



Clarksons Platou  
Securities AS

## Risk and Capital Management Report | 2017



This risk and capital management report is dated 1 March 2018.

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## 1 Introduction

### 1.1 General information about Clarksons Platou Securities Group

Clarksons Platou Securities AS, company registration number 942 274 238 (the “**Company**”) is an independent full-service investment bank under supervision by the Financial Supervisory Authority of Norway (Finanstilsynet, the “**FSA**”).

The Company has one wholly owned subsidiary in New York, Clarksons Platou Securities, Inc., CRD 30882 (“**CPSI**”), licensed by the Financial Industry Regulatory Authority (“**FINRA**”) in the United States. The Company and CPSI are hereafter jointly referred to as the “**Group**”. The Group offers services within investment banking, equity and credit sales, and equity and credit research within the Clarkson group’s core segments shipping, offshore and oil & gas, in addition to metals & mining.

### 1.2 Capital adequacy framework and the requirement to disclose information

The capital adequacy framework consists of three pillars:

- Pillar I covers the regulatory capital requirements based on risk weighting of assets, requirements to regulatory capital and minimum capital adequacy ratios.
- Pillar II covers the internal capital adequacy assessment process (ICAAP) and requires the Group to assess its risk profile, the requirement for additional capital above the Pillar I requirements, capital and liquidity management and contingency planning.
- Pillar III requires the Group to disclose information about the Group’s financial position, risk profile, management and controls, and the Group’s capitalization and capital management.

The Pillar III requirements are set out in the Norwegian Capital Requirements Regulation, Part IX: Disclosure of financial information (*Norw: Kapitalkravsforskriften del IX: Offentliggjøring av finansiell informasjon*) and Basel III Capital Requirements Regulation (CRR) Part 8: Disclosure by Institutions. The purpose of the disclosure is to ensure third parties can assess the Group’s risk profile, risk management and controls, and capitalization, to improve market discipline, transparency and comparability in the financial services sector.

This Risk and Capital Management report (the “**Report**”) together with the Group’s Annual Report and Disclosure on the Composition of Regulatory Capital shall ensure the Group’s Pillar III obligations are met. The Group’s Annual Report and Disclosure on the Composition of Regulatory Capital are available on the Group’s website: <http://securities.clarksons.com>.

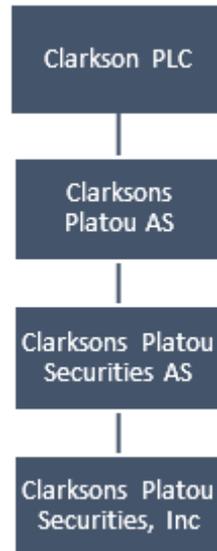
The Report is updated annually and is based on financial statements per year-end. The Report is not subject to a formal audit, but has been reviewed by the Company’s Board of Directors (the “**Board**”).

## 2 Group Structure

### 2.1 Group structure and consolidation

Capital adequacy is presented on both Company and consolidated Group level. The basis for consolidation is the same as for Norwegian GAAP and reference is made to the Group's Annual Report.

The Company is wholly owned by Clarksons Platou AS which again is wholly owned by Clarkson PLC. Clarkson PLC is listed on the London Stock Exchange.



### 2.2 Other required disclosures

Transfer of capital and repayment of debt between Group companies are governed by local regulations. No contractual, private law or other limitations exists.

The Group has the following subordinated loans outstanding:

Issuer	Lender	Amount	Issued	Maturity	Interest
CPSI	Clarkson PLC	USD 5 million	15.06.2017	15.06.2018	12 month USD LIBOR + 3%

### 3 Risk Management and Internal Control

The purpose of the Group's risk management and internal control is to safeguard the values of the Group by operating an efficient, solid and compliant operation.

The responsibility and implementation of the Group's risk management and control is divided between the Board, management and operational units. The division of responsibility is operationalized through the Group's goals and strategies, authorizations and job descriptions as well as internal instructions and procedures.

The Company's risk management and internal control measures are documented through the Company's compliance manual, which is approved by the Board and updated on a regular basis. In addition, the Company prepares a risk matrix describing its material risks which is updated at least annually. The risk management is based on a policy document issued by the Board annually.

