



## Internal Operations Manual

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Extract for the Remuneration Policy Manual

**September 2016**

## **1. REMUNERATION POLICY**

As from 1<sup>st</sup> January, 2015, all Cyprus Investment Firms (CIFs) must comply with Directive DI144-2014-14 (the “Directive”) of the CySEC for the Prudential Supervision of CIFs, regarding Remuneration Policies (Paragraph 20) and Variable elements of remuneration (paragraph 21).

The Remuneration Policy (the “RP”) is the internal document approved by the Company’s Board of Directors and its provisions are applicable to each Director, Officer and Employee. The remuneration varies for different positions/roles depending on each position’s actual functional requirements, and it is set at levels, which reflect the knowledge level, experience, accountability, and responsibility needed for an employee to perform each position/role.

### **1.1. Remuneration Policy Requirements**

When establishing and applying the total RP, inclusive of salaries and discretionary pension benefits, for categories of staff including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on their risk profile, the Company must comply with the following principles in a manner and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities:

1. The RP is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Company;
2. The RP is in line with the business strategy, objectives, values and long-term interests of the Company, and incorporates measures to avoid conflicts of interest;
3. The Company’s board of directors adopts and periodically reviews the general principles of the RP and is responsible for overseeing its implementation;
4. The implementation of the RP is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the board of directors;
5. Staff engaged in control functions are independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control;
6. The remuneration of the senior officers in the risk management and compliance functions is directly overseen by the remuneration committee;
7. The RP, taking into account national criteria on wage setting, makes a clear distinction between criteria for setting:

- a. Basic fixed remuneration, which should primarily reflect relevant professional experience and organisational responsibility as set out in an employee's job description as part of the terms of employment; and
- b. Variable remuneration which should reflect a sustainable and risk adjusted performance as well as performance in excess of that required to fulfil the employee's job description as part of the terms of employment.

### **Variable Elements of Remuneration**

For variable elements of remuneration, the following principles shall apply in addition to, and under the same conditions as, those set out in the first paragraph:

1. Where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall results of the Company and when assessing individual performance, financial and non-financial criteria are taken into account;
2. The assessment of the performance is set in a multi-year framework in order to ensure that the assessment process is based on long-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of the Company and its business risks;
3. The total variable remuneration does not limit the ability of the Company to strengthen its capital base;
4. Guaranteed variable remuneration is not consistent with sound risk management or the pay-for-performance principle and shall not be a part of prospective remuneration plans;
5. Guaranteed variable remuneration is exceptional, occurs only when hiring new staff and where the Company has a sound and strong capital base and is limited to the first year of employment;
6. Fixed and variable components of total remuneration 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;
7. The Company has set appropriate ratios between the fixed and the variable component of the total remuneration, whereby the following principles shall apply:
  - a. The variable component shall not exceed 100% of the fixed component of the total remuneration for each individual.
  - b. The Company's shareholders may approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided the overall level of the variable component shall not exceed 200% of the fixed component of the total remuneration for each individual.

Any approval of a higher ratio must be carried out in accordance with the following procedure:

1. The shareholders must act upon a detailed recommendation by the Company giving the reasons for, and the scope of, an approval sought, including the number of staff affected, their functions and the expected impact on the requirement to maintain a sound capital base;

2. Shareholders must act by a majority of at least 66% provided that at least 50% of the shares or equivalent ownership rights are represented or, failing that, must act by a majority of 75% of the ownership rights represented;
3. The Company must notify all its shareholders, providing a reasonable notice period in advance, that an approval under the first subparagraph of this point will be sought;
4. The Company must, without delay, inform the Commission of the recommendation to its shareholders, including the proposed higher maximum ratio and the reasons therefore and must be able to demonstrate to the Commission that the proposed higher ratio does not conflict with the Company's obligations under the Directive and under Regulation (EU) No 575/2013, having regard in particular to the Company's own funds obligations;
5. The Company must, without delay, inform the Commission of the decisions taken by its shareholders, including any approved higher maximum ratio, and the Commission must use the information received to benchmark the practices of the Company in that regard. The Commission shall provide EBA with that information and EBA shall publish it on an aggregate home Member State basis in a common reporting format;
6. Staff who are directly concerned by the higher maximum levels of variable remuneration must not, where applicable, be allowed to exercise, directly or indirectly, any voting rights they may have as shareholders;
7. The Company may apply the discount rate to a maximum of 25% of total variable remuneration provided it is paid in instruments that are deferred for a period of not less than five years;
8. Payments relating to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct;
9. Remuneration packages relating to compensation or buy out from contracts in previous employment must align with the long-term interests of the Company including retention, deferral, performance and clawback arrangements;
10. The measurement of performance used to calculate variable remuneration components or pools of variable remuneration components includes an adjustment for all types of current and future risks and takes into account the cost of the capital and the liquidity required;
11. The allocation of the variable remuneration components within the Company must also take into account all types of current and future risks;
12. A substantial portion, and in any event at least 50%, of any variable remuneration must consist of a balance of the following:
  - a. Shares or equivalent ownership interests, subject to the legal structure of the Company concerned or share-linked instruments or equivalent non-cash instruments;
  - b. Where possible, other instruments within the meaning of Article 52 or 63 of Regulation (EU) No 575/2013 or other instruments which can be fully converted to Common Equity Tier 1 instruments or written down, that in each case adequately reflect the credit quality of the Company as a going concern and are appropriate to be used for the purposes of variable remuneration.

