Olivetree Financial Limited

Pillar 3 Disclosure Statement

31st December 2019

1. Introduction

1.1 Pillar 3 Disclosures

These Pillar 3 disclosures are prepared in accordance with the Capital Requirements Directive III as implemented by the FCA within the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for banks, building societies and investments firms (BIPRU) parts of the Handbook.

The regulatory framework comprises of 3 pillars:

- **Pillar 1** refers to the minimum capital requirements for a firm. The minimum capital requirements for a BIPRU firm are the greater of the Credit risk requirement and the Market risk requirement, or the Fixed Overhead Requirement**.**
- **Pillar 2** requires the firm to assess whether the amount of capital held is sufficient against risks not adequately covered under Pillar 1. This is achieved through the firm's Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) undertaken by the FCA.
- **Pillar 3** governs disclosure requirements regarding the firm's Pillar 1 requirements, capital resources, risk profile, remuneration and its risk management framework.

These Pillar 3 Disclosure are updated and published annually. They will, however, be published more frequently if there are material changes to the business.

This document has been reviewed internally and approved for publication on the Olivetree website (www.olivetreeglobal.com). It has not been externally verified.

1.2 Non-Disclosure

The FCA's BIPRU 11 rules set out the requirements for Pillar 3 disclosure and permits non-disclosure of information considered by the directors to be immaterial. A disclosure is deemed to material if the omission or misstatement of that information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where a disclosure is considered to be immaterial, this has been stated.

The rules additionally permit non-disclosure of information of a proprietary and/or confidential nature. Propriety and confidential information includes non-public information that is confidential and/or propriety belonging to the firm and/or parties with whom the company transacts business or if the disclosure of such information would prove detrimental to the company's competitive advantage.

1.3 Scope and basis of preparation

Olivetree Financial Limited ("Olivetree" or "the Company") was authorised by the FCA on the 20th April 2009 and is classified as a BIPRU firm.

The Company is authorised and regulated by the UK's Financial Conduct Authority to execute transactions in shares on a "matched principal basis" only. Olivetree is not permitted to execute transactions on a risk basis and does not carry risk/principal positions.

These disclosures have been prepared on a consolidated basis. The Company is part of a UK Consolidation Group (the 'Group') containing the following entities:

Name	Prudential category	Nature of business
Olivetree Group Limited	Parent financial holding company in a Member State	Holding company
Olivetree Financial Limited	BIPRU firm	Broker
Olivetree Financial, LLC	FINRA registered broker dealer	Broker

The minimum capital requirements as at 31 December 2019 for the BIPRU firm were calculated in accordance with the rules contained in CRD III. The Company has sufficient capital resources in relation to its minimum regulatory capital requirements on a stand-alone basis.

1.4 Transferability of funds among the consolidation group entities

There are no current or foreseen material practical or legal impediments to the prompt transfer of funds amongst the members of the UK Consolidation Group other than the UK Companies Act requirements in respect of declaration and payment of dividends. Surplus distributable reserves are released by dividend payments up the chain of ownership to Olivetree Group Limited. Conversely, in the event of an anticipated shortage of capital in a particular entity, there are no anticipated impediments to prevent recapitalisation from the parent entity.

2. Governance

The Board has adopted a risk management governance structure comprising the Board and managing director committee to provide review, challenge and oversight of the firm's risks.

3. Risk Management objectives and policies

3.1 Risk Management

The Board of Directors is ultimately responsible for the continual identification, evaluation and management of both commercial and operational risks relevant to the Group's business, and its trading environment, ensuring a robust control environment and culture exists with effective and pertinent risk mitigation measures in place to protect shareholder investment, client and regulatory confidence, and its employees.