The Company's risk management policies and its compliance manual are based on the principle that the responsibility to oversee the relevant risks and necessary controls follows the Company's reporting lines. Each member of the Company's management shall on a regular basis assess risks and controls within his/her area. Another main principle is double control; all money transfers, agreements and other material issues shall be approved by another person in addition to the person executing the agreement or transaction.

#### 3.1 Controls and Reporting

The Risk Management and Internal Control Function comprise of the Chief Compliance Officer (the **CCO**), the Chief Operating Officer (the **COO**) and the Chief Financial Officer (the **CFO**) jointly.

The risk management and internal control model includes an assessment of all risks, but is focused on the areas where the risk is assumed to be the greatest. The Risk Management and Internal Control Function monitors and conducts tests of activities and processes to ensure compliance with applicable laws, regulations, policies and market practice, and reports directly to the Board periodically.

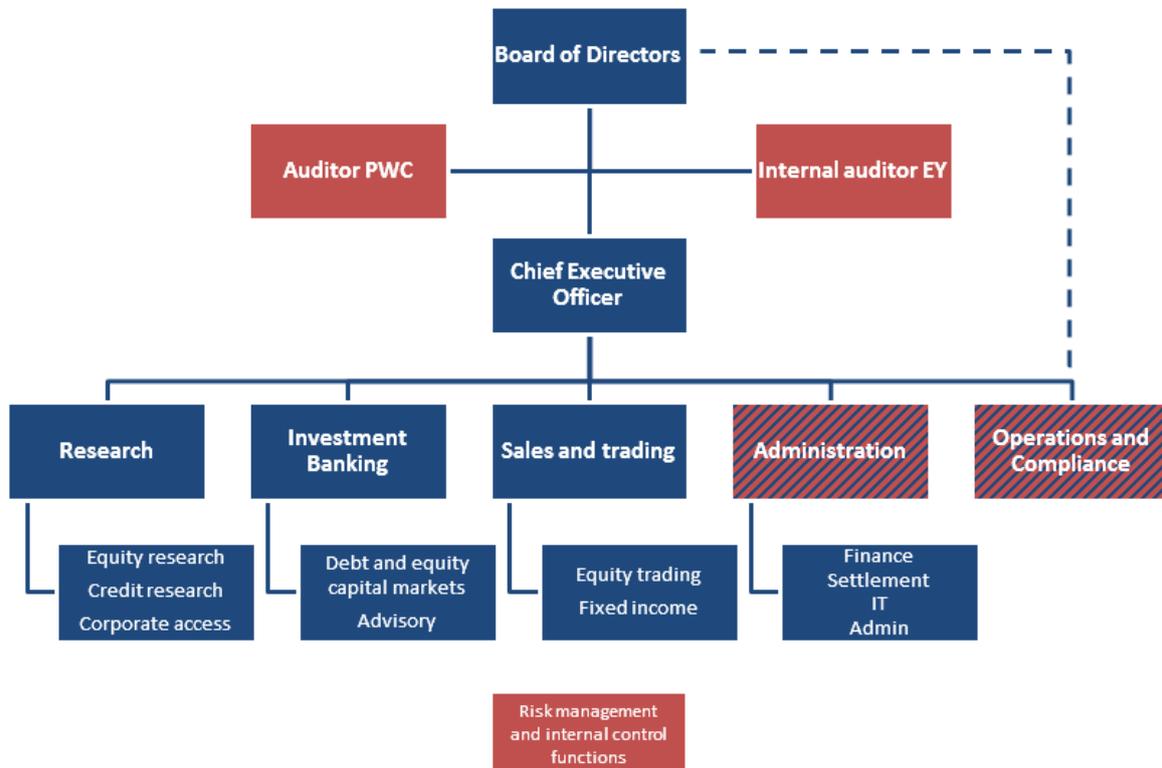
In addition, the internal auditor also conducts tests of both operational activities and processes, in addition to testing the work of the risk management and internal control function, and reports directly to the Board periodically.

At least annually, in consultation with the Risk Management and Internal Control Function, the different line managers perform an update of the risk management and internal control model. After the review of the model, the updates are implemented in cooperation with the Chief Executive Officer (the **CEO**) and summarized in the CEO's annual report on the internal control which is presented to the Board.

The Company conducts risk evaluations before each ordinary board meeting covering all business areas and services. The risk evaluations are reported to the Board through the status report prepared by the Company.

