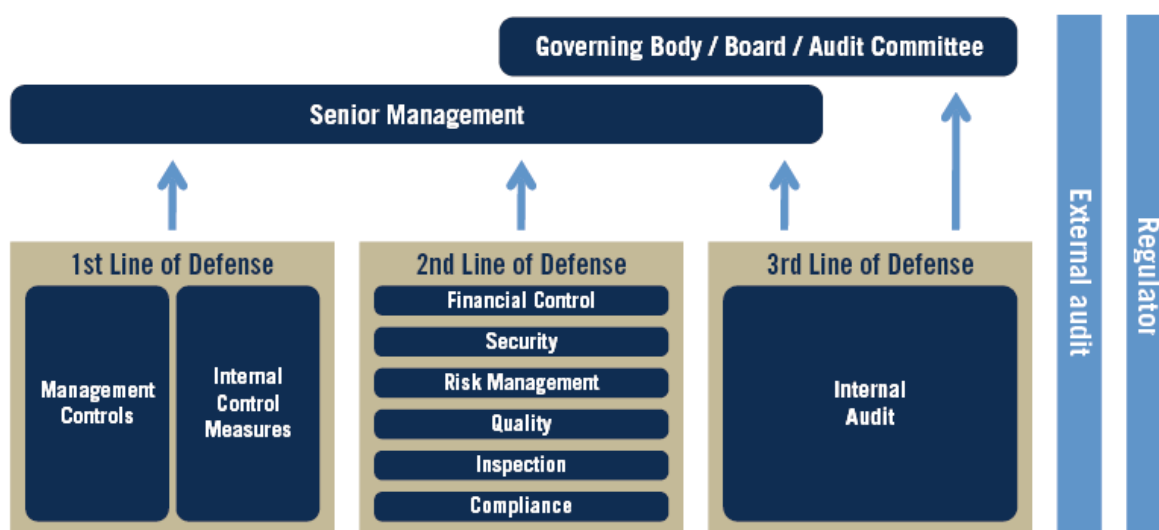
First Line of Defence: Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organisational risk appetite and are fully compliant with Company policies and where appropriate defined thresholds. First Line of Defence acts as an early warning mechanism for identifying (or remedying) risks or failures.

Second Line of Defence: The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company's risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance

where required. The Risk Management Function will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them. Integral to the mission of Second Line of Defence is identifying risk areas, detecting situations/activities, in need of monitoring and developing policies to formalise risk assessment, mitigation and monitoring.

Third Line of Defence: Comprises by the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of design and operational effectiveness of the systems of internal controls. Internal Audit undertakes on-site inspections/visits to ensure that the responsibilities of each Function are discharged properly (i.e. soundly, honestly and professionally) as well as reviews the Company's relevant policies and procedures. Internal Audit works closely with both the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.

The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

1.6.1 Risk Management Framework

Managing risk effectively in a continuously changing risk environment requires a strong risk management culture. As a result, the Company has established an effective risk oversight structure and the necessary internal organisational controls to ensure that the Company undertakes the following:

- The adequate risk identification and management
- The establishment of the necessary policies and procedures
- The setting and monitoring of the relevant limits and
- Compliance with the applicable legislation

The Board meets on a regular basis, and receives updates on risk and regulatory capital matters from management. The Board reviews regularly (at least annually) written reports concerning compliance, risk management and internal audit policies, procedures and work as well as the Company's risk management policies and procedures as implemented by Management.

As part of its business activities, the Company faces a variety of risks, the most significant of which are described further below. The Company holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk.

1.6.2 Risk Appetite Statement

Risk Appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the Board and management confidence to avoid risks that are not in line with the strategic objectives.

The Company has established a robust Risk Appetite Framework. The Board approves the Risk Appetite which defines the type and amount of risk that the Company is prepared to accept to achieve its objectives. Risk Appetite covers three primary areas:

Table 2 – Risk Appetite areas

Risk Area	Risk Types
Financial	<ul style="list-style-type: none"> • Credit Risk • Market Risk • Liquidity Risk
Reputational	<ul style="list-style-type: none"> • Conduct Risk • Customer Risk • Regulatory Risk • External reputational Risk
Operational & People	The risk associated with the failure of key processes or systems and the risks of not having the right quality and quantity of people to operate those processes

The Risk Appetite framework has been designed to create links to the strategic long term plan, capital planning and the Company's risk management framework.

