Safecap Investments Limited

Pillar III – Disclosures 2016

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1. Introduction, Scope and Purpose of this Document

Safecap Investments Limited ("Safecap" or the "Company") was incorporated in Cyprus on 15 May 2014 as a private limited liability Company under the provisions of the Cyprus Companies Law, Cap. 113.

The Company is a wholly owned subsidiary of Markets Limited. Markets Limited is a subsidiary of Playtech Plc which is listed on the London Stock Exchange's Main Market and a constituent of the FTSE 250.

The Company is authorized and regulated by the Cyprus Securities and Exchange Commission ("CySEC" or the "Commission") under license number 092/08 for the conduct of designated investment business in the Republic of Cyprus and other jurisdictions and by the Financial Services Board ("FSB") in South Africa as a Financial Services Provider under license number 43906.

The Company's operating license from CySEC permits the Company to undertake regulated investment services including the services of reception and transmission of orders in relation to one or more financial instruments, the dealing on own account and the execution of orders on behalf of clients.

The Company is also authorized to provide the ancillary services of safekeeping and administration of financial instruments, credit granting and foreign exchange services in relation to the investment services provided as well as investment research.

The principal activities of the Company during the year ended 31 December 2016 were:

a) **The Business to Consumer ("B2C") business segment.** The Company operates the Markets.com online trading platform for retail customers to trade Contracts for Difference ("CFDs") on more than 2,000 different underlying global financial instruments comprising Foreign Exchange, Commodities, Indices, Exchange Traded Funds, Equities and Bonds. The trading platform is accessible from multiple web and mobile operating systems. The Company terminated its activities in binary options undertaken through the trading platform www.topoption.com in February 2016 and the relevant business was acquired by a third party.

b) **The Business to Business ("B2B") business segment.** The Company acts as liquidity provider and / or trading counterparty to a number of eligible counterparties and professional clients. These are regulated brokers that serve their own end clients in trading in CFDs.

1.1 Regulatory context

The Pillar III Disclosures Report (the "Report") has been prepared in accordance with the European Union Capital Requirements Regulation ("CRR"), as well as the Commission's Directive DI144-2014-14 for the prudential supervision of Investment Firms (collectively referred to as "CRDIV").

The CRD IV package is the implementation of "Basel III" in Europe. Basel III is a comprehensive set of reform measures in the prudential regulation of financial services developed by the Basel Committee on Banking Supervision. It aims to strengthen the regulation, supervision and risk management of the banking and investment services sectors.

Pillar III deals with market discipline by developing a set of disclosure requirements, which allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes and hence the capital adequacy of institutions.

1.1 Regulatory context (continued)

The disclosures included in this Report are made on a solo basis and are published annually. This Report should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2016.

The date of this document is 31 May 2017. Where in this Report there are references to "reference date" this is 31 December 2016.

Unless stated otherwise, all amounts are in thousands of United States Dollars ("US$" or "USD").

1.2 Pillar III Disclosure Policy

The following provides a summary of certain important items of the Company's Pillar III Disclosure Policy:

Information to be disclosed & frequency

The Company's policy is to meet all required Pillar III disclosure requirements as detailed in Part Eight of the CRR, to a degree that is appropriate to the nature, size, scope and complexity of its operations and its internal organisation. The Company's policy is to publish the disclosures required on an annual basis as per the Company's obligations under the relevant laws and regulations.

Medium and Location of Publication

The Company's Pillar III disclosures are published on the Markets.com website. Please refer to the following link: www.Market.com.

Verification

The Company has commissioned its External Auditors KPMG to verify its Pillar III Disclosures. The Company is required by Directive 144-2014-14 to provide a copy of the External Auditor's verification report to CySEC within five months of each financial year-end.

2. Governance and Risk Management Objectives and Policies

2.1 The Board of Directors

The Company's Board of Directors (the "Board") is required to assess and review the effectiveness of the policies, arrangements and procedures put in place for the Company to comply with its obligations under the Investment Services and Activities and Regulated Markets Law (the "Law") as well as the relevant CySEC Directives and the CRR, and to take appropriate measures to address any deficiencies. In particular, when managing and/or assessing risks, the responsibilities of the Board of Directors and Senior Management may be summarized as follows:

- Approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks that Safecap is or might be exposed to, including those posed by the macroeconomic environment in which it operates.
- Ensure that all the Risk Management regulatory requirements are applied and that appropriate systems and controls are introduced.
- Be actively involved in and ensure that adequate resources are allocated to the management of all material risks, as well as in the valuation of assets, the use of external credit ratings and internal models relating to those risks.
- Review and approve the Annual Risk Management Report and take all action as deemed appropriate under the circumstances to remedy any weaknesses and/or deficiencies identified therein.

2.1 The Board of Directors (continued)

At 31 December 2016, the Board of Directors of the Company comprised of two executive members and five non-executive members, of which three were also independent. By 14 March 2017 the Company proceeded to the further enhancement of its Board, with the appointment of an additional non-executive director.

2.2 Recruitment Policy for the Selection of Members of the Management Body

Recruitment of the Board members combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework in compliance with Article 12(1) of the Law which requires that members of the Board shall at all times be of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board is required to reflect an adequately broad range of experiences.