### 3.2 Organizational chart

Below is Company's organizational chart, including the risk management and internal control functions:



### 3.3 Responsibilities

#### 3.3.1 The Board of Directors

The Board is responsible for ensuring that the Company has the appropriate risk management and internal control procedures in place, and that the Company and Group is properly capitalized. The Board received periodically independent reports from the risk management and internal control function, the internal auditor and the auditor. The Board shall at least annually review and approve the policy for risk management and internal control and evaluate the capital requirements for the Group.

#### 3.3.2 CEO

The CEO is responsible of the day-to-day management of the Company, in accordance with the instructions given by the Board. The CEO defines the internal control environment by providing leadership and direction to senior managers, and reviewing the way they are supervising the business. The CEO is in charge of the risk management process and its continuous development, allocation of resources, review of risk management policies as well as defining the principles of operation and overall process. At least once a year the CEO reports to the Board on risk management and internal control based on the reports received from the line managers.

#### 3.3.3 Department Heads - First Line of Defence

The Department Heads are responsible for the day-to-day operations of their department. They have the primary responsibility for identifying, assessing, managing, controlling and reporting risks. Risk assessment is an integral part of the daily business processes in the Company. In order to identify the main operational risks, the Department Heads assess at least once a year the risks inherent in their respective departments. The objective is to identify and assess key risks, review whether the established controls has proven sufficient to operate as intended and whether there is a need for adjustments to current risk prevention measures. Based on the reports from the line managers, the CEO summarizes the total risk management and internal control in the Company to the Board.

### 3.3.4 Risk Management and Internal Control Function - Second Line of Defence

The Risk Management and Internal Control Function assists the Board, the CEO and the Department Heads with risk management and internal control and coordinate and oversee the implementation of prudent risk governance and internal control systems throughout the organization. The second line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk-related information up and down the organization.

### 3.3.5 Internal and External Auditors - Third Line of Defence

Internal and external auditors form the Company's third line of defence and is provided by EY (Ernst & Young AS) and PWC (Pricewaterhousecoopers AS) respectively.

The internal audit function provides a risk-based assurance to the Board, CEO and senior management. This assurance covers how effectively the organization and each department assess and manages its risks and includes assurance on the effectiveness of the first and second lines of defence.

The external audit function conducts statutory audit of the Company and Group's financial statements and regulatory reporting to the FSA.

## 4 Assessment of Risks

Below is an overview of the management's assessment of the Company's risks for each risk category. The Board view the Company and Group risks as acceptable.

### 4.1 Counterparty Risk

The Group is not licensed to grant credit and does not intend to apply for such license in the near future. The Group has therefore no traditional credit risk. However, the Group is exposed to counterparty risk in relation to settlement operations, accounts receivables, bank deposits and excess liquidity. The Group conducts know your client (KYC) assessments of all new clients. The majority of clients are professional institutional clients and as such the risk is viewed as moderate.

The Group is also subject to regulatory limitations on large exposures (*Norw: Forskrift om kredittinstitusjoners og verdipapirforetaks store engasjementer*) which limits the Company and Group's exposure to institutions to 100% of the regulatory capital base and exposure to other entities to 25% of the regulatory capital base. Large exposures are monitored on a continuous basis and reported to the FSA quarterly.

#### 4.1.1 Settlement risk

The Company has its own settlement operations. CPSI has outsourced its settlement operations to Pershing.

The Group is exposed to the risk that trading counterparties do not settle their side of a transaction. The primary reason for a counterparty not settling will typically be that a seller does not hold the financial instruments sold (short) or the settlement instructions are incorrect. Liquidity is rarely the main reason for settlement issues for institutional clients. Failed trades are reported as and when they occur and the Group may take corrective actions, including buy-in, to reduce the Group's exposure.

The Group does not offer equity futures or other complex derivatives with financing elements. The Group has not suffered any losses related to derivatives.

The above risks are typical for the Group's business and are monitored on a daily basis. The Group has not incurred any material losses relating to settlement risk over the last three years and the risk is viewed as moderate.

#### 4.1.2 Accounts receivable

The majority of the Group's revenues are generated from transactions where the Group subtracts its fees from the proceeds to/from the client. On these transactions, the Group is exposed to limited risk in relation to the collectability of its receivables. In relation to other revenues, the Group is exposed to counterparty

risk on its accounts receivable. The Group has routines for monitoring and following up on passed due receivables. The Group has not incurred any material losses on receivables over the last three years and the Group takes a conservative approach to bad debt provisions. As a result, the risk is viewed as moderate.