1.6.3 Risk Culture

Risk culture is a critical element in the Company's risk management framework and procedures. Management considers risk awareness and risk culture within the Company as an important part of the effective risk management process. Ethical behaviour is a key component of the strong risk culture and its importance is also continuously emphasised by the management.

The Company is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to take accountability for them. The Company embraces a culture where each of the business areas is encouraged to take risk-based decisions, while knowing when to escalate or seek advice.

1.7. Declaration of the Management Body

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and – as such – offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

2. Corporate Governance and Risk Management

The Company's systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness.

The risk management and internal control systems are embedded in the operations of the Company and are capable of responding quickly to evolving business risks, whether they arise from factors within the Company or from changes in the business environment.

2.1. The Board of Directors

The Board 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 two executive directors and two independent non-executive directors.

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff of the Company.

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.

2.2. Number of Directorships held by members of the Board

All members of the Board commit sufficient time to perform their functions in the Company. The number of directorships which may be held by a member of the Board at the same time shall take into account individual circumstances and the nature, scale and complexity of the Company's activities. Unless representing the Republic, members of the Board of a CIF that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- one executive directorship with two non-executive directorships;
- four non-executive directorships.

For the purposes of the above, the following shall count as a single directorship:

- Executive or non-executive directorships held within the same group.

Directorships in organisations which do not pursue predominantly commercial objectives such as non-profit or charitable organisations shall not count for the purposes of the above guidelines.

The table below discloses the number of directorships held by members of the management body.

Table 3 – Number of Directorships of the members of the Board of Directors

Director	Function	Number of Executive Directorships	Number of Non-Executive Directorships
Ms. Yael Hertz Kleinman*	Managing Director	2	0
Mr. Christos Avgoustinos	General Manager	2	4
Mr. George Skordis	Independent, Non-Executive Director	0	2
Mr. Charalambos Stylianou	Independent, Non-Executive Director	0	3

*Replaced Mr. Adir Aharony on 14 January 2016.

2.3. Policy on Recruitment

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

Members of the Board possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board reflects an adequately broad range of experiences to be able to understand the CIF's activities, including the main risks to ensure the sound and prudent management of the Company as well as sufficient knowledge, of the legal framework governing the operations a CIF.

2.4. Policy on Diversity

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organisation.

For this purpose, the Company takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age, cultural and educational background for the Board appointments.

2.5. Governance Committees

In order to support effective governance and management of the wide range of responsibilities the Board has established the *Risk Management Committee*. The role of the 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. The members of the Risk Management Committee are shown in the table below:

Table 4 – Risk Management Committee

Member Name	Function
Ms. Yael Hertz Kleinman	Managing Director
Mr. Christos Avgoustinos	General Manager
Mr. George Skordis	Independent Non-Executive Director

The Risk Management Committee, inter alia, scrutinizes, and decides on various risks inherent with the operation of the Company with the view to formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company. Moreover, the Risk Management Committee reviews the risk management procedures in place (monitors and controls the Risk Manager in the performance of his duties and the effectiveness of the Risk Management Department).

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 Risk Management Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.

The Risk Management Committee meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager.

2.6 Other Governance Functions

Internal Audit

The Company, taking into account the nature, scale and complexity of its business activities, as well as the nature and the range of its investment services and activities, establishes and maintains an internal audit function through the appointment of a qualified and experienced Internal Auditor. The Internal Auditor is appointed and reports to the Senior Management and the Board of the Company.

The Internal Auditor is separated and independent of the other functions and activities of the Company. The Internal Auditor bears the responsibility to:

- (a) establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements
- (b) issue recommendations based on the result carried out in accordance with point (a)
- (c) verify compliance with the recommendations of point (b)

(d) provide timely, accurate and relevant reporting in relation to internal audit matters to the Board and the Senior Management of the Company, at least annually.

The Internal Auditor is responsible for applying the Internal Control System (hereinafter, the “ICS”), which confirms the accuracy of the reported data and information. Furthermore, the role of the Internal Auditor is the programming, on an at least annual basis (as applicable), of checks on the degree of application of the required ICS.

The Internal Auditor has clear access to the Company’s personnel and books. Likewise, the Company’s employees have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided.

