



LITEFOREX (EUROPE) LIMITED

Regulated by the Cyprus Securities and Exchange Commission, License Number 093/08.

PILLAR 3 DISCLOSURES REPORT FOR 2016

Disclosures in Accordance with Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No. 648/2012.

APRIL 2016

This document has been prepared for informational purposes only by Liteforex (Europe) Limited (authorized and regulated by the Cyprus Securities and Exchange Commission under license number 093/08 dated 8 August 2008). The information herein is provided as at the date of this document and is subject to change without notice. No part of this document, nor the fact of its distribution, should form the basis of, or be relied on in connection with, any contract or commitment of investment decision whatsoever. This presentation is not an advertisement of securities or an offer or a solicitation of an offer to sell, exchange or otherwise transfer securities and is not intended to facilitate any sale, exchange or transfer of securities to any person or entity and does not form a fiduciary relationship or constitute advice. This document is not investment research.

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2016 has been prepared by Liteforex (Europe) Limited as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive DII44-2014-14 issued by the Cyprus Securities and Exchange Commission.

Liteforex (Europe) Limited has prepared the following Disclosures based on the audited financial statements for the year ended 31st of December 2016. While the information included in the Disclosures derives from the Company's audited financial results, the Disclosures do not constitute the Company's Financial Statements nor do they constitute any form of contemporary or forward-looking record or opinion of the Company.

Disclosures are merely prepared to explain how the Company manages risks, under the requirements of the Cyprus Securities and Exchange Commission, and how much capital is assigned to these risks for their management.

Liteforex (Europe) Limited states that any information that was not included in this Report was either not applicable on the Company's business and activities or such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.

The Disclosures were approved by the Board of Directors on 26th of April 2017.

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1. SCOPE OF APPLICATION

The present Report is prepared by Liteforex (Europe) Limited (the “Company”) a Cyprus Investment Firm (“CIF”) authorized and regulated by the Cyprus Securities and Exchange Commission (the “CySEC”, “the Commission”) under the license number 093/08 and operates in harmonisation with the Markets in Financial Instruments Directive (MiFID). Following information is disclosed in accordance with Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No. 648/2012.

Pillar III Regulatory Framework Overview

In accordance with Regulation (EU) No. 575/2013 (the “Capital Requirements Regulation”, “CRR”), which was introduced in 2014, the Company is required to disclose information relating to its risk management, capital structure, capital adequacy, its risk exposures as well as the most important characteristics of the Company’s corporate governance including its remuneration system. The new legislative package is considered as a key step towards creating a sounder and safer financial system. The scope of this report is to promote market discipline and to improve transparency of market participants.

On 26th of June 2013, the European Parliament and the Council released a legislative package known as “CRD IV” to strengthen the regulation of the financial sector. The CRD IV package replaces the previous European Capital Requirements Directives (2006/48 and 2006/49) and CySEC’s Directives DI144-2007-05 and DI144-2007-05, commonly known as Basel II, in relation to capital requirements and large exposures, with a European Directive (2013/36/EU) and a European Regulation (575/2013). The Regulation (EU) 575/2013 (“the Regulation”) is directly applicable as a Single Rule book by all Member State institutions whereas the Directive 2013/36/EU need to be transposed by all member state regulatory authorities. The transposed Directive of CySEC is named as Directive DI144-2014-14 (“the Directive”). The main purpose of the Basel II revisions was to make the framework more risk sensitive and representative of actual risk management practices.

CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, which allows national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks and CIFs including amended minimum capital adequacy 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. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 2019 and some other transitional provisions provide for phase in until 2024.

The current regulatory framework comprises three pillars:

- **Pillar I** (*Minimum Capital Requirements*) covers the calculation of Risk Weighted Assets for Credit Risk, Market Risk and Operational Risk.

- **Pillar II** (*Supervisory Review Process “SREP”*) covers the Supervisory Review and Evaluation Process (“SREP”), which assesses the Internal Capital Adequacy Assessment Process (the “ICAAP”) and whether additional capital is required over and above the Pillar I and provides for the monitoring and self-assessment of an institution’s capital adequacy and internal processes.
- **Pillar III** (*Market Discipline*) covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

The 2016 Pillar III Disclosures Report sets out both quantitative and qualitative information required in accordance with Part 8 of the CRR and in particular articles 431 to 455, which specify the requirements of the Disclosures.

Materiality of Disclosures

The Regulation provides that the Company may omit one or more of the disclosures if it believes that the information is immaterial. 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 permits the Company to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The Directive 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 investment firm’s investments therein less valuable.

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

Basis and Frequency of Disclosures

According to CySEC’s Directive DI144-2014-14 (the “Directive”), the risk management disclosures must be included either in the financial statements of the investment firm, if these are published, or on its website.

The Company publishes its Disclosures annually in a document other than the Audited Financial Statements. The Report is published on the website of the Company at <https://www.liteforex.com/riskdisclosure/> on an annual basis as per formal Disclosure Policy approved by the Board of Directors of the Company.

Verification

All Disclosures mentioned are in line with the Company's annual audited Report and Financial Statements, which are prepared in accordance with the International Financial Reporting Standards (“IFRS”) and are

audited by the Company's External Auditors, ASG Premier Audit Services Limited. The investment firm will be responsible for submitting its external auditor's verification report to CySEC.

The current Disclosures are based on the position of the Company as at 31st of December 2016. The 2016 Pillar III Disclosures Report was approved by the Board of Directors on 26th of April 2017.

Scope of Disclosures

The Company does not have any subsidiaries and thus does not need to produce any consolidated results. As a result, the Disclosures in this document relate solely to information of the Company. The Company is making the Disclosures on an individual (solo) basis.

2. COMPANY INFORMATION

Liteforex (Europe) Limited is an independent international financial markets participant and leading provider of on-line trading services for retail and institutional investors.