Nominees are subject to the approval of the Board of Directors, whilst adherence to the requirements of Article 12(5) of the Law pertaining to the number of directorships which may be held at the same time by each director of a significant CIF is also a prerequisite. Regulatory approval from CySEC is coordinated through the Compliance Officer. Review is performed to establish the specific experience and skills needed to ensure the optimum blend of individual and aggregate capability having regard to the Company's long term strategic plan.

2.3 Diversity Policy for the Selection of Members of the Management Body

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 within the organization.

2.4 Number of Directorships held by Board Members

The table below provides the number of directorships a member of the management body of the Company holds at the same time in other entities. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below. Executive or non-executive directorships held within the same group, are considered as a single directorship.

Table 1: Number of directorships held by the Company's Board members

Name	Position	Number of Executive Directorships, including position in Safecap	Number of Non-Executive Directorships, including position in Safecap
Paul Hearn	Independent Non - Executive Director	-	1
Damien Francis	Independent Non - Executive Director	-	1
Athos Demetriou	Independent Non - Executive Director	1	5
Ron Hoffman	Non - Executive Director	1	1
Neil Offord	Non - Executive Director	-	1
Marios Hadjiyiannakis	Executive Director	1	1
Sharon Hadad	Executive Director	1	-

Note: The information in this table is based only on representations made by the Company

2.5 Risk Management Policy

Risk is inherent to the Company's business and activities. The Company's ability to identify, monitor and manage each type of risk to which it is exposed is an important factor in its financial stability and performance and to the achievement of its strategic objectives.

The Risk Management Policy is included in the Company's Internal Procedures Manual (hereafter "IPM"). The IPM aims to set out those policies and procedures and to ensure compliance with legislative requirements and with departmental and general procedures.

The Risk Management Policy forms part of the Company's internal control and corporate governance arrangements. It explains the Company's underlying procedures with respect to risk management and documents the roles and responsibilities of the Risk & Compliance Committee, the Risk Manager and other key parties. It also outlines key aspects of the risk management process and identifies the main reporting procedures. In addition, it describes the process followed by the Risk Management Committee in order to evaluate the effectiveness of the Company's internal control procedures.

Processes and mechanisms are in place to manage the risks, with special consideration to risks arising from the operations of the Dealing Room and the Own Account Trading departments in the process of receipt and transmission of client orders, execution of clients' orders and trading on the Company's behalf.

2.6 Risk & Compliance Committee

The Board has established a Risk & Compliance committee to oversee on behalf of the Board all matters relating to risk management and regulatory compliance. The Risk & Compliance Committee's arrangements put in place are proportionate to the size, complexity and risk profile of the Company. The Committee acts independently from the management of the Company

As at 31 December 2016 the Risk & Compliance Committee comprised of four non-executive directors, of which three, including the Chairman, were also independent. All members of the Committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy, risk appetite, risk management policies and risk management practices of the Company.

The main objectives of the Risk & Compliance Committee are as follows:

- To ensure that the Company has implemented a risk management framework based on the three pillars of (i) risk strategy and appetite (ii) risk governance and organization and (iii) risk management process.
- To review and assess the integrity and adequacy of the Company's Risk Management framework, including processes, policies, organizational structure and arrangements on an ongoing basis.
- To promote a consistent risk management oversight at the Company level.
- To provide an overview of the Company's risk and compliance management arrangements. The Committee is required to make suitable arrangements in order to identify any risk management and compliance deficiencies and approves policies that need to be implemented by the respective relevant departments within the Company.
- To oversee the implementation of risk limits across the different kinds of risks (including credit, market and liquidity risk) and consider/approve any limit excesses based on this risk limit structure and authorities to be in place at the Company.
- To review whether the prices of liabilities and assets offered to clients take fully into account the Company's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business

2.6 Risk & Compliance Committee (continued)

- model and risk strategy, the Risk & Compliance Committee shall present a remedy plan to the Board of Directors.
- To work with the Remuneration Committee to establish a remuneration culture, policy and framework that balance commercial objectives with risk and compliance factors and requirements and support capital and liquidity preservation.
- To review the annual and other reports prepared by the Risk and Compliance functions and make recommendations for remedial and other actions.
- To monitor the process for establishing the Internal Capital Adequacy Assessment Process ("ICAAP") methodology according to Pillar II and review the ICAAP Report.
- To review the Company's Pillar III disclosures.

2.7 Risk Management Function

The Company operates a dedicated Risk Management function under which the Risk Manager is responsible for implementing the Risk Management Policy, as this is set by the Board of Directors and the Risk & Compliance Committee, and ensuring that this is properly followed under the supervision and control of the said Committee.

The Risk Management function is tasked with the following duties and responsibilities:

- Implementing policies on risk management and internal control.
- Identifying and evaluating the fundamental risks faced by the Company for consideration by the Risk & Compliance Committee.
- Providing adequate information in a timely manner to the Risk & Compliance Committee on the status of risks and controls.
- Providing reports to the Risk & Compliance Committee and the CEO, with details of the Company's total exposure across all instruments. These reports include information about clients' positions and the positions opened by the Company as part of its hedging activity.
- Undertaking reviews on the effectiveness of the system of internal control and providing a report to the Risk & Compliance Committee.

2.8 Compliance and Money Laundering Compliance Officers

The Company's Compliance function covers (a) Financial Crime / AML (b) Monitoring and Surveillance (c) Governance, Code of Conduct and Regulatory Compliance (d) Regulatory Counselling. The Compliance function designs a risk-based annual compliance plan having regard to the areas of material business activity or material business and regulatory risk, with the overall aim of ensuring consistent regulatory compliance at all times. The Compliance function and the MLRO have direct reporting line to the Board of Directors.