The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions shall be taken. The Board ensures all issues are dealt with and prioritized according to the Board’s assessment.

Compliance Officer

The Board ensures regulatory compliance through a comprehensive and pro-active compliance strategy. To this end, the Board appoints a Compliance Officer in order to establish, implement and maintain adequate and effective policies and procedures, as well as appropriate systems and controls designed to detect any risk of failure by the Company to comply with its obligations. Further to this, the Compliance Officer is responsible to put in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively. The Compliance Officer reports to the Senior Management and the Board of the Company.

The Compliance Officer is independent and has the necessary authority, resources, expertise and access to all relevant information. The objectives of the Compliance officer are:

- a) to prohibit the realization for the Customers of Company of any operations which may infringe the existing legislation
- b) to decrease the probability of appearance of any problem situations connected with any tax and legal limitations of the Customers of the Company
- c) to ensure compliance with the current and any new laws, regulations and directives at times issued by CySEC

Money Laundering Compliance Officer

The Board retains a person to the position of the Company’s Money Laundering Compliance Officer (hereinafter the “MLCO”) to whom the Company’s employees report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The MLCO belongs to the higher hierarchical levels/layers of the Company so as to command the necessary authority. The MLCO leads the Company’s Money Laundering Compliance procedures and processes and report to the Senior Management and the Board of the Company. In cases where it shall be deemed necessary and following recommendations by the MLCO assistants to the MLCO is also be appointed.

Scope and objectives of the MLCO:

- a) The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income
- b) To decrease the probability of appearance among the Customers of the Company of any persons/organizations engaged in illegal activity and/or related with such persons/organizations
- c) To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing
- d) To ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities

2.7 Information flow on risk to the management body

Risk information flows up to the Board directly from the business departments and control functions. The Board ensures that it receives on a frequent basis, at least annually written reports regarding Internal Audit, Compliance, Money Laundering and Terrorist Financing and Risk Management issues and approves the Company's ICAAP report (please refer to Appendix I for more details).

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.

The Company throughout the year under review managed its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

The Company's own funds for the period up to 31 December 2016 were €421k which were above the initial capital requirement (i.e. €125,000) and the Company fulfilled its obligations by successfully submitting, on a quarterly basis, the CRD IV CoRep Forms.

In this respect, the Company's Capital Adequacy Ratio as at 31 December 2016 was **8.95%**.

3.1. Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information relating to their own funds. Furthermore, institutions shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 1 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. The composition of the capital base and capital ratios of the company is shown in the following table:

Table 5 – Composition of the capital base and capital ratios

	Current period	Full impact
	€000	€000
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	310	310
Retained earnings	157	157
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional deductions of CET1 Capital due to Article 3 of the CRR (*)	(43)	(43)
Other Intangible Assets	(3)	(3)
Common Equity Tier 1 (CET1) capital	421	421
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	421	421
Tier 2 (T2) capital	-	-
Total capital (TC = T1 + T2)	421	421
Risk weighted assets		
Credit risk	922	922
Market risk	50	50
Additional Risk Exposure amount due to Fixed Overheads	3,727	3,727
Total risk weighted assets	4,699	4,699
Capital ratios and buffers		
Common Equity Tier 1	8.95%	8.95%
Tier 1	8.95%	8.95%
Total Capital	8.95%	8.95%

* Treatment pursuant to Circular C162 (Capital adequacy requirements - Change in the treatment of the Investors Compensation Fund (“ICF”) Contribution) on 10 October 2016, according to which the contribution to ICF will no longer be risk weighted as an “exposure to public sector entities” pursuant to paragraph 13(3) of Directive D1144-2014-15. The said ICF exposure will be deducted from CET1 Capital pursuant to Article 3 (Application of stricter requirements by institutions) of the CRR. The aforementioned Article gives the member states the power to request from the institutions to hold own funds in excess of those required by the CRR.