The Company is registered as a Cyprus Investment Firm under the registration number HE230122 and licensed by CySEC under the license number 093/08 in accordance with MiFID.

The Company currently offers the following investment and ancillary services:

INVESTMENT SERVICES

Reception and Transmission of Orders in Relation to One or More Financial Instruments

Execution of Orders on Behalf of Clients

Portfolio Management

ANCILLARY SERVICES

Safekeeping and administration of financial instruments, including custodianship and related services

Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction

Foreign exchange services where these are connected to the provision of investment services

Investment research and financial analysis or other forms

3. CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

Board of Directors

The responsibility of the overall risk management and/or assessment lies with the Board of Directors of the Company. The Board of Directors needs to identify, assess, monitor and control each type of risk on a continuous basis. More specifically, when managing and/or assessing risks, the responsibilities of the Board of Directors and Senior Management may be summarized as follows:

- To carry the overall responsibility for proper implementation of the relevant laws and regulations;
- To assess on a continuous basis the effectiveness of the policies, arrangements and procedures in place;
- To decide on the Company's risk bearing capability and strategy;
- To ensure they are on the same page in terms of appetite for risk in executing the Company's strategy and making sure the Shareholders understand the stance of the Company;
- To review the Annual Risk Management Report prepared by the Risk Manager and taking appropriate action where necessary;
- To ensure that the Company has the ability to cover its financial needs and capital requirement at any time.

The Board of Directors is comprised of 2 Executive Directors and 3 Non-Executive Directors. The following table shows the constitution of the Board of Directors as at 31st of December 2016:

Table 1. Board of Directors.

Name	Position
Ms. Kristina Leonova	Executive Director
Mr. Ilia Lashchenko	Executive Director (<i>since 01/02/2016</i>)
Mr. Sergey Mayzus	Non-Executive Director (<i>since 21/10/2016</i>)
Mr. Panos Markou	Independent Non-Executive Director
Mr. Andreas Paralikis	Independent Non-Executive Director

Recruitment and Diversity Policy

The Company has implemented the Recruitment and Diversity Policy, providing conditions for employment of staff for crucial managerial positions and those who shall be responsible for the determination of the Company's entrepreneurial strategy.

One of the Board's main responsibilities is to identify, evaluate and select candidates for the Board of Directors and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the Board.

The persons proposed for the appointment should have specific skills and sufficient knowledge to enhance the collective knowledge of the Board and must be able to commit the necessary time and effort to fulfil their responsibilities.

The Policy provides that these people shall have at least three to five years prior experience in relevant executive positions in the financial markets, and adequate academic and/or professional qualifications in financial, management, accounting fields.

Factors considered in the review of potential candidates include, but are not limited to:

- Specialised skills and knowledge in accounting, finance, banking, law, business administration or related subject;
- Knowledge of and experience with financial institutions (“fit-and-proper”);
- Integrity, honesty and the ability to generate public confidence;
- Knowledge of financial matters including understanding financial statements and financial ratios;
- Demonstrated sound business judgement;
- Risk management experience.

The recruitment principles for the Board members provide that there are a maximum number of directorships which can be held by the Boards 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.

Data is provided for the Directors in office as at 31st of December 2016 and the compliance with the policy principle was adhered to during the year, including all Directors in office in 2016.

Table 2. Number of Directorships.

Name	Financial Year 2016		
	Position	Directorships - Executive	Directorships - Non-Executive
Ms. Kristina Leonova	Executive Director	1	0
Mr. Ilia Lashchenko	Executive Director	1	0
Mr. Sergey Mayzus	Non-Executive Director	0	2
Mr. Panos Markou	Independent Non-Executive Director	0	4
Mr. Andreas Paralikis	Independent Non-Executive Director	0	2

By having a diversified Board of Directors the Company has a number of benefits. Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how we do business and imperative to commercial success.

The Company recognizes the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practises in the Corporate Governance Code of many EU countries.

The Company recognizes the benefits of having a diverse Board which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences will be considered when determining the optimum composition of the Board.

Information Flow on Risk to the Management Body

The Company provides the structured flow of risks to the management body, with the aim to elevate the risks to the appropriate levels on time.

Risk information flows up to the Board through the Executive Directors or directly from the business departments and control functions.

Details of the major reports submitted to the Board during the year 2016 are presented below:

Table 3. Main Reporting Requirements.

Report Name	Responsible Person	Recipient	Frequency	Due Date
Annual Money Laundering Compliance Report	Money Laundering Compliance Officer	Board, CySEC	Annual	31/03/2017
Annual Compliance Report	Compliance Officer	Board, CySEC	Annual	30/04/2017
Annual Risk Management Report	Risk Manager	Board, CySEC	Annual	30/04/2017
Annual Internal Audit Report	Internal Auditor	Board, CySEC	Annual	30/04/2017
Pillar III Disclosures	Risk Manager	Board, CySEC	Annual	30/04/2017
Financial Statements	External Auditor	Board, CySEC	Annual	30/04/2017
ICAAP Report	Risk Manager	Board	Annual	N/A
Capital Adequacy Report	Risk Manager	Board, CySEC	Quarterly	N/A

4. RISK MANAGEMENT

Definition of Risk Management

Risk Management is the process of identification, analysis and evaluation of uncertainty in investment decision-making. As a result, it is treated accordingly; either accepted or mitigated.

Risk Management occurs anytime an investor analyses and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction) given their investment objectives and risk tolerance.

Risks should be continuously monitored and reviewed. In addition to that, outcomes and results should be properly reported and new objectives should be set.