2.9 Internal Audit

The Internal Audit Function's role is the provision of ongoing review and evaluation of the operations and activities of the Company in all respects, as well as the provision of recommendations and advice to ensure that the Company operates at the highest standards and in accordance with best practices while remaining in line with the applicable legal and regulatory framework. The Internal Auditor is an independent and autonomous function with direct reporting line to the Board of Directors.

2.9 Internal Audit (continued)

The key responsibilities of the Internal Audit function include:

- Providing an objective and independent appraisal of all the Company's activities (financial, operational and others).
- Giving assurance to the Board on all control arrangements, including management and corporate governance.
- Assisting the Board by evaluating and reporting the effectiveness of the controls for which the Board is responsible and issuing recommendations and suggestions.
- Keeping records and books with regards to the internal audit work performed.
- Establishing, implementing and maintaining an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements.
- Submitting the Annual Internal Auditor's report to the Board of Directors over the activities performed by the Internal Auditors.

2.10 Risk Management Strategies and Capital Management

The Company deploys several risk management strategies in order to control its risks, which include maximum overall exposure levels and value at risk indicators. A designated team of professionals monitors the clients' positions and the Company's exposures on an ongoing basis. Also, the Company prepares various reports that enable the analysis of risks and support for each action.

The primary objective of the Company with respect to its capital management is to ensure that it complies with the minimum capital adequacy requirements set by CySEC.

In line with the above, CySEC requires every Cyprus Investment Firm to maintain a minimum capital adequacy ratio of 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Effective 1 January 2016, a capital conservation buffer of 0.625% has also been introduced by the Commission and the local Macro prudential Authority (i.e. the Central Bank of Cyprus) to a certain category of financial institutions, in addition to a countercyclical capital buffer which is specific for each institution and is determined based on the countercyclical capital buffer rates that apply in the countries of the institution's counterparties. The Company was subject to an institution-specific countercyclical capital buffer of 0.05%.

During 2016, the Company maintained its capital adequacy ratio as well as its own funds above the minimum required limits and hence remained in compliance with the applicable regulatory framework. Effective 1 January 2017, the Company is required to hold a minimum capital adequacy ratio of 9.35% (including the institution-specific countercyclical buffer which as at 31/3/2017 was 0.1%).

2.11 Internal Capital Adequacy Assessment Process Report

The objective of the ICAAP Report is to document the assessment and quantification of Safecap's required capital, how Safecap mitigates and controls risks and how much current and future capital is required.

The ICAAP Report is intended to capture the Company's capital management process and methodologies as stipulated in accordance with the Commission's Guidelines for the Internal Capital Adequacy Assessment Process. These Guidelines address the distinctive components and framework for the implementation of the ICAAP, which is a key component of risk management, providing the guidelines on how the provisions in terms of the ICAAP should be interpreted and applied in practice. The Guidelines further prescribe how a Cyprus Investment Firm should develop an integrated and firm-wide risk culture, based on a full understanding of the risks it faces and how they are managed, taking into account its risk tolerance/appetite.

2.11 Internal Capital Adequacy Assessment Process Report (continued)

The ICAAP Report is the document submitted to the Commission, explaining how Safecap has implemented and embedded the ICAAP process within its business, describing its risk profile and the extent of risk appetite that Safecap is prepared to accept, as well as the capital that it considers as adequate to be held against all the risks that it is exposed to.

The submission of the ICAAP Report to CySEC serves as the basis for reviewing the ICAAP under the Supervisory Review and Evaluation Process ("SREP"). The Commission, under the SREP, shall review the arrangements, strategies, processes and mechanisms implemented by the Company to comply with the Directives and the CRR/CRD IV.

Given an evolving regulatory regime for the CFD sector the Company is in the process of updating its ICAAP report for the financial year 2016.

2.12 Information Flow on Risk Management to the Board of Directors

The information flow on risk management matters to the Board is achieved through the following means:

- Through the Annual Report of the Risk Manager or other reports and/or communication of risks to the Management and the Board by the Risk Manager in case of emergency and/or once a material risk emerges.
- Through decisions of the Risk & Compliance Committee which are communicated to the Board.
- Through presentation of the Annual Financial Statements by the external auditors and the CFO.
- Through the Annual Compliance, Anti Money Laundering and Internal Audit reports and other reports and/or communication performed throughout the year once risks and/or deficiencies are identified.
- Through updates to the Management and the Board by the Heads of the Departments.
- Through the Suitability Report by the external auditors.

2.13 Declaration of 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 controls are designed to manage rather than eliminate the risks of not achieving business objectives and, to the extent possible, prevent fraud, material misstatements and loss.

The Board, taking into consideration the Company's profile and strategy, considers that it has in place adequate controls, and an appropriate selection of mechanisms, skilled to avoid or minimize loss.

2.14 Board Risk Statement

The risk strategy of the Company is to ensure substantial growth in combination with a moderate risk profile through the establishment of an effective risk management framework. The Board assesses the risk that the Company is willing to take through a number of key measures which define the level of acceptable risk across three main categories, taking into consideration the Company's size, services offered and complexity of operations:

1. Financial: Credit, market, interest rate risk and funding liquidity risks
2. Reputational: Money laundering and terrorist financing risk, compliance risk, regulatory risk and reputational risk
3. Operational: The risk associated with the failure of key processes or systems and the risk of not having the right quality and quantity of people to operate those processes and systems, including information and technology risk.