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

In order to meet the requirements for disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, the Company discloses the capital instruments’ main features as outlined below:

Table 6 – Main features of capital instruments

Capital Instruments Main Feature	CET1
Issuer	VPR Safe Financial Group Ltd
Regulatory Treatment	
Eligible at Solo/(sub-)consolidated/solo	Solo
Instrument type	Common Equity
Amount recognized in regulatory capital	€310k
Nominal amount of instrument	€310k
Issue Price	€1
Accounting classification	Shareholders' Equity
Original date of issuance	€1k 13/05/2013 €279k 28/07/2014 €30k 30/09/2014
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	No
Coupons / dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	N/A

The Company's capital resources consist of Tier 1 Capital only. No additional Tier 1 and Tier 2 available.

3.3. Balance Sheet Reconciliation

Institutions shall disclose a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions and the balance sheet in the audited financial statements of the institution as follows:

Table 7 – Main features of capital instruments

	2016
	€000
Equity	
Share capital	3
Share premium	308
Retained earnings /(Accumulated losses)	157
Total Equity as per Audited Financial Statements	467
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Other Intangible assets	(3)
Additional deductions of CET1 Capital due to Article 3 of the CRR	(43)
Total Own funds as per CoRep	421

4. Compliance with the Regulation and the overall Pillar II Rule

4.1. Internal Capital

The purpose of capital is to provide sufficient resources to absorb unexpected losses over and above the ones that are expected in the normal course of business. The Company aims to maintain a total capital adequacy ratio which will ensure there is sufficient capital to support the Company during stressed conditions. The Company has adopted the Standardised Approach to the calculation of Pillar I minimum capital requirements for Credit and Market Risk.

4.2. Approach to assessing adequacy of Internal Capital

The Company has established an ICAAP, documented it in a Manual and produced in this regard the ICAAP Report, as per the Guidelines GD-IF-02 (Circular C026) & GD-IF-03 (Circular C027). Upon CySEC's request the ICAAP Report shall be submitted to CySEC.

The Company operates a fully integrated ICAAP process throughout the year that rolls into the final ICAAP assessment. The Company also performs monthly key risk assessments supported by periodic stress testing. The ICAAP process considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against them both currently and in the future.

The ICAAP Report describes how the Company implemented and embedded its ICAAP within its business. The ICAAP also describes 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 I risks) faced by the Company.

The Company has adopted the "Pillar I plus approach" whereby it determines the minimum capital required under Pillar I methodology and subsequently incorporates in that methodology the risks that are either not covered or are partially covered by Pillar I. Initially an assessment is made on the general financial position of the Company both from its financial statements and its CRDIV CoRep Forms.

In order to validate the adequacy of the credit, market and fixed overheads requirements under the Pillar I calculations, the ICAAP proceeds with the following individual tests:

- The adequacy of the credit, market and fixed overheads requirements is assessed with reference to all relevant balance sheet items in order to ascertain if there are additional risks that are not covered by Pillar I
- Other risks connected with the balance sheet, such as liquidity risk and concentration risk, are reviewed in order to establish whether there should be an additional requirement that might not be covered under Pillar I
- The overall capital adequacy is tested by adding together the resulting requirement of the identified risks.

- The absolute impact of combinations of scenarios, including a severe market downturn, is considered in relation to the financial forecasts of the business to assess the potential impact on the capital base over a three year period (forward-looking).
- A comprehensive risk assessment is carried out for all risks, categorizing them under a risk profile by attributing the anticipated impact and likelihood of occurrence.
- Finally, additional measures are set for the mitigation of the identified risks as well as capital allocation.

5. Pillar I Capital Requirements

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

5.1. 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.

5.1.1. Credit Risk Adjustments

The Company assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the

estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. For those trading receivables that are 90 days or more past due, in non-accrual status, the Company classifies them as “in default”, thus an impairment test will emerge.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a receivable is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income.

5.1.2. Credit Risk – Risk Weighted Assets

The Company's Credit Risk Weighted Assets and Capital Requirements broken down by exposure class were as follows:

Table 8 – Exposure classes as at 31 December 2016

	Risk Weighted Assets	Capital Requirements
	€000	€000
Exposure class		
Institutions	147	12
Other Items	775	62
Total	922	74

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.



