



Lionsman Capital Markets (Cyprus) Ltd

Regulated by the Cyprus Securities and Exchange Commission License no. 175/12

DISCLOSURE AND MARKET DISCIPLINE

MAY 2014

INTRODUCTION

Lionsman Capital Markets (Cyprus) Ltd (the “Company”) is an Investment Firm authorized and regulated by the Cyprus Securities and Exchange Commission (the “CySEC”) under the license number 175/12 and operates under the Markets in Financial Instruments Directive (EU Directive 2004/39/EC).

The Company is licensed to provide the following services

Investment services

- Reception & Transmission of Clients Orders
- Execution of orders on behalf of clients
- Investment advice

Ancillary services

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

According to the Directive DI144-2007-05 and subsequently Amending Directive DI144-2007-05(A) the Company is required to disclose information relating to its capital, the risks that the Company is exposed to as well as to promote market discipline. These shall constitute a report which will be published on the Company’s website at <http://www.lionsmancm.com> on an annual basis and where necessary the Company shall proceed with amendments of the report, approved by the Board of Directors

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

The CRD consists of three “pillars”:

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

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

Pillar 3 specifies a set of disclosure requirements which enable market participants to assess information on firms’ risks, capital and risk management procedures.

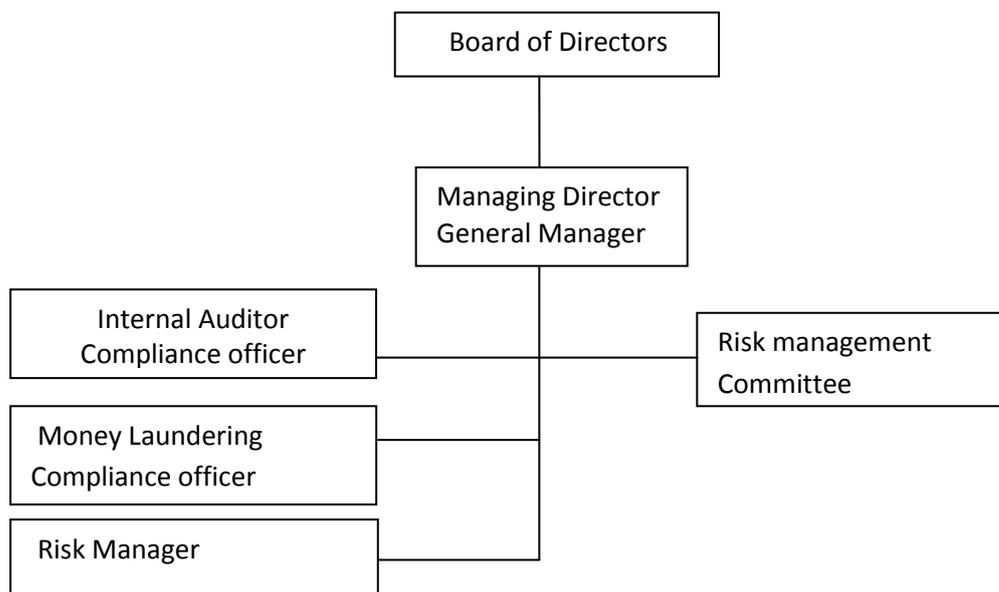
The Board of Directors and the Senior Management have the overall responsibility for the internal control systems in the process of “Capital Adequacy Assessment” therefore they have established effective processes for the identification, assessment, monitoring and the management of each risk. The Company’s business effectiveness is appeared and based on the guidelines of the risk management policies and procedures. The Board of Directors, Audit Committee, Internal Audit, Risk Manager, Compliance and Anti-Money Laundering Officer control and supervise the overall risk management system.

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

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

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

RISK MANAGEMENT STRUCTURE OF THE COMPANY



CAPITAL RISK MANAGEMENT

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

Capital Resources: Equity & Reserves

Share Capital (Ordinary and Premium)	€ 200,000
Accumulated Gains	€ 239,777
Total Capital Resources	€ 439,777

Capital Adequacy ratio (CAR)

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

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

$$CAR = \frac{\textit{Tier One Capital} + \textit{Tier Two Capital}}{\textit{Risk Weighted Assets}}$$

The Company's regulatory own funds, capital requirements/risk weighted assets and capital adequacy ratio as at 31 December 2013 were as follow:

DESCRIPTION	Euro '000
Original Own Funds (Tier 1 Capital)	440
Eligible additional Own Funds (Tier 2 Capital)	0
Credit Risk	30
Foreign Exchange Risk	25
Operational Risk	86
Total Capital Requirements	141
Capital Adequacy Ratio	24.88%

RISKS EXAMINATION / MANAGEMENT

Credit Risk

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

Credit risk is the risk of loss that the Company would incur if a counterparty fails to perform its contractual obligations.