#### **4.1.3 Bank deposits and excess liquidity**

The Group's bank deposits and excess liquidity are placed with large, reputable financial institutions in Scandinavia and the United States, and in Norwegian Government Bonds. The Group seek to diversify the exposure of its bank deposits and excess liquidity, but has still a material exposure to each individual financial institution. Management of excess liquidity follows the instructions of the Company's Credit Committee. The risk is viewed as moderate.

## **4.2 Market Risk**

Market Risk refers to the risk of the Group incurring losses as the result of positions in financial instruments, foreign currency exposure or interest rates movements. The Group has limited market exposure and the risks are viewed as moderate.

### **4.2.1 Position risks**

The Company is licensed to perform own account trading, however the Company does not perform such activities as part of its day-to-day operations. All own account acquisition of securities must be preapproved by the Company's Credit Committee.

Per 31 December 2017 the Company held a position in Navios Maritime Containers, Inc (NOTC: NMCI) with a book- and market value of NOK 3.8 million. The securities are held outside of the trading book and is accounted for on a marked-to-market basis.

The Company plans to start proprietary trading in certain convertible bonds in 2018 and this will increase the potential position risk. As part of the establishment of the own account trading activities, the Company will prepare new policies and routines for risk management and internal control. Regulatory capital requirements relating to position risks will increase with introduction of such activities but the regulatory capital base per 31 December 2017 should support such potential additional capital requirements (see below).

### **4.2.2 Currency risks**

The Company is exposed to currency risk due to its ownership of CPSI. The ownership is considered long term and there is no hedging of the currency risk. The Company holds limited bank deposits in USD, EUR, GBP and SEK for daily operations. The majority of the Group's revenues are USD denominated, and the Company's currency exposure is reduced by conversion of foreign currency balances to NOK as balances accumulate.

### **4.2.3 Interest rate risk**

The Group's interest rate risk is limited. The Group's cash balances are held in current accounts with floating rates. The Company has a NOK 100 million credit facility with DNB which has a floating interest rate. CPSI has a USD 5 million subordinated loan with a one year fixed interest rate at 12 month USD LIBOR + 3%.

### 4.3 Operational Risk

Operational risk represents the Group's risk of incurring financial losses or loss of reputation due to inadequate or failed processes or systems, human error, external events and legal and regulatory risks. Operational risks represents the Group's largest risk and can in extreme circumstances result in loss of licenses and/or deteriorate the basis for its operations. Within operational risks, compliance with local legal- and regulatory framework, and in particular with respect to investment banking services, represents the single largest risk.

Operational risks are generally sought reduced through clearly defined routines, instructions and procedures for the Group's employees, automation of tasks and double controls. The Risk Management and Internal Control Function conducts regularly controls of critical processes and reports the findings to the Board. The Group also utilize external third party knowledge in its internal audit work.

The Group has divided the operational risk into the following:

#### 4.3.1 Investment banking operations

The Group's investment banking activities are regulated by local and international laws and regulations. The primary risks associated with investment banking activities are:

- Underwriting activities
- Handling of insider information, including maintaining accurate insider lists and wall-crossing processes.
- Regulatory risks and anti-money laundering procedures
- Maintaining adequate regulatory capital/net capital requirements
- Reputational risk associated with failed transactions or working with companies that do not operate under same ethical guidelines and professional standards as the Group

The risk associated with US investment banking operations are considered particularly high due to civil liability to the issuers and investors, and regulatory liability to securities regulators.

All assignments and transactions are prior to implementation approved by both the Group's own compliance department and the respective Deal Committees. All investment banking clients are evaluated and risk assessed according to the Group's policies. The Group normally retains its own external legal counsel and conducts both legal and financial due diligence. In the US, all transactions undergo thorough examination from external legal counsel.

Despite continuous updates to routines, instructions and procedures, along with the Risk Management and Internal Control Function's focus on internal control to monitor the investment banking operations, the risks associated with investment banking is viewed as high due to the potential negative consequences of non-compliance and failed transactions.

#### 4.3.2 Research operations

The primary risks associated with equity and credit research are related to regulation of the research products across the jurisdictions, and in particular in the US.