Characteristics of a productive Risk Management process:

- A culture of risks adjusted in the organization. It embraces a series of values, attitudes and ways of acting towards risks, including taking decisions on change management and strategic business planning.
- Complete approach to all risks; there are risks that directly affect the Company and risks that indirectly affect the Company. It is very important to report all kinds of risks and to assume and understand the relations between them. The overall calculation should be simplified without affecting the difference of nature, degree of evolution and real possibilities of management and control of each type of risk, adjusting the organization, processes, reports and tools to the features of each one.
- An organizational and control model which is assigned to all risk types.
- Common management instruments among the different departments, without negatively affecting the regulations and requirements of supervisors and the degree of development of each department.

Lastly, it is very important that all risk assessment results should be communicated to all relevant departments with the appropriate consultation give.

Risk Management Objectives and Policies

As the Company is authorised by the Cyprus Securities and Exchange Commission to conduct investment business, it is required by the EU Capital Requirements Directive to make public disclosure of its risk management objectives and policies in accordance with the requirements of Pillar III of the Directive and the Internal Capital Adequacy Assessment Process ("ICAAP") prescribed by the CySEC .

The Company is operated managerially through the medium of a two Executive Directors (4-eyes principle). Standing apart from the Company's operational management, it also has the Board of Directors which comprises of two Executive Directors and three Non-Executive Directors.

In accordance with the proportionality principles, and provided limited range of services and activities undertaken, the overall governance is assigned to the Board members and no separate Committees are in place at present.

The Board of Directors' responsibility includes monitoring and reviewing the Company' risk management, compliance and internal audit functions and considering reports from compliance, internal audit on internal controls and risk management.

The Board has overall responsibility for the Company's system of internal controls, the objectives of which are the safeguarding of the Company's assets, the maintenance of proper accounting records and the availability of reliable financial information for use within the business and for regulatory reporting.

This system of internal controls designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement and loss, and to prevent and detect fraud and other irregularities.

The Board regularly reviews the effectiveness of the Company's internal control system. There is an ongoing process for identifying, evaluating and managing significant risks which was in place throughout the year.

Also responsible for the Company's internal control system and for the management of its risks are the following departments:

- Risk Management Department
- Anti-Money Laundering Department
- Compliance Officer
- Internal Audit Function
- External Audit Function

All five above listed functions are reporting directly to the Board in regards of the audited outcomes of the Company's operation, at least annually.

The risk management process encompasses the organisation, behaviours, processes, systems and other aspects of a Company that, taken together:

- ✓ facilitate its effective and efficient operation by enabling it to assess current and emerging risks, respond appropriately to risks and significant control failures and to safeguard its assets;
- ✓ help to reduce the likelihood and impact of poor judgement in decision-making; risk-taking that exceeds the levels agreed by the Board; human error; or control processes being deliberately circumvented;
- ✓ help ensure the quality of internal and external reporting; and
- ✓ help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

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.

When determining the principal risks, the Board focuses on those risks that, given the Company's current position, could threaten the Company's business model, future performance, solvency or liquidity, irrespective of how they are classified or from where they arise.

The Board treats such risks as principal risks and establishes clearly the extent to which they are to be managed or mitigated, in a form of prescribed credit risk limits, excess expenditures and other parameters important for monitoring of the principal risks.

Three Lines of Defence

To prevent the risks which might impact the smooth operation, management of the Company has adopted the "Three Lines of Defence" model of governance with clearly defined roles and responsibilities. The Company has a good risk management framework with the systems for identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating material risks that may affect the business' ability to achieve objectives. The "three lines of defence" has become the standard model for identifying, managing and monitoring risks and uncertainty in organization. The model has three lines (or barriers) of defence against the impact of risk as illustrated below.

Chart 1. Three Lines of Defence Model.



The first line represents staff on the frontline, those involved in day-to-day operations and directly exposed to the risks of Company's business. It is the first line of defense which is crucial for all businesses, where everyone understands the risks they personally manage and are empowered and qualified to respond appropriately for these risks.

The second line is essentially the oversight function for the first, which sets and monitors the policies and procedures that the first line of defense must comply with. It is the second line of defense, which is crucial for controlling of all internal procedures and complying with regulations. There is adequate managerial and

supervisory compliance function in place to ensure compliance and to highlight control breakdown, inadequate processes, and unexpected events.

The third line is the supervising review of the effectiveness of the first and second lines by Board of Directors and independent auditors.

The main role of the Risk Management is assigned to the Risk Management Department, which represents the second line of defence. The main role of the second line of defence is to provide the tools and methodologies for risk management to the business units, to promote risk awareness, to engage business units in identifying, measuring and mitigating risks as appropriate, to report the losses from risks identified to Senior Management and the Regulatory Authorities, to facilitate the collection and monitoring of Key Risk Indicators (KRIs), to identify risks at Group level in cases where these risks are not managed by a specific business unit and to make sure that actions mitigating risks are implemented.

Risk Appetite Framework (RAF)

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. Such risks include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk.

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 Board of Directors has approved a Risk Appetite Statement expressed along multiple scenarios, including both ‘normal’ business conditions and ‘stressed’ periods with zero tolerance for regulatory, legal or compliance risks.

The risk appetite of the Company, expresses its strategy through desirable and undesirable risk exposures. It is the aggregate level and types of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan. Thus, Risk Appetite and Strategic Plan occur and evolve in parallel. The Risk Appetite enables the Company to demonstrate that the achievement of its strategic goals has not been the result of fortuitous circumstances.

Furthermore, the Risk Capacity/Tolerance is the maximum amount of risk which the Company is technically able to assume before breaching one or more of its capital base, liquidity, and borrowing capacity, reputational and regulatory constraints.

The risk capacity represents the upper limit beyond which a breach is likely to result in failure.

Taking into consideration the Company's size, services offered, complexity and operations, the risks that are considered significant and/or material for the Company are credit risk, market risk, operational risk, liquidity risk and large exposures.