3. Own funds

The own funds of the Company as at 31 December 2016 comprised solely of Common Equity Tier 1 Capital ("CET1"). The composition of the Company's capital base is shown in the table below.

Table 2: Composition of the capital base

Capital Base	2016 ($'000)
Eligible Own Funds	
Share capital	2.093
Share premium	17.174
Retained Earnings	12.680
Income from current year	3.261
Own Funds Deductions	
Intangible Assets	(51)
Additional deductions of CET1 Capital due to Article 3 CRR (Contribution to the Investor Compensation Fund)	(161)
Original Own Funds (Common Equity Tier 1 Capital)	**34.996**
Capital Requirements	
Credit risk	2.121
Credit Valuation Adjustment ("CVA") Risk	193
Market Risk	10.536
Operational Risk	2.106
Additional capital requirements for the large exposure excess in the Trading Book	-
Total Capital Requirements	**14.956**
Capital Adequacy Ratio	**18.72%**

Investments in Subsidiaries

Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognized as an expense in the period in which the impairment is identified. As at December 2016, the Company had four inactive subsidiaries of a non-significant investment. Investments in subsidiaries are not deducted from CET1 since the total exposure is less than 10% of the Company's CET1 capital.

Capital Adequacy

As at 31 December 2016, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus a capital conservation buffer of 0.625% as per the transitional application provisions for buffers. In addition, the Company was subject to an institution-specific countercyclical capital buffer of 0.05%, resulting to an overall minimum requirement of 8.67%.

As indicated by the table in Appendix 1, the Company's capital adequacy ratio as reported to CySEC for the year ended 31 December 2016 was 18.72%, which is well above the minimum requirement of 8.67%.

3. Own Funds (continued)

Large Exposures

The Company did not have any large exposures to shareholders and connected parties as at the reference date.

Countercyclical Capital Buffer

As set out in CRDIV, an institution-specific countercyclical buffer is calculated as the product of the institution's total risk exposure amount, and the institution-specific countercyclical capital buffer rate, which consists of the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the institution are located.

Table 4: Geographical breakdown of credit exposures used for the calculation of the Countercyclical Capital Buffer

Countries	General Credit Exposures		Trading Book Exposures		Own Funds Requirements			Own Funds Requirements Weights	Counter-cyclical Buffer Rate
	SA	IRB	SA	IRB	General Credit Risk Exposures	Trading Book	Total		
	($'000)							%	%
Norway	537	-	13	-	34	1	35	1%	1,500%
Sweden	977	-	290	-	60	24	84	2%	1,500%
Hong Kong	-	-	19	-	-	1	1	0%	0,625%
United States	12	-	13.502	-	1	1.080	1.081	28%	0,000%
Great Britain	4.608	-	5.496	-	136	440	576	15%	0,000%
Switzerland	503	-	36	-	22	3	25	1%	0,000%
Cyprus	387	-	-	-	30	-	30	1%	0,000%
Other	17.123	-	13.445	-	997	1.075	2.072	53%	0,000%
Total	**24.147**	**-**	**32.801**	**-**	**1.280**	**2.624**	**3.904**	**100%**	

Table 5: Amount of institution-specific Countercyclical Capital Buffer for 31 December 2016

Amount of institution-specific countercyclical capital buffer	Amount ($'000)
Total Risk Exposure Amount	186.953
Institution specific countercyclical buffer rate	0,05%
Institution-specific countercyclical capital buffer requirement	**85**

Appendix 2 presents the reconciliation of the Company's Balance Sheet with regulatory own funds as at 31/12/2016 based on the audited financial statements.

4. Minimum Required Capital

The Company follows the Standardized Approach for the measurement of its Pillar I capital requirements for Credit and Market Risk, and the Basic Indicator Approach for Operational Risk. The Capital Requirement and Risk Weighted Assets ("RWAs") calculated for each category of risk as at 31 December 2016 is shown in the table below.

Table 6: Capital requirement and RWAs by risk category

Risk Type	Capital Requirement ($'000)	RWAs ($'000)
Credit Risk	2.121	26.515
Market Risk	10.536	131.705
of which Equity Risk	*4.472*	*55.898*
of which Commodity Risk	*3.134*	*39.181*
of which Interest Rate Risk	-	-
of which FX Risk	*2.930*	*36.626*
Large exposures in the Trading Book	-	-
Operational Risk	2.106	26.325
Credit Valuation Adjustment Risk	193	2.408
Total Capital Requirement	14.956	186.953

4.1 Credit Risk Management

Credit risk relates to the risk of a Company's counterparty defaulting and the Company not being able to recover assets / amounts due to it. The Company's key counterparties are its retail clients, institutional clients and hedging counterparties as well as other financial institutions with which the Company holds its assets and proprietary funds, such as Banks. The Company offers a real-time mark-to-market leveraged trading facility where clients are required to deposit collateral (margin) against positions. Any profits and losses generated by the client are credited and debited automatically to their account.

Liquidation Process - This is the process of closing a client's open position if the total equity is not sufficient to cover a predefined percentage of required margin for the portfolio held. The Company's Leverage Policy clarifies the Company's approach to liquidation management, detailing the fully automated liquidation process. This Policy and the practice applied ensure a consistent and timely approach to the processing of liquidation orders and ultimately aim to minimize client credit risk exposure. Pre-emptive processes are also in place where clients' free equity (defined as the total of clients' equity less total margin requirements) becomes negative. At this point, the clients are requested to deposit additional funds and are restricted from increasing their positions.