The Group has adopted a risk management framework comprised of the following four elements:

- Risk governance – this includes setting risk tolerances, establishing policies and procedures, and overseeing the risk management framework.
- Risk identification and assessment – this includes identifying the Group's key risks and emerging risks, identifying business line risk, reviewing major changes (and products) and reviewing operating events and external events.
- Risk monitoring and measurement – quantifying and forecasting risks and monitoring against risk tolerance
- Risk reporting – providing information and reports to the Board and regulators

Core to the Group's risk management is the ICAAP which is prepared by the Company's CFO and is approved by the Group Board annually. In the event that there is a significant change to the Group's business model, business plan or circumstances, the ICAAP may be reviewed and amended and re approved by the Board on an interim basis. Given that the Group is currently small in size, senior management of the Group is involved in assessing the Group's overall risk on a close and continuous basis.

The Group believes that risk presented by even minor changes to the business or its environment, or proposed non-standard transactions can be considered and addressed quickly. Comprehensive quarterly financial statements are prepared by the Company's CFO. The capital resource requirement is monitored continuously and reviewed formally on a monthly basis. FCA returns are also reviewed by senior management. The components of this approach are appropriate to the scale and risk profile of the business and commensurate with the group's conservative risk appetite.

The Group's ICAAP includes a consideration of minimum regulatory capital requirements and the amount of capital the Company assesses is required to meet its business growth objectives and avoid breaching regulatory capital requirements. In addition, the ICAAP assesses all relevant risks by taking into account the probability of such risks materialising and the likely impact should that risk materialise, after mitigating factors have been taken into account. Where the risk remains "High" after considering mitigating factors, the Group performs scenario based analysis, determining capital buffers against those risks materialising and causing the Group to breach minimum regulatory capital requirements.

3.2 Strategies to manage key risks

The Group is exposed to a number of risks, some of which are industry wide and some are idiosyncratic to it. The material high level risk categories are as follows:

Credit Risk

Credit risk relevant to the Group is the risk of default by an obligor and in the Group's case specifically relates to business banking balances, settlement agent balances, and suppliers with regard potential failure to supply goods or services where such goods or services have been paid for in advance.

The Group analyses credit risk prior to entering into business banking relationships seeking to spread risk where both possible and practical to alleviate concentration risk.

The Group maintains cash balances with its bankers and additionally, balances due from the Group's clearing and settlement agent. Other applicable credit exposures relate to prepaid expenses, such exposure is only entered into after appropriate credit checks have been carried out as to the financial strength and reputation of the supplying company.

The Company employs the services of Pershing Securities Limited to clear and settle all transactions in European shares pursuant to a "Model B Clearing" arrangement. Pershing Securities Limited is an affiliate of Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation which is rated Aaa by Moody's and AA by both Standard & Poor's and Fitch. The Company only acts as a riskless principal and Pershing assumes the counterparty/settlement risk of our market counterparties.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group continually endeavours to minimise operational risk wherever possible through a series of measures which include but are not limited to:

- Adoption and implementation of pertinent controls;
- Definition and segregation of duties & authorities;
- Recruitment of suitably experienced personnel; and
- Succession planning.

Beyond day to day risk controls the Group is fully aware of the importance of business continuity planning combined with ensuring relevant insurance plans are in place:

- Mitigation of business interruption risk by ensuring that key data, trading and settlement systems are sufficiently backed up and Disaster Recovery arrangements are in place and/or outsourced to long standing and reputable organisations;
- Insurance – Business Interruption insurance in place with appropriate sum insured whilst recognising the period between event and claim, employers' liability insurance, directors and officers insurance, trade error, civil and criminal liability insurance, and contents insurance.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to meets its financial obligations as they fall due.

The Group manages liquidity risk by:

- Maintaining an adequate capital base in conjunction with sufficient cash balances;
- Surplus funds being held entirely in cash products and only with recognised credit institutions that possess a strong credit rating;
- Funds being held on an instant access basis to ensure liquidity. In a more rewarding interest rate environment the company would place greater importance on the risk and liquidity quality of surplus cash positions;
- Cash position monitored on a daily basis; and
- Future cash flow planning.

4. Capital resources

Within the UK Consolidation Group, the only element of capital resources held is Core Tier 1 capital. This is the highest form of capital and consists of share capital, share premium and retained earnings.