In regards to the above, setting the corporate risk appetite without taking into account the risk capacity of the Company may have serious consequences. Risk capacity may be easy to quantify in terms of capital or required funding but it is more challenging to consider the point at which the Company's reputation is beyond repair.

The Board and Senior Management understand how the risk capacity impacts on the business and have taken the necessary steps in order to be in constant awareness, mitigating any potential threats.

Risk Culture

The Board has a critical role in strengthening risk governance, including setting the 'tone at the top', reviewing strategy, and approving the Risk Appetite Statement. It is the Board that is ultimately responsible and accountable for risk governance.

A robust risk culture is a substantial determinant of whether the CIF will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that the CIF wishes to build is reflected in its policies and procedures which are closely aligned to its Risk Appetite. Risk culture is manifested in the day-to-day decisions that indicate how risk is identified, understood, discussed, and acted upon.

The Company has focused primarily on the implementation of a firm-wide effective and pervasive risk culture. This is achieved through the following:

- Embedding the risk culture at all levels of the Company with clear ownership and accountability of tasks.
- Conducting firm-wide risk assessments.
- Implementing formal risk education presentations.
- Changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions.
- Changes in key personnel, as well as changes in their job content and job descriptions.
- Training.

Furthermore, the Company takes risks in connection with its normal business and as such, the following principles underpin the inherent risk culture:

- Risk is taken within a defined risk appetite.
- Every risk taken needs to be approved within the risk management framework.
- Risk taken needs to be adequately compensated.
- Risk should be continuously monitored and managed.

Stress Testing

Stress testing is a key risk management tool used by the Company to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- Understanding the risk profile of the Company by carrying out exceptional but plausible scenarios, management can identify the ways in which the Company will be affected should that event take place and measure the effects on the Income Statement and Balance Sheet.
- The evaluation of the Company's capital adequacy in absorbing potential losses under stressed conditions: This takes place in the context of the Company's ICAAP.
- The evaluation of the Company's strategy: Senior Management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows Senior Management to determine whether the Company's exposures correspond to its risk appetite.
- The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

The ultimate responsibility and ownership of the Company's stress testing policy rests with the Board. If the stress testing scenarios reveal vulnerability to a given set of risks, management should make recommendations to the Board for remedial measures or actions. These may vary depending on the circumstances and include one or more of the following:

- Review the overall business strategy, risk appetite, capital and liquidity planning.
- Review limits.
- Reduce underlying risk positions through risk mitigation strategies.
- Consider an increase in capital.
- Enhance contingency planning.

Pillar II – Internal Capital Adequacy Assessment Process

Further to the requirements of Pillar I, a more detailed approach on managing risks is achieved through the preparation of the Pillar II requirements and more precisely the Internal Capital Adequacy Assessment Process (ICAAP) report which follows the requirements under Regulation (EU) No. 575/2013 and relevant guidelines issued by CySEC.

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures the Company may have, in addition to requiring appropriate risk management, reporting and governance structures.

Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company. Pillar II connects the regulatory capital requirements to the Company's Internal Capital Adequacy Assessment Procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

Under Basel II, ICAAP is a requirement for the Company to establish and report to the Regulator (on request) the process of Internal Capital Adequacy Assessment (ICAAP). The requirement originates from the rightful assumption that the Pillar I risk assessments may not cover fully the risks assessed under Pillar I calculations, and the Pillar I does not cover unique to the Company (or its particular sector) internal and external risks it may be exposed to.

Therefore, the capital requirements calculated under Pillar I, do not reflect real amount of capital to be held to cover all relevant risks.

Company's ICAAP Approach

The ICAAP report is a key tool for both the Company and the regulator as it approaches the risk assessment from a holistic perspective enabling the Company to assess and match risks as much as possible, reducing its residual risk and enabling more precise future growth planning.

Our approach for meeting the Pillar II requirements, are based on the Pillar I Minimum Capital Requirement Plus Approach, as it takes the Pillar I capital requirements calculation as a starting point and then considers whether this results in an adequate amount of capital to cover the Company's actual risk profile.

The Company chooses to apply this method and uses, as a starting point, the minimum capital calculated according to the provisions of the Regulation, under Pillar I for credit risk, operational risk and market risk.

The capital calculated as a minimum requirement, under Pillar I, is then assessed internally as to its adequacy vis-à-vis the following:

- Risks covered in Pillar I (additional counterparty credit risk);
- Risks not fully covered in Pillar I (additional concentration and market risks);
- Pillar II risks (reputational, political and client concentration risks).

The Company assesses the above elements of the overall risk, following the chosen approach, and uses the stress scenarios approved at the strategic management levels, mainly for external factors, including through the cycle, to ensure that the Company's plans and current level of the capital are sufficient to:

- meet the Company's liabilities as they fall due;
- survive a recession and meet the Pillar I capital requirement through a severe recession.

Moreover, the ICAAP enables the Board and the Senior Management to assess on an ongoing basis the risks inherent in the Company's activities, and to this extent, it forms an integral part of the Company's risk management process and decision making culture.

The Company aims to operate at all times over and above the required statutory capital and currently maintains a prudent level of capital for both short and long term requirements.

Pillar III – Market Discipline

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information with respect to the composition of own funds. Preparation and publication of the Present Report is made in accordance with this requirement.

5. RISK CATEGORIES AND DEFINITIONS

Operational Risk

Definition

Operational Risk is the risk of loss resulting from inadequate or failed internal procedures, human behavior, fraud, unauthorized activities, errors, omissions, inefficiency, systems failure or external events or associated with the Company's processes, personnel, technology and infrastructure, and from external factors. Operational Risk includes Legal Risk but excludes Strategic and Reputational Risk.

The following list presents some event types, included in Operational Risk, with some examples for each category:

- Internal Fraud – misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees.
- External Fraud – theft of information, hacking damage, third – party theft and forgery.
- Compliance – brand impairment, complaint handling, third country regulator retaliation, E-commerce global taxation matters.
- Clients, Products and Business Practice – market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.