Position Limits - Position limits can be implemented both at an instrument and at a client level. The instrument level enables the Company to control the total exposure the Company takes on in a single instrument. At a client level this ensures that the client can only reach a pre-defined size of overall portfolio.

The above processes are applied to both retail and institutional clients.

4.1 Credit Risk Management (continued)

For calculating its credit risk capital requirement, the Company uses the standardized approach. The following table represents the Company's risk weighted assets ("RWAs") and minimum capital requirement as at 31 December 2016, broken down by asset class.

Table 7: RWA and capital requirement by asset class

Asset Classes	Risk-weighted amounts ($'000)	Minimum capital requirement ($'000)
Institutions	10.516	841
Corporates	9.916	793
Retail	5.713	457
Other Items	370	30
Total	**26.515**	**2.121**

The following table provides information on the average exposures of the Company as at 31/12/2016 broken down by asset class, as well as on the total amount of exposures after accounting offsets, if any.

Table 8: Average exposures and total amount of exposures after accounting offsets

Asset Classes	Original exposure amount, net of specific provisions ($'000)	Average exposure ($'000)
Institutions	53.438	57.513
Corporates	13.147	16.918
Retail	10.465	12.376
Other Items	535	611
Total	**77.585**	**87.418**

The following table provides information on the residual maturity of the Company's credit risk exposures.

Table 9: Residual Maturity of credit risk exposures, broken down by asset class

Asset Classes	Up to 3 months ($'000)	More than 3 months ($'000)	Total ($'000)
Institutions	53.313	125	53.438
Corporates	12.984	163	13.147
Retail	10.465	-	10.465
Other Items	206	329	535
Total	**76.968**	**617**	**77.585**

The table below illustrates the geographic distribution of the Company's credit risk exposures.

4.1 Credit Risk Management (continued)

Table 10: Geographic Distribution of exposures

Exposures per Asset Class per Country of incorporation of Counterparty ($'000)	Cyprus	Germany	Greece	Italy	Saudi Arabia	Seychelles	South Africa	Switzerland	UAE	UK	Other	Total
Institutions	15.319	864	3.969	-	-	-	4	21.646	-	-	11.636	53.438
Corporates	18	363	-	904	1.246	1.986	326	211	894	2.549	4.650	13.147
Retail	38	541	3	1.535	343	-	748	88	648	2.052	4.469	10.465
Other Items	330	-	-	-	-	-	-	203	-	-	2	535
Total	**15.705**	**1.768**	**3.972**	**2.439**	**1.589**	**1.986**	**1.078**	**22.148**	**1.542**	**4.601**	**20.757**	**77.585**

The following table presents the distribution of the Company's exposures by industry segment.

Table 11: Distribution of exposures by industry

Asset Classes	Financial services ($'000)	Other ($'000)	Total ($'000)
Institutions	53.438	-	53.438
Corporates	12.845	302	13.147
Retail	10.465	-	10.465
Other Items	-	535	535
Total	**76.748**	**837**	**77.585**

Use of External Credit Assessments for the Determination of Risk Weights

For the purposes of applying the Standardised Approach, the nominated External Credit Assessment Institutions ("ECAI"), which are recognised by CySEC, are Fitch Ratings, Standard and Poor's Rating Services and Moody's Investor Service. The Company has decided to use the ratings of all three ECAIs. As at 31 December 2016, the Company used credit assessments to determine the risk weight for its exposures to institutions, except in the cases where the preferential treatments applied, as set out by the CRR. Furthermore, all corporate counterparties of the Company were unrated, hence in accordance with Article 122(2) of the CRR, the credit assessment of the corporate's central government was used to derive the relevant exposure's risk weight. The Company has used the credit step mapping table below to map the credit assessment to credit quality steps.

Table 12: Mapping of ECAI credit assessments to Credit Quality Steps

Credit Quality Step ("CQS")	Fitch	Moody's	S&Ps
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

4.1 Credit Risk Management (continued)

Exposure Before and After Credit Risk Mitigation

The exposure before and after Credit Risk Mitigation ("CRM") associated with each credit quality step as at the year-end was as follows:

Table 13: Breakdown of credit risk exposures by CQS

Credit Quality Step	Exposure values before credit risk mitigation ($'000)	Exposure values after credit risk mitigation ($'000)
CQS 1 - 2	49.523	45.157
CQS 3 - 5	23.666	21.392
CQS 6	4.052	3.234
Unrated/N/A	344	291
Total	**77.585**	**70.074**

Table 14: Funded Credit Protection by Asset Class

Asset Classes	Total Funded Credit Protection Amount recognized ($'000)
Institutions	1.396
Corporates	3.267
Retail	2.848
Total	**7.511**

Counterparty Credit Risk

The Company's key counterparties are its retail clients, institutional clients and hedging counterparties. The Company applies the Mark-to-Market Method to calculate its Counterparty Credit Risk exposure with clients and hedging/liquidity providers. As at the year end, the Company used the trading margin of its clients to reduce the Counterparty Credit Risk arising from its open trades.