Mitigation Strategies

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

- Regular credit review of counterparties.
- To minimize credit risk of bank defaults, the Company:
 - Uses European banks (lower default risk)
 - Deposit funds with banks that have high ratings issued by Moody's, S&P or Fitch.
 - The Company is in the process of diversifying funds over several European banks

Operational Risk

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

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

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

Mitigation Strategies

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

- The Company has a four eyes structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a financial services director and a separate director of operations. The board further reviews any decisions made by management and monitors their activities
- Several detection methods are in place by the accounting department in order to detect crooks or other fraudulent activities
- The compliance officer ensures the accuracy of any statements made during the marketing and advertising processes. The officer also ensures that the information addressed to the client is fair, clear and not misleading,
- To mitigate this risk the Company has outsourced the performance of the duties of the compliance officer that one of her responsibilities is to ensure that proper information/reports are sent on time to CySEC.
- The Company outsources the Internal Audit function. Internal audit visits to ensure that employees comply with the Company's internal procedures.

- The Company has prepared a comprehensive business contingency and disaster recovery plan with recovery procedures and actions to be followed in the case of damage to any vital part of the Company's structure.
- The Company obtained continues legal advice and suggestions on the preparation of its legal documents.
- The Company's risk manager monitors the compliance of the Company's trading book to the investment policy statement and any deviation is reported to the risk management units and appropriate action is taken,
- Aggregate net exposures, as they develop from the opening and/or closing of positions by clients are monitored by the Company's systems Head of Dealing Room regarding the level of risk to be maintained. Where risk exceeds desired levels, appropriate actions (i.e., automatic by the system rejection of a client order) are taken until desired levels are achieved.
- Ancillary Services of 'Safekeeping and administration of financial instruments, including custodianship are executed by Head of Back Office and monitored by the General Manager and subsequently reviewed by the risk management committee and Directors.

Liquidity Risk

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

Mitigation Strategies

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

Remuneration policy

Remuneration System

During 2013 the following was applicable with regards to the Company's remuneration system:

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management, members of the Board of Directors and the Heads of the departments; the said practices are established to ensure that the rewards for the 'executive management' are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Company operates a discretionary bonus policy directly correlated to the annual profitability of the Company.

The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long term success.

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

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

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

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

- a. Fixed remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role. Fixed remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.
- b. Variable remuneration is designed to ensure that the total remuneration remains in competitive levels and to reward the staff for its performance whilst remaining aligned with the department's and/or the Company's performance. Other factors taken into account are the following:
 - the financial viability of the Company,
 - the general financial situation of the state in which the Company operates,
 - each employee's personal objectives (such as personal development, compliance with the Company's systems and controls, commitment and work ethics).

The variable remuneration component is mainly awarded in the form of cash while no remuneration is payable under deferral arrangements (with vested or unvested portions), nor were there any severance payments during the current year.

The Company's variable remuneration is approved by the Board of Directors for the employees of the compliance department and by the Senior Management for the employees of the back office department, dealing department and customer support department. Variable remuneration is set to incorporate the following principles:

- a. Promote sound and effective risk management, avoid excessive risk taking and protect the long-term interests of the Company
- b. Avoid conflicts of interest between the staff and the Company's clients
- c. Alignment with the Company's compliance, profitability, cost of capital and risk tolerance
- d. Element of long term commitment to the Company

- e. Remuneration is directly linked to the performance of the staff and as result no guaranteed variable remuneration is promised or unconditionally awarded to the staff
- f. Remuneration of staff in control functions is based on the successful performance of the specific objectives of their functions (Key Performance Indicators) and is independent to the performance of the business units they control.

Performance Appraisal

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

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

Remuneration of Key Management Personnel and Directors

The remuneration of the key management personnel of the Company, including Board of Directors, in 2013, was as shown in the following tables:

Broken down by Management area	Number of Beneficiaries	Fixed Remuneration	Variable Remuneration	2013
		€000	€000	€000
Key Management Personnel Remuneration	1	24	-	24
Directors Remuneration (non executive)	2	6	-	6
Total	3	30	0	30

Broken down by Business area	Number of Beneficiaries	Fixed Remuneration	Variable Remuneration	2013
		€000	€000	€000
Key Management Personnel in Senior Management Department	1	24	-	24
Key Management Personnel in Compliance Risk & AML Department	1	5	-	5
Key Management Personnel in Accounting & Back Office Department	1	22	-	22
Key Management Personnel in RTO & Execution Department	1	24	-	24
Total	4	75	0	75

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.