Risk Identification, Measurement, Control and Reporting

The Company's business areas manage this risk through applicable controls and loss mitigation techniques, including use of limits, participation in Investor Compensation Fund and adequate human resources management procedures.

These activities include a balance of policies, procedures and internal controls to ensure compliance with laws and regulations. Further assurance is provided by the Company's internal audit and compliance functions.

In order to control the exposure to operational risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of Operational Risk is directly related to effective and efficient management practices and high standards of corporate governance. To that effect, the management of operational risk is geared towards:

- Maintaining a strong internal control governance framework.
- Managing operational risk exposures through a consistent set of processes that drive risk identification, assessment, and control and monitoring.

The Company implements the below Operational Risk mitigation strategies in order to minimize its Operational Risk exposure:

- The development of operational risk awareness and culture.
- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities.
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives.
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.
- Established a "four-eyes" structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of the Senior Management and the Board of Directors. The Board further reviews any decisions made by the Management while monitoring their activities;
- Detection methods are in place in order to detect fraudulent activities;
- Comprehensive business contingency and disaster recovery plan.

The Senior Management employ specialized tools and methodologies to identify, assess, mitigate and monitor Operational Risk. These specialized tools and methodologies assist Operational Risk management to address any control gaps. To this effect, the following are implemented:

- Incident collection;
- Key risk indicators;
- Business continuity management;
- Training and awareness.

Operational Risk Analysis

Due to the limited authorisation of the Company, the Company falls under Article 95(1) of CRR and therefore the calculation of the capital requirements for operational risk is based on the fixed overheads of the preceding financial year. Under this method, the Company calculates its total Risk Weighted Assets as follows:

$$\text{Total Risk Exposure Amount} = \max [\text{total risk exposure amount (excluding Operational Risk); Fixed Overheads of the preceding year} \times 12.5 \times 25\%]$$

Under the CRR, the Fixed Overheads are calculated using the most recent audited annual financial statements of the preceding year. For the year ended 31 December 2016 the amount required to be held by the Company to meet the Fixed Overheads Requirement was **Euro 180,170**.

Table 4. Operational Risk/Fixed Overhead Capital Requirements.

Operational Risk/Fixed Overhead Capital Requirements	EUR '000 31/12/2016
KEY COMPONENTS:	
Total Expenses	1,187
Total Deductions	466
Fixed Overheads	721
Risk Weighted Exposure	2,252
CAPITAL REQUIREMENTS	180

Credit Risk

Definition

Credit Risk is the risk of loss that the Company would incur if the Company fails to perform its contractual credit obligations. The Company follows the Standardized Approach under Pillar 1 for calculating its Credit Risk Capital Requirements as specified in CRR. It categorizes the assets in respect to their exposure class and uses the Credit Step methodology to determine its respective Risk Weights (RW).

Risk Identification, Measurement, Control and Reporting

Credit Risk arises when failures by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets in hand, at the balance sheet date. The Company's Credit Risk arises:

- By the Company's deposits in financial institutions;
- By assets mainly held under the Investor's Compensation Fund, debtors or prepayments;
- By assets mainly held in liquidity providers' accounts.

The Company follows mitigation strategies in order to minimize the possibility of occurrence of this risk, such as:

- All Client funds are held in segregated accounts, separated from Company's funds.
- The Company maintains regular credit review of counterparties, identifying the key risks faced and reports them to the Board, which then determines the Company's risk appetite and ensures that an appropriate amount of capital is maintained.
- In order to maintain its Credit Risk to the minimum, the Company is using EU equivalent credit institutions for safekeeping of funds and always ensures that the banks it cooperates with, have high ratings based on top credit rating agencies (Moody's, S&P or Fitch), it frequently monitors their compliance with the EU regulatory framework and diversifies the funds over several credit institutions thus mitigating the risk exposure efficiently.
- Automatic margin call and stop-out levels on its derivative contract positions. The Company does not conduct derivative business on its own account. Client trades are transacted by the Company as a broker working on STP/ECN model with large liquidity providers (back to back transactions). In all cases where such transactions place the client or the Company at risk we hold suitable collateral. This normally takes the form of a lien over the customer's assets giving a claim on these assets for both existing and future liabilities, in a form of margin requirements to the accounts, which are automatically monitored.

Further to the above, the Company has policies to diversify Credit Risk and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Regulation (EU) No. 575/2013. To guard against this the Company sets exposure levels for various counterparties and monitors these. Exposure values to either retail or market counterparties are determined using mark to market methods.

The Company has to hold funds to protect itself against Credit Risk, and this has been assessed based on the Pillar I requirements of the EU Directive. Current Credit Risk Capital requirement is **Euro 63,789**.

For the purpose of calculating the capital requirements of the Company under the Credit Risk requirement, for the exposure classes listed below, Moody's, Standard&Poor's and Fitch's external credit ratings have been applied:

- Exposures to public sector entities.
- Exposures to institutions.
- Exposures to corporates.

The Company has used the credit step mapping table below to map the credit assessment to credit quality steps.

Table 5. Credit Step Mapping Table.

Credit Quality Step (CQS)	External Credit Assessment Institutions		
	<u>FITCH</u>	<u>MOODYS</u>	<u>S&P</u>
<u>1</u>	AAA to AA-	Aaa to Aa3	AAA to AA-
<u>2</u>	A+ to A-	A1 to A3	A+ to A-
<u>3</u>	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
<u>4</u>	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
<u>5</u>	B+ to B-	B1 to B3	B+ to B-
<u>6</u>	CCC+ and below	Caa1 and below	CCC+ and below

The Company uses Moody's, Standard&Poor's and Fitch's Ratings as its External Credit Assessment Institutions ("ECAIs"). The credit ratings of all three ECAIs are used for all exposures of Liteforex (Europe) Limited, subject to their availability. If two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight is assigned. If more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights are referred to. If the two lowest risk weights are different, the higher risk weight is assigned. If the two lowest risk weights are the same, that risk weight is assigned.