Table 15: Counterparty Credit risk

Type of Exposure	Positive Fair Value ($'000)	Negative Fair Value ($'000)	Nominal Value ($'000)	Exposure Amount before CRM ($'000)	Exposure Amount After CRM ($'000)	Risk Weighted Assets ($'000)	Capital Requirem. ($'000)
FX CFDs	3.268	874	141.145	4.679	4.064	3.485	279
Gold CFDs	706	392	56.735	1.274	954	636	51
Commodity CFDs	2.279	560	133.723	15.304	14.175	6.946	556
Equity CFDs	2.622	632	187.746	13.886	8.439	6.296	504
Total	**8.875**	**2.458**	**519.349**	**35.143**	**27.632**	**17.363**	**1.390**

4.1 Credit Risk Management (continued)

Wrong-Way Risk Exposures

Wrong way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty, i.e. changes in market rates (interest rates, FX or other rates which are the main underlying factors of the Company's derivatives transactions) have an adverse impact on the probability of default of a counterparty. This risk is not currently measured as it is not anticipated to be significant given the existence of cash collateral/margin for almost all derivative transactions, which significantly reduce Counterparty Credit Risk.

Credit Risk Adjustments

The Company applies the past due and impaired exposures definition as per IFRS and CRR/CRDIV. There were no past due or impaired exposures as at the reference date.

Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As at 31 December 2016 the Company has not recognised any impairment losses on trade receivables.

Credit Valuation Adjustment ("CVA") Risk

CVA risk is the risk of loss caused by changes in the credit spread of counterparty due to changes in its credit quality. CVA is an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty which reflects the current market value of the credit risk of the counterparty to the institution. The Company has adopted the Standardised Approach for the calculation of CVA risk.

As at 31 December 2016 the Company was subject to CVA risk as a result of its open positions in OTC derivatives (CFDs), for which the minimum capital requirement was $1.3mln.

4.2 Market Risk Management

Market risk is defined as the risk that the Company's income or the value of its holdings of financial instruments will change due to a change in market risk factors. The four standard market risk factors are market prices, non-trading book interest rates, non-trading book foreign exchange rates, and commodity prices.

Exposure to market risk at any point in time depends primarily on short term market conditions and the levels of retail and institutional client activity. The Company implements market position limits for operational efficiency and does not take proprietary positions based on an expectation of market movements. As a result, not all net client exposures are hedged and the Company may have a substantial net position in any of the financial markets in which it offers products. The Company aims to set market position limits and actions that reflect its risk appetite, for each financial instrument or markets in which the Company's retail and institutional clients can trade.

The Company has implemented a real-time market position monitoring system. This enables the Company to continually monitor its market exposure against these limits so that relevant action is initiated. This can include the initiation of appropriate hedging strategies or limit locks, without any more exposure being accepted.

4.3 Operational Risk Management

The Company is primarily exposed to operational risks regarding potential system / trading platform failures or delays, inadequate or failed internal processes, people, systems or external events as well as other risks such as fraud, legal, physical and environmental risks. The Company is partially dependent on third parties, including its own Group, for the key technological systems, infrastructure suppliers, data providers and data sources.

The Company's operations are highly dependent on technology and advanced information systems. The Company's ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of its business. This dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that where possible multiple providers and data routes are utilized. To remain competitive, the Company continues to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

The Company has business continuity procedures and policies in place which are designed to allow the Company to continue trading in its core markets. The Company's systems are designed to mitigate the risk of failure of any component, enabling the Company to continue to function in the event of an incident, adverse event or business disruption.

4.4 Liquidity Risk Management

Liquidity risk is the risk that arises 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's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its financial liabilities when due, under both normal circumstances and stressed conditions.

Positions can be closed at any time by clients and can also be closed by the Company, in accordance with the Company's margining rules. If after closing a position a client is in surplus, then the amount owing is immediately repayable on the client's demand by the Company. When client positions are closed, corresponding positions relating to the hedged position are closed with hedging counterparties / brokers. Accordingly, the Company releases cash margin, which is repaid by the hedging counterparties / brokers to the Company on demand.

In accordance with the CySEC clients' money rules, the Company holds in segregated, clearly designated as clients' money bank accounts, all the funds of its clients. Therefore the Company considers liquidity risk in relation to all clients' trading activity to be significantly low.

5. Leverage ratio

Leverage ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62. The Company calculates its Leverage ratio on a quarterly basis. The minimum requirement for the purposes of the Leverage ratio is currently assessed to 3%. The Company's Leverage ratio as at the reference date is **45.11%**.

Table 16: Reconciliation of accounting assets and Leverage ratio exposures

	Applicable Amounts ($'000)
Total assets as per published financial statements	42.603
Adjustments for derivative financial instruments	26.268
Other adjustments	8.714
Total Leverage ratio exposure	**77.585**

Table 17: Breakdown of the exposure measure by exposure type

	CRR Leverage ratio exposures ($'000)
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	42.654
(Asset amounts deducted in determining Tier 1 capital)	(212)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	42.442
Derivative exposures	
Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	8.875
Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	26.268
Total derivative exposures	35.143
Capital and total exposures	
Tier 1 capital	**34.996**
Total Leverage ratio exposures	**77.585**
Leverage ratio	
Leverage ratio (%)	**45.11%**

Table 18: Breakdown of total on-balance sheet exposures by asset class

	CRR leverage ratio exposures ($'000)
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**42.442**
Banking book exposures, of which:	42.442
Institutions	41.541
Corporate	366
Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	535

5. Leverage ratio (continued)

Description of the processes used to manage the risk of excessive leverage

In order to manage the risk of excessive leverage, the Company monitors its leverage ratio at least on a quarterly basis and ensures that is always well above the current threshold of 3%.