Other primary risks related to the research operations are:

- Independence of the research department
- Relationship between research and investment banking (Chinese Walls)
- Silent periods and distribution of research reports
- Interaction and cooperation between research departments in Oslo and New York

All reports must be approved by the Head of Research or his/her deputy before distribution. In addition, compliance monitors distributed reports on an ad-hoc basis.

Any assistance by analysts to investment banking on specific transactions must be preapproved in writing by compliance. In the US, regulations prevent equity research personnel to interact with Investment Banking personnel.

The Company has not received any complaints related to the equity and credit research department.

Due to the continuous updates to routines, instructions and procedures, along with internal controls to monitor the research department, the risks associated with research activities are viewed as moderate.

#### **4.3.3 Secondary trading operations**

The primary risks associated with secondary trading in securities are settlement risk as described under item 4.1.1 above and risks related to human errors such as fat finger errors and other erroneous trades.

#### **4.3.4 IT Risks**

The Company and the Group's IT systems and platforms are critical for all parts of the business, and any interruptions, down time or other IT related issues may have a material adverse effect on the Company and Group's business and results. IT security is also vital both from a regulatory perspective and to maintain a solid reputation.

The Company and the Group have experienced minor disruptions and certain issues related to IT during 2017 and management and compliance together with the Head of IT considers on a continuous basis any potential changes, need for new equipment, need for new or updated programs and applications and if our staffing is adequate. The Company is also under constant threat of cybercrime and risk for hacking. The Company performs security testing by a third party of all business critical systems annually.

On 29 November 2017, the Company's ultimate parent company Clarkson PLC announced it had been subject to a cyber-security incident. The incident did not directly impact the Company and the Group, but has reinforced a wider review of cyber security and the Clarksons Group immediately accelerated roll-out of various additional IT security measures. The Company and the Group takes issues of IT security extremely seriously and continues to invest heavily to further enhance the systems and procedures it has in place.

Due to increased external threats and sophistication of cybercrime violators the Company and the Group view the risk associated with IT as high.

#### **4.3.5 Financial risks**

Financial risks are divided into the following:

##### **4.3.5.1 Financial and regulatory capital**

The Group monitors closely the development in the Group's markets, revenues and cost base. Revenues fluctuate from month to month due to market conditions and corporate finance activity. New business areas or sectors are added only when the Group believe it has a unique edge, and it complements the Group's existing product offering or client base. The primary risk associated with financial performance is the potential depletion of regulatory capital because of a prolonged period with negative results.

##### **4.3.5.2 Liquidity and funding**

Liquidity risk occurs in situations where the Group is not able to pay its liabilities on the due dates.

Per 31 December 2017, the Company had unrestricted cash of NOK 116.6 million and the Group had unrestricted cash of NOK 282.1 million. In addition, the Company has a credit facility of NOK 100 million with DNB.

During 2017, CPSI's subordinated loan of USD 5 million from Clarkson PLC was renewed.

During 2017, the Company and the Group had a strong liquidity position and the Company had limited use of the credit line. As the Group is part of the larger Clarkson PLC Group, the funding risk is viewed as moderate.

#### **4.3.5.3 Concentration risk**

Concentration risk occurs when exposure to one or interrelated parties or risks threaten the Group's capital base or ability to maintain its core operations.

The Group seeks to diversify the revenue base by maintaining relations with a number of local and international clients, across a number of industries. Over the last 3 years, no single client or client constellation has represented more than 20% of the total revenues in a single year. Regulatory limitations on large exposures also puts limits on the maximum exposure to one or interrelated third parties. The Group view the concentration risk as moderate.

#### **4.3.5.4 Currency risk**

The majority of the Company's revenues are in US dollar, whereas the majority of the costs are denominated in NOK. The Company will typically only sell currency in the spot market when a material cash balance has accumulated. Hedging of currency is not considered an effective risk reduction tool as revenues are unpredictable. The Company holds NOK, USD, EUR and GBP accounts for its day-to-day operations.