The classification of exposures as at 31st of December 2016 in the table below follows the information above.

Table 6. Analysis of Exposures by Credit Quality Step.

<u>Credit Quality Step</u>	<u>Institutions</u>	<u>Corporates</u>	<u>Other Assets</u>	<u>TOTAL</u>
<u>1</u>	-	661	-	661
<u>2</u>	299	-	-	299
<u>3</u>	131	-	-	131
<u>4</u>	161	91	24	276
<u>5</u>	-	-	-	-
<u>6</u>	-	-	-	-
<u>TOTAL</u>	591	752	24	1.367

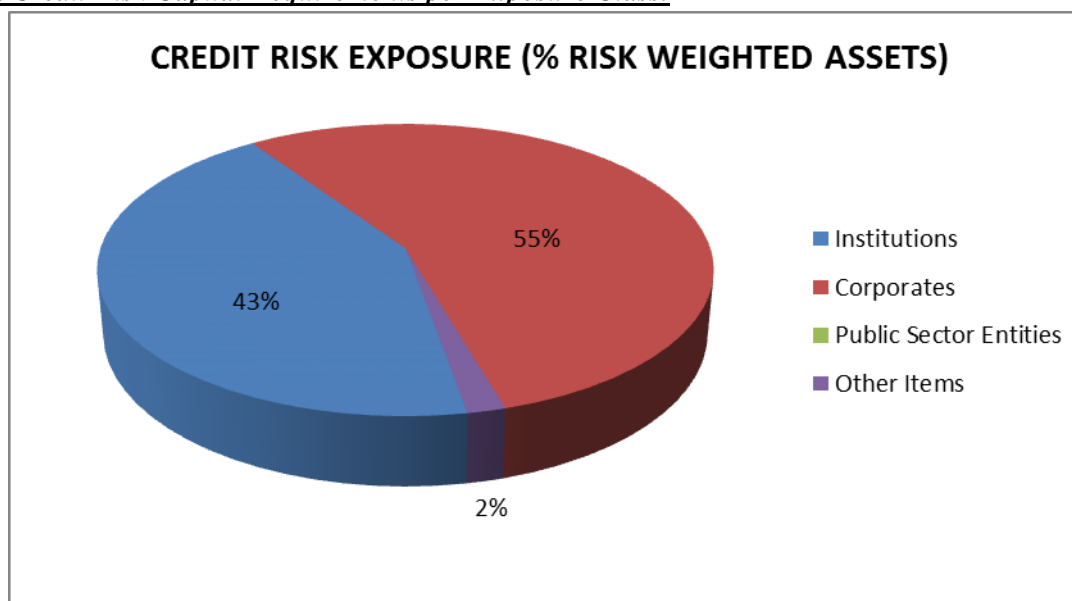
Credit Risk Analysis

The table and chart below indicates the Company's Credit Risk exposure under Pillar I, as at the end of 2016:

Table 7. Credit Risk Capital Requirements per Exposure Class.

Exposure Class	EUR '000 Risk Weighted Amount	EUR '000 Minimum Capital Requirement
Institutions	591	9,449
Corporates	752	52,458
Public Sector Entities	0	0.0
Other Items	24	1,882
TOTAL	1,367	63,789

Chart 2. Credit Risk Capital Requirements per Exposure Class.



Geographical breakdown of exposures by major asset classes is presented below:

Table 8. Geographical Analysis of Credit Risk Capital Requirements - Institutions.

Country	Final Exposure Amount, Euro	Risk Weight (%)	Capital Requirement
Czech Republic	298.463	20%	4,776
Cyprus	160.617	20%	2,103
United Kingdom	131.463	20%	2,570
TOTAL	590.543		9,449

Table 9. Geographical Analysis of Credit Risk Capital Requirements - Corporates.

Country	Final Exposure Amount, Euro	Risk Weight (%)	Capital Requirement
United Arab Emirates	426.584	100%	26.388
United Kingdom	325.874	100%	26.070
TOTAL	752.458		52.458

Market Risk

Definition

Market Risk is the risk of losses when the value of investments may decline over a given time period as a result of economic changes or events that impact a large portion of the market.

In the context of Pillar I, Market Risk can be divided in the following categories:

Position Risk: It refers to the probability of loss associated with a particular trading (long or short) position due to price changes.

Interest Rate Risk: The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Commodities Risk: It refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. These commodities may be oil, metals, gas, electricity etc.

Foreign Exchange Risk: It is a financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the Company. The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

Risk Identification, Measurement, Control and Reporting

The Company's Market Risk mainly arises from:

- Foreign exchange fluctuations which affect the Company's deposits in foreign currencies as well as from positions held during forex trading;
- Interest rate fluctuations which are affecting swaps which the Company pay's to the liquidity providers.

In line with the above, the Company has policies to minimize its market risk exposures which are in accordance with the CRR. In particular it follows mitigation strategies in order to minimize the possibility of occurrence of this risk, such as:

- Active hedging strategy;

- Stop Loss - Limits on trading;
- Margin Calls.

Market Risk Analysis

Furthermore, the Company follows CRR's Standardised Approach when it comes to calculating its capital requirements. Current Market Risk Capital requirement is **Euro 36,195**.

Table 10. Foreign Exchange Risk Capital Requirements.