5.1.3. Credit Risk – Analysis of Average exposures and total amount of exposures after accounting offsets

The Company shall disclose the total amount 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 exposures as follows:

Table 9 – Analysis of Average Exposures

	Original exposure amount, net of specific provisions	Average Exposure
	€000	€000
Exposure class		
Public Sector Entities	-	21
Institutions	325	215
Other Items	3,375	1,911
Total	3,699	2,147

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

The Company 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:

Table 10 – Geographical distribution of the exposure classes

31 December 2016			
Geographical Distribution of the Exposures			
€000			
Exposure class	Cyprus	Other	Total
Institutions	325	-	325
Other Items	3,375	-	3,375
Total	3,699	-	3,699

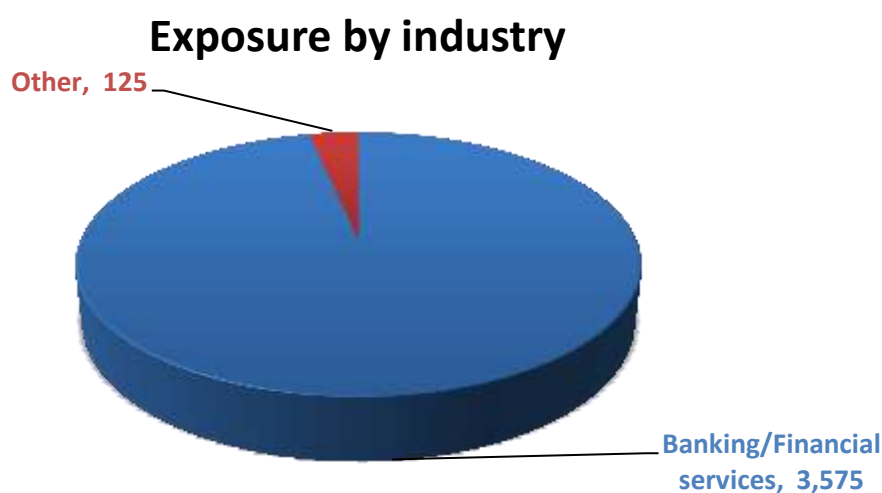
The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

5.1.5. Credit Risk – Distribution of exposures by industry

The Company shall disclose the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate as follows:

Table 11 – Exposures by industry

	Banking/Financial services	Other	Total
	€000	€000	€000
Exposure class			
Institutions	325	-	325
Other Items	3,250	125	3,375
Total	3,575	125	3,699

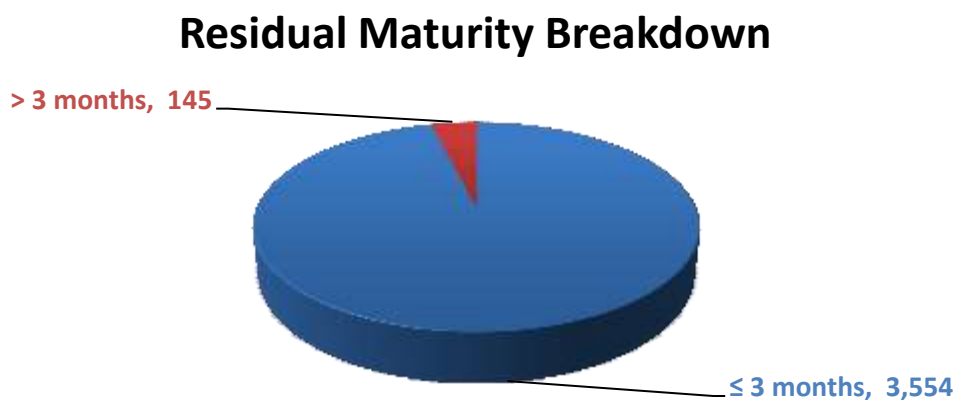


5.1.6 Residual maturity broken down by exposure classes

The Company shall disclose the residual maturity breakdown of all the exposures, broken down by exposure classes, as follows:

Table 12-Residual maturity broken down by exposure class

	Residual Maturity ≤ 3 months	Residual Maturity > 3 months	Total
Exposure	€000	€000	€000
Institutions	304	21	325
Other Items	3,250	125	3,375
Total	3,554	145	3,699



5.2. Use of ECAIs

The Company shall disclose the names of the nominated External Credit Assessment Institution (ECAIs) and the exposure values along with the association of the external rating with the credit quality steps. In determining risk weights for use in its regulatory capital calculations, the Company uses Moody's as ECAI and the exposure values with their associated credit quality steps are as follows:

Table 13 -ECAI Association with each credit quality step

Credit Quality Step	Moody's Rating	Corporate	Institutions			Sovereign
			Sovereign method	Credit Assessment method		
				Maturity > 3 months	Maturity 3 months or less	
1	Aaa to Aa3	20%	20%	20%	20%	0%
2	A1 to A3	50%	50%	50%	20%	20%
3	Baa1 to Baa3	100%	100%	50%	20%	50%
4	Ba1 to Ba3	100%	100%	100%	50%	100%
5	B1 to B3	150%	100%	100%	50%	100%
6	Caa1 and below	150%	150%	150%	150%	150%

Exposures to unrated institutions are assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated, as specified in Article 121 of CRR. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favourable risk weight of 20% if specific conditions are met.

The Other Items category includes tangible assets and prepayments for which the Company cannot determine the counterparty risk weighted at 100%, cash in hand risk weighted at 0% and cash items in the process of collection risk weighted at 20%.

Exposure values pre- and post-credit risk mitigation, by credit quality step.

Table 14-Exposures before and after credit risk mitigation as at 31 December 2016

Credit Quality Step	Exposure values before credit risk mitigation €000	Exposure values after credit risk mitigation €000
Unrated	3,699	3,699
Total	3,699	3,699

5.3. 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 foreign exchange risk positions in the balance sheet.

As a “Limited Licence” CIF, the Company does not deal for its own account. Market risk is therefore limited to movements in foreign exchange rates.

The following table discloses the Company’s market risk as at 31 December 2016:

Table 15-Market Risk Exposure

Market Risk	2016
Risk Weighted Assets	€000
Traded Debt Instruments	-
Equity	-
Foreign Exchange	50
Commodities	-
Total Market Risk Exposure	50
Total Market Risk Requirements	4

5.3.1. Foreign Exchange Risk

The Company’s reporting currency is Euro. Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

If the sum of the Company’s overall net foreign-exchange position and its net gold position exceeds 2% of its total own funds, the Company calculates own funds requirements for foreign exchange risk. The own funds requirement for foreign exchange risk is the sum of its overall net foreign-exchange positions and its net gold position in the reporting currency, multiplied by 8%.

The Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The table below shows the Company’s exposure to Foreign Exchange Risk (Market Risk):

Table 16 – Foreign Exchange Risk capital requirements

	Total Exposure €000	Capital requirements €000
Positions in non-reporting currencies and gold	50	4

5.3.2. 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.

5.4. Fixed Overheads

Following the CRDIV implementation, Operational Risk is replaced by Fixed Overheads requirements for “Limited Licence” CIFs pursuant to Article 97 of the CRR. 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, CIFs 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 CIF 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 €421k which is greater than €376k, the fixed overheads requirement.

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 (or projected expenses as applicable) (x 12.5 x 25%).

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

Table 17 – Fixed Overheads Risk Exposure amount analysis

Fixed Overheads	Fixed Overheads Requirements	Fixed Overheads Risk Exposure Amount	Additional Exposure Amount	Total Risk Exposure Amount
€000	€000	€000	€000	€000
1,504	376	4,699	3,727	4,699

The Company has completed one year of trading at the time of the most recent audited financial statements and as such the fixed overheads calculation was based on the audited figures.

In this respect, the Fixed Overheads risk exposure amount is €4,699k which is more than the sum of the Credit Risk and Market Risk Exposure which is €972k.

6. Other Risks

6.1. Concentration Risk

For the purposes of calculating large exposures, exposures means any asset or off-balance sheet item without application of the risk weights or degrees of risk there provided for.

The Company is not subject to the Large Exposures regime, in accordance with Article 388 of the CRR due to the fact that it is a “Limited Licence” CIF (under Articles 95(1) of the CRR). Nevertheless, according to Directive DI144-2014-14 for the Prudential Supervision of Investment Firms, Paragraph 61, Limitations on exposures to directors and shareholders, a CIF is not allowed to have exposures to a director more than 1% and to a shareholder that is not an institution, more than 2% of its eligible capital. Exposures to shareholders and directors are monitored and kept within the limits.

6.2. 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 customers, 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 customers.

6.3. Strategic Risk

Strategic Risk 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.

6.4. Business Risk

Business Risk 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.

6.5. Capital Risk Management

Capital Risk 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 total 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.

6.6. Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialised, 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.