The instruments referred to in this point must be subject to an appropriate retention policy designed to align incentives with the longer-term interests of the Company. This point must be applied to both the portion of the variable remuneration component deferred and the portion of the variable remuneration component not deferred;

13. A substantial portion, and in any event at least 40%, of the variable remuneration component is deferred over a period which is not less than three to five years and is correctly aligned with the nature of the business, its risks and the activities of the member of staff in question. Remuneration payable under deferral arrangements shall vest no faster than on a pro-rata basis. In the case of a variable remuneration component of a particularly high amount, at least 60 % of the amount shall be deferred. The length of the deferral period shall be established in accordance with the business cycle, the nature of the business, its risks and the activities of the member of staff in question;
14. The variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of the Company as a whole, and justified on the basis of the performance of the Company, the business unit and the individual concerned. Without prejudice to the general principles of national contract and labour law, the total variable remuneration shall generally be considerably contracted where subdued or negative financial performance of the Company occurs, taking into account both current remuneration and reductions in payouts of amounts previously earned, including through malus or clawback arrangements. Up to 100% of the total variable remuneration shall be subject to malus or clawback arrangements. The Company will set specific criteria for the application of malus and clawback. Such criteria shall in particular cover situations where the staff member:
  - a. Participated in or was responsible for conduct which resulted in significant losses to the Company;
  - b. Failed to meet appropriate standards of fitness and propriety.
15. The pension policy is in line with the business strategy, objectives, values and long-term interests of the Company. If the employee leaves the Company before retirement, discretionary pension benefits shall be held by the Company for a period of five years in the form of instruments referred to above. Where an employee reaches retirement, discretionary pension benefits must be paid to the employee in the form of instruments referred to above subject to a five-year retention period;
16. Staff members are required to undertake not to use personal hedging strategies or remuneration and liability related insurance to undermine the risk alignment effects embedded in their remuneration arrangements;
17. Variable remuneration is not paid through vehicles or methods that facilitate the noncompliance with the Directive or Regulation (EU) No 575/2013.

## **1.2. Establishment of a Remuneration Committee**

CIFs which are significant in terms of their size, internal organisation and the nature, the scope and the complexity of their activities, must establish a remuneration committee. The remuneration committee must be constituted in such a way as to enable it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity.

The remuneration committee must be responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the

CIF concerned and which are to be taken by the board of directors. The Chair and the members of the remuneration committee must be members of the board of directors who do not perform any executive function in the CIF concerned. If employee representation on the board of directors is provided for by Cyprus law, the remuneration committee shall include one or more employee representatives. When preparing such decisions, the remuneration committee shall take into account the long-term interests of shareholders, investors and other stakeholders in the CIF and the public interest.

### **1.3. Company Remuneration Procedures**

#### Executive / Managing Directors and Senior Management Personnel:

Fixed remuneration: Executive Directors and Senior Management shall be eligible for an annual remuneration paid in 13 instalments as may approved by the Board of Directors or the remuneration committee (if one is established) always taking into consideration the scale and complexity of the Company's operations, prevailing market conditions and geographical area of operation. The shareholder may recommend increments to the existing remuneration structure and the Board of Directors may approve them.

#### Non-Executive / Independent Director:

The Non-Executive / Independent Directors may receive a monthly remuneration by way of Director's fees invoiced to the Company. All non-executive members will be required to attend frequent Board of Directors meetings. Attendance via teleconference is accepted in cases where the director cannot appear in person due to overseas travel.

#### Employees/other staff:

Employees are entitled to both fixed and variable remuneration. For the fixed remuneration, the employees will be entitled to an annual remuneration paid in 12 instalments as may be approved by the Board of Directors. The fixed remuneration will include any statutory contributions (such as social insurance) by the employee. The variable remuneration will be based on the individual performance of each employee and the Company's performance. Formal performance appraisals take place annually (between January and March) to evaluate the performance of each employee. The head of each department or any one of the senior management will perform the role of the appraiser.

#### Performance-based remuneration:

It is intended to motivate and reward high performers who strengthen long-term customer relations and generate income and shareholder value. Performance is assessed using a set of both qualitative and quantitative criteria that differ according to the position and responsibilities of the employee concerned. Specifically, sales staff is evaluated based on the number of clients introduced and the quality of customer service, among others.

Mileage allowance: The Company allows for a mileage allowance for all employees that reside outside a 45 km radius from the Company's head quarter building. The mileage allowance for daily commute is fixed and relates to the nearest city of the employee's residence. The mileage allowance for domestic business travel is variable and is calculated at 7.5 cents per kilometre.

Overseas Business Travel Allowance: The employee shall make business trips from time to time, as directed by the Employer when required in connection to the performance of his/her obligations. In the event of overseas business travel, the employee will be entitled to a business travel allowance, which will be relevant to the destination COLA standards. The Company will adapt the rates indicated by the European Commission.

Other individual benefits: May be awarded to individuals on a case by case basis in accordance with local market practice.

#### **1.4. Remuneration Committee**

The Remuneration Committee shall consist of a minimum of 3 non-executive directors. Minimum two (2) members shall constitute a quorum for the Committee meeting. Term of the Committee shall be continued unless terminated by the Board of Directors. Chairperson of the Committee shall be an Independent Director. In the absence of the Chairperson, the members of the Committee present at the meeting shall choose one amongst them as Chairperson.

The Remuneration that employees receive for their professional activities at the Company must be stipulated definitively in their employment contracts. The employment contract and any subsequent amendments must be in written form. The Board of Directors drafts and organizes the regular review of the RP with the assistance of other departments if required. The RP becomes effective upon approval by the Board of Directors. The RP is reviewed by the Board of Directors on a regular basis, at least once a year.