The table below reconciles capital resources as at 31 December 2019 to the latest Group audited statutory financial statements as at 31 December 2018:

	£'000
Share capital	1,045
Share premium	360
Other reserves	-
P&L reserve	1,258
TOTAL SHAREHOLDERS' FUNDS	**2,663**
Regulatory deductions:	
None	-
CORE TIER 1 CAPITAL (as at 31 Dec 2019)	**2,663**

5. Capital Requirements

The entities that fall within the scope of CRD III are required to hold capital resources in excess of their variable capital requirement. As a BIPRU firm, the variable capital requirement is the higher of the sum of credit risk and market risk, or the fixed overhead requirement ('FOR').

5.1 Credit risk

The risk weighted exposure amounts under the simplified standardised approach to credit risk are as follows:

	Exposure values £'000	**Capital requirement £'000**

Central government	574	-
Regional governments	-	-
Institutions	3,901	53
Corporates	987	76
Other Items	295	19
TOTAL	**5,757**	**148**

6.2 Market risk

The only market risk applicable to the Company is foreign exchange. The position risk requirement in respect of foreign exchange risk was £114,000.

6.3 Internal capital

In addition to the Pillar 1 requirement discussed above, each entity has an internal capital target set by the Board. In advance of any significant business decisions being made, the impact that these will have on the capital of the Company and the Group is fully assessed in order to ensure a suitable capital is maintained.

6.4 Approach to assessing adequacy of internal capital

The primary purpose of the ICAAP is to inform the Board of the on-going assessment of the Group's risk, how the Group intends to mitigate those risks and how much current and future capital is necessary.

The ICAAP consists of a number of steps, which are conducted at least annually:

- The adequacy of risks covered by Pillar 1 (credit risk and market risk) is assessed and a decision made as to whether additional capital is required
- Risks not covered by Pillar 1 (operational, liquidity, business and others) are reviewed and assessed, with additional capital put aside if required
- The sum of the risk assessments is then compared to the costs of winding down
- Finally, stress testing is conducted over a three year period using a minimum of three scenarios and the potential impact on various metrics is assessed

Where the Pillar 2 assessment is higher than the Pillar 1 requirement, the firm holds additional capital, both at the consolidated and solo level.

The ICAAP is a core element of the Company's risk management framework; beyond the risk components contained within Pillar 1 the Company assessed the likelihood and impact of additional risks applicable to its business and trading environment with a view to both determining the need for, and quantifying the amount of additional capital required within Pillar 2.

6. Interest rate risk on non-trading book positions

The Group has not entered into fixed rate contracts, liabilities or off-balance sheet positions. Cash deposits are on overnight terms and no fixed rate liabilities exist. Additionally, the Group does not hedge interest rate risk. The Group is not exposed to interest rate risk in the non-trading book.

7. Remuneration

7.1 Decision making process

The Group has established, implemented and maintains remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. In establishing and applying the total remuneration policies the Group complies in a way and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

The Group's Remuneration approach ensures that the Company has a risk-focused approach to remuneration, which is consistent with and promotes sound and effective risk management and does not expose the Company to excessive risk by incentivizing employees to act in ways that might undermine effective risk management.

Where applicable, the Board of each group entity is responsible for ensuring that the Remuneration approach is implemented and is in compliance with the Code. When proposing and approving remuneration the relevant Board will collectively consider both financial and non-financial performance measurements, current and future risks and the ICAAP.

The Company's Senior Management Group is responsible for the preparation of recommendations regarding remuneration which are put to the Board for approval.

7.2 Link between pay and performance

When preparing such recommendations, senior management takes into account various factors including market conditions, regulatory requirements and shareholders' interests. Recommendations to the Board are based on the performance of the Group and the performance of individuals taking into account, where appropriate, effective risk management performance.

7.3 Quantitative aggregate remuneration information

	Senior Management £'000	**Other Material Risk Takers £'000**
Number of Material Risk Takers	10	-
Fixed Remuneration	1,855	-
Variable Remuneration	4,054	-
Total Remuneration	**5,909**	**-**