6.7. Legal and Compliance Risk

Legal and Compliance Risk 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.

6.8. 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. Materialisation of this risk has been minimised to the lowest possible level.

6.9. 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.

6.10. 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.

7. Remuneration policy

The Company has established a remuneration policy, which its purpose is to set out the remuneration practices of the Company taking into consideration the salaries and benefits of the staff, in accordance with the provisions of Directive as well as the Circular 031 (Circular 031 has been issued in place of Guidelines GD-IF-07 for the correct filing purposes) on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Company's size, internal organization and the nature, scope and complexity of its activities.

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. The Board discusses remuneration policy matters at least annually.

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.

7.1. 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 and members of the Board; 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 level while the remuneration policy is periodically reviewed.

The total remuneration of staff currently consists of a fixed and a variable component. All employees of the Company, under certain conditions, are eligible for annual bonus remuneration. 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 a staff member to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

During the year under review, no remuneration is payable under deferral arrangements (with vested or unvested portions). Finally the Company did not pay any non-cash remuneration for the year under review.

7.2. 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.

7.3. Remuneration of Senior Management Personnel and Directors

The remuneration of the senior management personnel of the Company, including Board are shown in the following tables:

Table 18 – Remuneration analysis split by Senior Management and key management personnel

2016	Senior Management (Executive Directors)	Key Management personnel	Non-Executive Directors
Fixed reward	€31,045	€69,858	€12,000
Variable reward	€1,868	€108,310	-
Total	€32,913	€178,168	€12,000
Number of beneficiaries	2	3	2

Companies are required to disclose the number of natural persons that are remunerated €1mln or more per financial year, in pay brackets of €1mln, 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 €1mln or more per financial year and as such the above disclosure is not applicable to the Company.

Furthermore, aggregate remuneration analyzed by business area is presented below:

Table 19 – Aggregate remuneration analysis by business area

	Aggregate Remuneration
	€
Control Functions	32,913
Brokerage Department	123,890
Administration / Back Office Department	5,429
Sales Department	48,849
Total	211,081

*Control functions include the Executive Directors, Compliance Department, the AML Department and the Risk Manager.

Appendix I – Information flow on risk to management body

	Report Name	Owner of Report	Recipient	Frequency
1	Risk Management Report	Risk Manager	CySEC, Board	Annual
2	Internal Capital Adequacy Assessment Process	Risk Manager	CySEC (upon request), Board	Annual or more frequent upon management request
3	Compliance Report	Compliance Officer	CySEC, Board	Annual
4	Internal Audit Report	Internal Auditor	CySEC, Board	Annual or more frequent upon management request
5	Anti-money laundering report	Anti-money laundering Compliance Officer	CySEC, Board	Annual

Appendix II - Glossary of Terms

Term	Definition
A	
Asset encumbrance	A claim against a property by another party. Encumbrance usually impacts the transferability of the property and can restrict its free use until the encumbrance is removed.
B	
Basel III	The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010 and due to be phased in, through CRD IV from 2014 onwards.
C	
Capital conservation buffer	A capital buffer designed to ensure that banks are able to build up capital buffers outside of periods of stress which can then be drawn upon as losses are incurred.
Capital requirements directive (CRD)	A legislative package relating to capital adequacy, issued by the European Commission and adopted by EU member states. CRD I, II and III were issued in 2006, 2010 and 2011 respectively. CRD IV was came into force on 1 January 2014 and implements the Basel III proposals together with transitional arrangements for some of its requirements.
Capital resources	Eligible capital held in order to satisfy capital requirements.
Central Bank of Cyprus (CBC)	The designated Authority responsible for setting the macroprudential buffers that derive from the CRD IV
Common equity tier 1 capital (CET1)	The highest form of regulatory capital under CRD IV, comprising common shares issued, related share premium, retained earnings and other reserves less regulatory adjustments.
Countercyclical capital buffer (CCB)	A capital buffer which aims to ensure that capital requirements take account of the macro-economic financial environment in which banks operate. This aims to provide the banking sector as a whole with additional capital to protect it from potential future losses. In times of adverse financial or economic circumstances, when losses tend to deplete capital and banks are likely to restrict the supply of credit, the CCB should be released to help avoid a credit crunch.
Counterparty credit risk	The risk that a counterparty to a transaction could default before the final settlement of the transaction's cash flows.
CRD IV	Legislation published in June 2013 (in force from 1 January 2014) by the European Commission, comprising the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) and together forming the CRD IV package. Implements the Basel III proposals in addition to new proposals on sanctions for non-compliance with regulatory rules, corporate governance and remuneration.
Credit quality step	A step in the credit quality assessment scale which is based on the credit ratings applied by ECAI's. The scale is used to assign risk weights to exposures under the Standardised Approach.
Credit risk	The potential that a borrower or counterparty fails to repay the interest or capital on a loan or other financial instrument.
Credit risk mitigation	Techniques used to reduce the credit risk associated with an exposure.
Credit Valuation Adjustments	Adjustments to the fair value of derivative assets to reflect