Factors that had an Impact on the Leverage Ratio during the Period

The Leverage ratio of the Company over the financial year 2016 ranged between 28.39% (31 March 2016) and 45.11% (31 December 2016) with an average rate of 38.15%. The reason of this fluctuation during the period is the decline in the exposure measure from March to December 2016, driven primarily by the considerable decrease in the volume of open CFD positions.

6. Remuneration Policy

The Remuneration Policy sets out the Company's and its wider Group's policy for remuneration practices in compliance with regulations and the corporate objective of balancing risk and performance through hiring and retaining competent and committed executives for the longer term. In addition, it outlines the internal control processes and procedures implemented at Company and Group level, with respect to having in place risk-focused remuneration controls and procedures which are consistent with and promote a code of conduct that ensures the avoidance of conflicts of interest that might lead to outcomes detrimental to the clients of the Company.

Internal governance processes provide a robust level of oversight and control over remuneration policies and risk management to ensure that remuneration decisions are aligned with the risk appetite of the Company and the Group, premised on the mapping of potential conflicts. The internal governance of remuneration is managed primarily by the Board of Directors and the Remuneration Committee of the Board ("REMCO"). REMCO is supported in this respect by the Management Committee ("MANCO") and the Compensation Committee ("COMPCO"), both comprising of executives of the Company. REMCO, MANCO and COMPCO receive input from the respective business heads as well as from the Compliance, Risk, Audit, and HR Management functions.

Remuneration Committee

Role and Responsibilities

The main objective of the REMCO is to determine and apply a Remuneration Policy on behalf of the Board and to ensure compliance with best practice in the area of remuneration and reward. The Committee is required to make suitable arrangements in order to make prudent recognition of any deficiencies identified in terms of remuneration within the Company and approves remuneration policies that may need to be implemented, from time to time, by the respective relevant departments within the Company.

The role and remit of the REMCO, in conjunction with the Risk & Compliance Committee, focuses on:

- Remuneration practices of Directors, Senior Management, risk takers, Sales executives and all other employees of the Company that receive (or may in the future receive) any form of variable pay.
- Remuneration practices for Affiliates such as web portals, education providers, refer a friend/associate programs etc.
- Institutional Trading Agreements with Hedging Counterparties.

6. Remuneration Policy (continued)

Composition

The REMCO is comprised of three non-executive members of the Board, of which two are also independent. One of the two independent non-executive directors is also the Chairman of the REMCO. The Company's CEO, the Head of Human Resources and other Affiliates are invited to REMCO meetings but have no voting rights. The REMCO met twice during 2016 since it was formally set up in October 2016.

Management Committee

The MANCO, acting at the direction of the REMCO, oversees the implementation of the overall Remuneration Policy framework for:

- The remuneration practices with respect to employees, including sales staff, whether employed directly by the Company or indirectly through the Group.
- The remuneration practices for Affiliates.
- The remuneration practices for Institutional B2B Clients.

The subsequent implementation of the practices is the responsibility of the operating units with oversight from the Legal, Compliance, HR and Internal Audit Departments.

Compensation Committee

The COMPCO has regard to the overall Remuneration Policy and objectives and makes recommendations to the MANCO for any changes in practices as well as the variable pay pools, taking into consideration the Company's Financial Results, individual department performance and individual employee performance as well as the feedback from the Company's Compliance and Risk Management functions. In reaching its recommendations, the COMPCO has regard to:

- Feedback from the Risk Management division with respect to the breaches of risk limits and operational risk incidents, capital adequacy ratios, liquidity ratios and capital preservation requirements.
- Feedback from the Compliance division with respect to the number, nature and value of complaints and relevant employees / divisions, client risk profiles, compliance breaches, etc.

Fixed and Variable Remuneration

Compensation Mix

The REMCO and COMPCO take into account, when determining remuneration awards, the need to ensure an appropriate ratio between fixed and variable pay to ensure that the Company and the Group are able to operate a fully flexible incentive policy under a hybrid remuneration model. This includes the ability to pay no bonuses or other incentive pay should performance of the Company and Group and / or of an individual require this.

Fixed Remuneration

Fixed remuneration serves to compensate employees according to their qualifications, experience and skills, as well as the requirements, significance and scope of their work. Specifically, it includes the contractually agreed monthly recurring salary.

The appropriate amount for an employee's fixed remuneration shall be determined based on a market comparison of his/her role, general salary levels within the Company, the labor market situation in the industry and at the respective location and the regulatory requirements for the structures applicable to total remuneration. Competitive fixed remuneration plays an important role in attracting and retaining employees. This guarantees that the Company and the Group have the competencies required to meet their strategic goals.

6. Remuneration Policy (continued)

Variable Remuneration

Qualitative and quantitative criteria are taken into account in the determination of variable remuneration. These criteria reflect the desired conduct of the employees to act in the best interest of the clients and in a manner that has regard to focusing on the long term sustainable performance of the Company versus short term risk taking or malpractices. Variable remuneration also has the benefit that it can differentiate performance results and promote practices by means of suitable incentive systems, which in turn affect the corporate culture.