#### **4.3.6 Regulatory risks**

##### **4.3.6.1 General regulatory risk**

Compliance with local and international laws and regulations is critical for the Company and the Group's operations and as such are a key focus area for the Company's Risk Management and Internal Control Functions. In addition, new and updated laws and regulation (such as MIFID II, MAR, EMIR and GDPR) means that the regulatory environment is in continuous development. The Company and Group seek to ensure compliance with local and international laws and regulations by being continuously updated on developments in the regulatory framework and taking a proactive and low risk approach to dealing with relevant laws and regulation.

In addition, employees of the Company and the Group have mandatory training and testing in relevant areas to ensure all parts of the organization is updated on regulatory developments.

Despite internal focus on local and international regulatory compliance, the implications of regulatory breaches means that the regulatory risk is viewed as high.

##### **4.3.6.2 Access to US capital markets and US operations**

The access to US capital markets through the wholly owned subsidiary CPSI is critical for the Company and Group's long-term performance. Restrictions on foreign entities activities in the US market means that the Company and the Group must monitor and review all activities where the Company and CPSI cooperate.

The inclusion of research activities and a larger sales force in CPSI has increased the activity level and complexity of the US operations has increased the risk of the operations. The Group seeks to minimize the risks associated with the Group's US operations by ensuring both the Company and CPSI has strong competence on relevant regulation.

Despite internal focus on regulatory compliance, the implications of regulatory breaches means that the risk associated with the Group's US operation is viewed as high.

#### **4.3.7 Dependency on key personnel**

The relatively small size of the organization means that the Company and the Group can quickly adjust and adapt to changing market conditions. However, this also means that the Company and the Group has a relatively high dependency on key personnel. The risk is reduced by having documented routines and procedures in place, working in teams and ensuring a work environment where knowledge, expertise and experience is shared across the organization.

#### **4.4 Other Risks**

For disclosure on the Company and Group's Liquidity and funding risk and Concentration risk see clause 0 above.

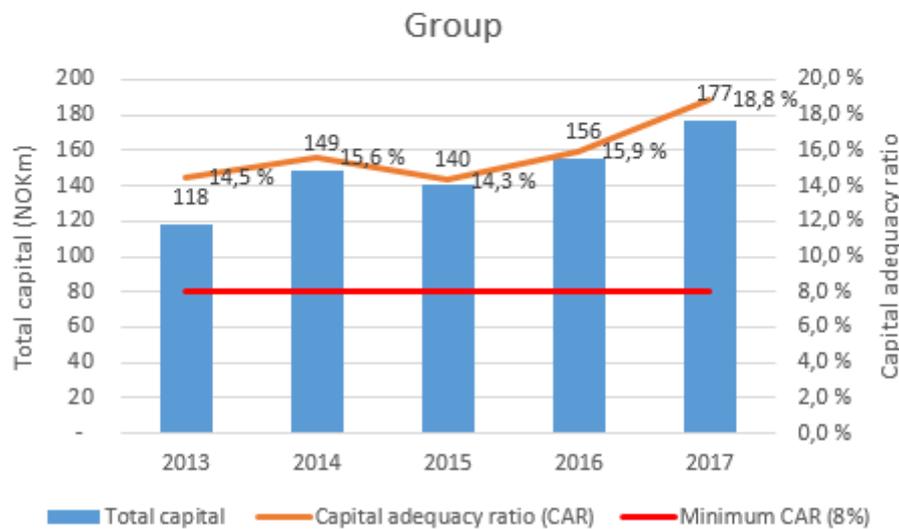
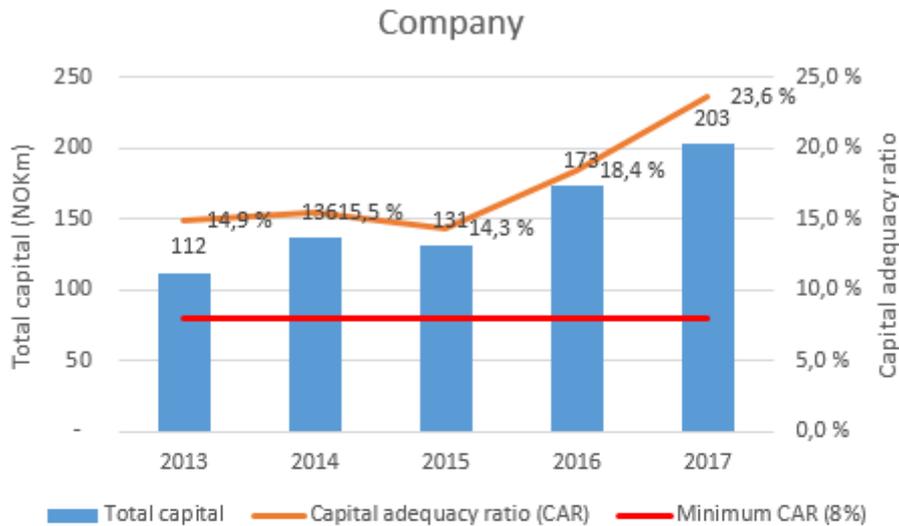
##### **4.4.1 Risks associated with pensions**