	the credit worthiness of the counterparty.
Cyprus Securities and Exchange Commission (CySEC)	The financial regulatory agency of Cyprus.
D	
Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.
E	
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
External Credit Assessment Institutions (ECAI)	These include external credit rating agencies such as Standard & Poors, Moody's and Fitch.
F	
Fair Value	The price that would be received to sell an asset or paid to transfer a liability between market participants.
Fixed Overheads	Fixed overheads of the preceding year, using figures resulting from the applicable accounting framework, by subtracting specific variable items from the total expenses after distribution of profits in their most recent audited annual financial statements
I	
Impaired Exposures	Exposures where it is not expected that all contractual cash flows will be collected or will be collected when they are due.
Impairment charge and impairment provisions	Provisions held on the balance sheet as a result of the raising of an impairment charge against profit for the incurred loss inherent in the lending book. Impairment provisions may be individual or collective.
Impairment losses	The reduction in value that arises following an impairment review of an asset which has determined that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.
Interest Rate Risk	The risk arising predominantly from the mismatch between interest rate sensitive assets and liabilities, but also to the investment term of capital and reserves, and the need to minimise income volatility.
Internal Capital Adequacy Assessment Process (ICAAP)	The institutions's own assessment, based on Basel II requirements, of the level of capital needed in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.
L	
Leverage ratio	Tier 1 capital divided by the exposure measure.
Liquidity risk	Liquidity risk is the risk that the institution has insufficient cash resources to meet its obligations as they fall due or can only do so only at excessive cost.
M	
Mark-to-Market (MTM) approach	One of three methods available to calculate exposure values for counterparty credit risk. The method adjusts daily to account for profits and losses in the value of related assets and liabilities.
Market risk	The risk that the value of the institution's assets, liabilities, income or costs might vary due to changes in the value of financial market process. This includes interest rates, foreign exchange rates, credit spreads and equities
Minimum capital requirement	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk.

O	
Operational risk	The risk of loss, resulting from ineffective or inadequately designed internal processes, system failure, improper conduct, human error or from external events.
P	
Past due loans	Loans are past due when a counterparty has failed to make a payment in line with their contractual obligations.
Pillar 1	The first pillar of the Basel III framework sets out the minimum regulatory capital requirements for credit risk, market risk and fixed overhead requirements.
Pillar 2	The second Pillar of the Basel III framework, known as the Supervisory Review Process, sets out the review process for a bank's capital adequacy; the process under which supervisors evaluate how well banks are assessing their risks and the actions taken as a result of these assessments.
Pillar 3	The third pillar of the Basel III framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.
R	
Residual maturity	The length of time remaining from present date until the maturity of the exposure.
Risk Appetite	The level and types of risk that a firm is willing to assume to achieve its strategic objectives.
Risk Weighted Assets (RWA)	Calculated by assigning a degree of risk expressed as a percentage (risk weight) to an exposure value in accordance with the applicable Standardised and IRB approach rules.
S	
Securitisation	A transaction or scheme whereby the credit risk associated with an exposure, or pool of exposures, is grouped and where payments to investors is dependent upon the performance of the underlying exposure or pool of exposures.
Stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held.
Standardised approach	In relation to credit risk, the method for calculating credit risk capital requirements using risk weights prescribed by the regulator. Standardised approaches, following prescribed methodologies also exist for calculating market and credit risk capital requirements.
T	
Tier 1 capital	A component of regulatory capital, comprising CET1 capital and other tier 1 capital. Other tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and other tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related on-controlling interests.