CURRENCY:	EUR '000 31/12/2016
EUR	292
AUD	0
JPY	0
CZK	0
GBP	0
PLN	2
RUB	5
CHF	0
USD	29
Total Risk Weighted assets	328
CAPITAL REQUIREMENTS	2.896

As per the table above, the Company shows that it has foreign exchange risk mainly in United States Dollars. Furthermore, since its reporting currency is EUR, no exposure can arise from this denomination.

Board Risk Management Declaration

The Board has the overall responsibility for assessing the effectiveness of the Company's risk management measures and the systems of financial and internal control. These are designed to control rather than abolish the risks of not achieving business objectives; hence they offer adequate but not absolute assurance against fraud, material misstatement and loss.

The Board considers that it has in place satisfactory systems and controls with regards to the Company's profile and strategy, with an appropriate range of assurance mechanisms and resourced, to avoid or minimize loss.

6. CAPITAL BASE

Tier 1 Capital

The Own Capital definition and calculations are based on the Directive and are represented entirely by the Tier 1 capital. The overwhelming majority of the Company's Tier 1 capital comprises ordinary shares, which may have been issued at a premium, and shareholders' non-refundable contribution.

In line with CRR, the Company's own funds for prudential purposes do not differ from the financial accounting breakdown of equity therefore there is no need to provide further reconciliation on the amounts presented in the composition below:

Table 11. Own Funds.

OWN FUNDS	EUR '000 31/12/2016	Capital Adequacy Ratio
COMMON EQUITY TIER 1 CAPITAL	224	
ADDITIONAL TIER 1 CAPITAL	0	
TIER 1 CAPITAL	224	
TIER 2 CAPITAL	0	
TOTAL OWN FUNDS	224	9.94%

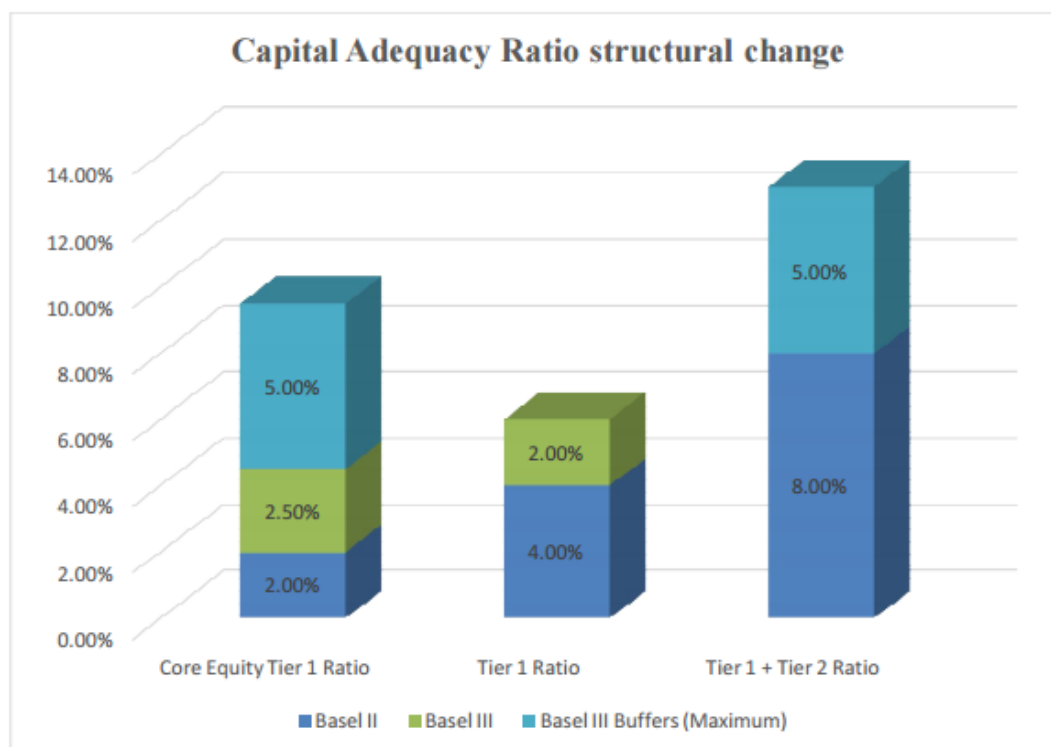
7. CAPITAL REQUIREMENTS

The primary objective of the Company with respect to its capital management is to ensure that the Company complies with the capital requirements regulation imposed by the European Union and regulated by CySEC. Under this framework, the Company needs to monitor its capital base, as mentioned in previous chapter, and maintain a strong capital adequacy ratio in order to be able to promote itself as a healthy Company, fully compliant with the legislation, to support its business and maximize shareholders' value. In this respect, the Capital requirements should not be seen as a restriction of business but rather as proactive risk management imposed to help both the Company and its client base.

The fundamental pillar of the capital adequacy framework, Pillar I, is based on the fact that the Company must have own funds which are at all times more than or equal to the sum of its capital requirements.

In line with CRR, Pillar I sets out the minimum regulatory capital requirements of firms to cover credit, market and operational risk. The minimum total capital adequacy ratio an investment firm is required to maintain is set at 8%. Moreover, with the introduction of Basel III/CRR, the minimum capital adequacy ratio has been further defined and fragmented providing more rigorous monitoring of core equity ratio which is set at 4.5% in contrast with the total ratio at 8% and within a period of 2-3 years the transitional introduction of capital buffers (as per the chart below) will provide more capital requirements and also enhanced security.

Chart 3. Capital Adequacy Ratio Structural Change.



The Company aims to maintain, at all times, a higher capital adequacy ratio compared to the required minimum (8%). In order to manage its capital risk, the Company continually monitors its capital adequacy ratio so as to ensure that this remains, at all times, at a level above the legally required level of 8%.

The Company shall maintain a low risk level. The long-term risk profile will be managed so that the effect of an extremely negative, but possible scenario does not significantly reduce the Common Equity Tier 1 capital ratio. If the monitoring process indicates an excessively large impact on the Company's capitalisation, measures will be taken to mitigate the risks.