The maximum variable remuneration payable to employees is limited to 100% of their fixed remuneration, as per the respective policy of Playtech PLC ("Playtech"). However, the maximum variable remuneration payable for specific employee categories (mentioned below) can be up to 200% subject to Board of Directors approval. Up to 100% of the total variable and performance related remuneration may be subject to malus and clawback arrangements.

Bonus Pool Determination (including risk adjustment)

The discretionary annual bonus pool for the employee remuneration is suggested (following detailed work done by the Compensation Committee) by the Management Committee to the REMCO for its consideration and evaluation. The REMCO makes final recommendations to the Board of Directors, which has the responsibility for the final sign off. The work of all relevant committees is based on an assessment of the financial performance for each financial year against targets and a quantitative and qualitative assessment of the risks taken during each financial year, as well as matters relating to capital management and regulatory compliance. The Board of Directors reviews the annual bonus pool to ensure (a) that all relevant business risks have been assessed and taken into account and (b) that sufficient amounts are allocated to ensure the Company and the Group are able to maintain a robust capital base.

Performance Management Approach

The Company and the Group operate an annual appraisal process which establishes objectives for all staff covering both financial and non-financial metrics, specific behavioral competencies, including compliance and risk management behaviors with regards to the Company's and Group's values, Code of Conduct, policies and procedures.

Performance against non-financial metrics has a significant influence on the overall performance rating and poor performance against non-financial metrics will result in a reduction of an employee's annual incentive award. Annual performance ratings are independently reviewed (and challenged where appropriate) and calibrated at a Company and Group-wide level to ensure that ratings have been applied consistently and performance has been effectively differentiated.

Under the remuneration framework, remuneration decisions are made based on a combination of business results, performance against objectives set out in performance scorecards, general individual performance of the role and adherence to the Company's values, Code of Conduct, policies and procedures.

The aggregate remuneration of the Company's personnel whose actions had a material impact on the risk profile of the Company for the year ended 31 December 2016, broken down by business area, is as follows:

6. Remuneration Policy (continued)

Table 19: Aggregate Remuneration by Business Area

Business Functions	Fixed ($'000)	Variable ($'000)	Total ($'000)
Control functions	517	210	727
Dealing & Own Account functions	82	-	82
Total	**599**	**210**	**809**

Note: The variable remuneration reported above relates to deferred remuneration payable as Bonus to the Management.

The table below provides information on the remuneration of Senior Management and other staff whose activities have a material impact on the risk profile of the Company, broken down by fixed and variable cash remuneration.

Table 20: Aggregate Remuneration of Senior Management and Other Staff

Fixed and Variable Remuneration of Senior Management and Other Staff	Fixed ($'000)	Variable ($'000)	Total ($'000)
Senior Management and Executive & Non-Executive-Directors	599	210	**809**
Other staff	-	-	**-**
Total	**599**	**210**	**809**

Notes: (a) Senior Management includes the heads of the control and dealing functions.
(b) The variable remuneration reported above relates to deferred remuneration payable as Bonus to the Management.

There were no non-cash remuneration benefits and no sign-on or severance payments made during 2016. The Company paid variable amount to the management of the Company which exceeded the 100% ratio of the variable to fixed component, but was less than 200%. The Company intends to communicate with the supervisory authorities in Cyprus and provide additional explanations, if these are required. It is noted that the above amounts are considered immaterial to the level of own funds that the Company currently keeps.

Appendix 1: Own Funds Disclosure

Table 21: Transitional and Fully Phased-in Definition of Own Funds

At 31 December 2016	Transitional Definition ($'000)	Fully - Phased in Definition ($'000)
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	19.267	19.267
Retained earnings	12.680	12.680
Income Positive from current year	3.261	3.261
Accumulated other comprehensive income (and other reserves, to include unrealized gains and losses under the applicable accounting standards)	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**35.208**	**35.208**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(51)	(51)
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(161)	(161)
Losses for the current financial year	-	-
Regulatory adjustments relating to unrealized gains and losses	-	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(212)**	**(212)**
Common Equity Tier 1 (CET1) capital	**34.996**	**34.996**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**34.996**	**34.996**
Tier 2 (T2) capital before regulatory adjustments	**-**	**-**
Tier 2 (T2) capital: regulatory adjustments	**-**	**-**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**34.996**	**34.996**
Total risk weighted assets	**186.953**	**186.953**
Capital ratios		
Common Equity Tier 1	**18.72%**	**18.72%**
Tier 1	**18.72%**	**18.72%**
Total capital	**18.72%**	**18.72%**

Definitions:

The Common Equity Tier 1 ("CET1") ratio is the CET1 capital of the Company expressed as a percentage of the total Risk Weighted Assets for covering Pillar I risks.

The Tier 1 ("T1") ratio is the T1 capital of the Company expressed as a percentage of the total Risk Weighted Assets for covering Pillar I risks.

The Total Capital ratio ("TC") is the Own Funds of the Company expressed as a percentage of the total Risk Weighted Assets for covering Pillar I risks.

Appendix 2: Balance Sheet Reconciliation

Table 22: Balance sheet reconciliation with regulatory own funds calculation

Balance sheet Description	31 December 2016 ($'000)
Total Equity as per Audited Accounts	
Share capital	2.093
Share premium	17.174
Retained Earnings	12.680
Income (positive) from current year	3.261
Total Equity as per Balance Sheet	35.208
Regulatory Adjustments	
Intangible Assets	(51)
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(161)
Regulatory Own Funds (CET1 Capital)	34.996