The objectives of the Company, when managing its capital are:

- (i) safeguarding the Company's ability to continue as a going concern, and
- (ii) maintaining an optimal capital structure in order to reduce the cost of capital.

The Board, as well as the Risk Manager, monitor the reporting requirements and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company. The Company manages its capital structure and makes adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

In 2016, the Company fulfilled its obligations by successfully submitting, on a quarterly basis, the Capital Adequacy Reports.

As shown below, the total capital requirements of Liteforex (Europe) Limited as at 31st of December 2016 which are calculated based on the maximum of the operational risk exposure using the Fixed Overhead method and the total of credit and market risk exposures, amounted to **Euro 180,170**, producing the following capital ratios:

Table 12. Capital Ratios.

CET1 Capital Ratio	9.94%
T1 Capital Ratio	9.94%
Total Capital Ratio	9.94%

Capital deemed necessary to be maintained by the Company at the end of 2016 was:

Table 13. Minimum Capital Requirements.

Risk Weighted Exposures	Risk Weighted Exposure Amount EUR '000
Risk Weighted Exposure Amount for Credit, Counterparty Credit and Dilution Risk and Free Deliveries	797
Total Risk Exposure Amount for Settlement/Delivery	0
Total Risk Exposure Amount for Position, Foreign Exchange and Commodities Risks	36
Total Risk Exposure Amount for Operational Risk (OpR)	0
Additional Risk Exposure Amount due to Fixed Overheads	1,419
Total Risk Exposure Amount for Credit Valuation Adjustment	0
Total Risk Exposure Amount Related to Large Exposures in the Trading Book	0
Other Risk Exposure Amounts	0
TOTAL RISK EXPOSURE AMOUNT	2,252

8. REMUNERATION POLICY AND PRACTICES

The Company's Board of Directors is responsible for the adoption, periodic review and implementation of the Company's Remuneration Policy. The Board of Directors has approved at its meeting which took place on 29th of July 2015, the Remuneration Policy that has been drafted by the Senior Management of the Company based on Part Eight of Regulation (EU) No. 575/2013 of the European Parliament.

The Company's Remuneration Policy fulfils the Company's obligation under Part Eight of Regulation (EU) No. 575/2013 of the European Parliament. Responsible body for the implementation of the Company's Remuneration Policy shall be the Board of Directors. The responsibility of the Board is to prepare the decisions regarding the Remuneration Policy, including those which have implications for the risk and risk management of the Company and to table the said decisions or proposals for final deliberation.

Further to the application of enhanced corporate governance arrangements in relation with the Board, the Company's remuneration system has also been enhanced in respect to its disclosure in order to promote further transparency.

Remuneration refers to payments or compensations received for services or employment. Based on the above, the Remuneration Policy includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment and shall be appropriate to the CIF's size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the Directive DI144-2014-14.

The Board of Directors is advised by the following persons in respect to the Company's Remuneration Policy:

The Compliance Officer shall be advising the Board on remuneration matters, in order to ensure that any developments in the regulatory field are duly monitored and that the Remuneration Policy, as amended from time to time, duly reflects and complies with the provisions of the applicable legal framework.

Part Eight of Regulation (EU) No. 575/2013 of the European Parliament states that the Remuneration Policy must be consistent with and promote sound and effective risk management and that it shall not encourage risk-taking that exceeds the level of tolerated risk of the Company. In order to ensure that the above risk management considerations are duly reflected in the workings, decisions and proposals for final deliberation by the Board of Directors, the Risk Manager shall advise the Board on such matters.

The Remuneration Policy is subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the management body in its supervisory function. The said review should be performed at least on an annual basis by the Internal Audit and the Compliance functions.

The Company has reviewed and updated its Remuneration Policy for risk-taking functions, taking into account their size, internal organization and the nature, scope and complexity of its activities and without prejudice to the provisions of the Processing of Personal Data (Protection of Individuals) Law. Based on the above principles, as covered personnel (senior management and members of staff whose actions have a

material impact on the risk profile of the investment firm) have been determined the members of the Board of Directors only.

The Company's Remuneration Policy is determined by the Board of Directors. The remuneration of the Company's control functions and senior officers, covered by the Policy, is based on fixed basis with no variable component.

Present Disclosures are required to provide aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investment firm, indicating the following:

- The amounts of remuneration for the financial year split into fixed and variable remuneration, and the number of beneficiaries.
- The amounts and forms of variable remuneration, split into cash, shares, share linked instruments and other types; - **NONE**.
- The amounts of outstanding deferred remuneration, split into vested and unvested portions; - **NONE**.
- The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments; - **NONE**.
- New sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; - **NONE**.
- The amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person. - **NONE**.

In 2016, the remuneration structure of Liteforex (Europe) Limited included only fixed monthly salaries and not any variable cash or non-cash compensation. The Company does not operate a pension scheme/provident fund for its employees.

Table 14 below presents the 2016 annual net remuneration of Senior Management, Executive Directors and other staff whose actions have a material impact on the risk profile of the Company. Senior Management consists of three persons, the Company's Executive Directors and Non-Independent Non-Executive Director.

Table 14. Remuneration of the Management.

Fixed Emoluments in their executive capacity:				
	Number of Beneficiaries	Amounts of Remuneration for the Financial Year 2015		Total Remuneration
		Fixed Remuneration €'000	Variable Remuneration €'000	€'000
Executive Directors	3	87.67	0	87.67
Non-Executive Directors	2	11.00	0	11.00
TOTAL REMUNERATION:	5	98.67	0	98.67

The remuneration relating to independent control functions (**Internal Audit & Compliance**) is based on fixed fee contracts. For the year 2016, the overall fee for those functions was **Euro 54,777.01**.