The Company has a defined contribution scheme for all employees and no employees have individual defined benefit schemes. The risk of unforeseen pension liabilities is therefore limited.

## 5 Capital management

### 5.1 Regulatory capital and capital adequacy

Below is an overview over regulatory capital and capital adequacy ratio for the last 5 years:





## 5.2 Components of regulatory capital and capital adequacy

Below is an overview of components of regulatory capital, capital requirements, capital adequacy, limits on large exposures and leverage ratio per 31 December 2017:

NOK '000	Company	Group
Paid in capital	57 750	57 750
Share premium	70 598	70 598
Previous years retained earnings	56 838	30 015
Other reserves	18 783	18 783
<b>Total equity</b>	<b>203 969</b>	<b>177 145</b>
Value adjustments	-4	-4
<b>Tier 1 capital</b>	<b>203 965</b>	<b>177 141</b>
Tier 2 capital	0	0
<b>Total capital</b>	<b>203 965</b>	<b>177 141</b>
<i>Risk exposure amount</i>		
Counterparty risk	217 158	123 575
Settlement risk	15	15
Currency risk	195 908	253 373
Position risk	1	1
Operational risk	450 746	563 498
CVA	0	0
<b>Total risk exposure amount</b>	<b>863 828</b>	<b>940 462</b>
<i>Capital requirement (8% of Risk Exposure Amount)</i>		
Counterparty risk	17 373	9 886
Settlement risk	1	1
Currency risk	15 673	20 270
Position risk	0	0
Operational risk	36 060	45 080
CVA	0	0
<b>Total capital requirement</b>	<b>69 106</b>	<b>75 237</b>
<i>Capital Adequacy Ratio (minimum 8%)</i>		
<b>Tier 1 capital ratio</b>	<b>23,6 %</b>	<b>18,8 %</b>
<b>Total capital ratio</b>	<b>23,6 %</b>	<b>18,8 %</b>
<b>Excess capital above 8% minimum requirement</b>	<b>134 859</b>	<b>101 904</b>
<i>Limitations on large exposures</i>		
Institutions (100% of Total Capital)	203 965	177 141
Other counterparties (25% of Total Capital)	50 991	44 285
<i>Leverage ratio</i>		
Total exposure amount	388 209	427 515
Unweighted capital ratio	53 %	41 %

### **5.3 Details on regulatory capital requirements (Pillar I) and internal assessment of capital requirements (Pillar II)**

With respect to the Group's risk assessments, we refer to Section 4 "Assessment of Risks".

Below is an overview of the regulatory capital requirements (Pillar I) and internal assessment of capital requirements (Pillar II), for each main risk type.

#### **5.3.1 Credit- and Counterparty Risk**

Regulatory capital requirements (Pillar I) relating to counterparty risk represents risks related to fixed assets, investment in subsidiaries, financial investments, other current assets and bank deposits.

At Company level, approximately 60% of the capital requirement relating to counterparty risk relates to the Company's investment in its 100% owned subsidiary CPSI. At Group level, approximately 50% of the capital requirement relating to counterparty risk relates to the Group's bank deposits.

As set out in Section 4.1 "Counterparty Risk" above, the Group considers the underlying credit- and counterparty risk to be moderate and the Pillar I capital requirements sufficiently covers the Group's risk exposure. However, due to variations in the composition of the balance sheet through the year, the Company and the Group has identified an additional Pillar II capital requirement per 31 December 2017 to compensate for this. The Pillar II capital requirement per 31 December 2017 is equal to the difference between highest quarterly capital requirement in relation to Credit and Counterparty risk during 2017 and the actual Credit and Counterparty capital requirement per 31 December 2017.

The Group does not expect any material changes to the credit and counterparty risk in 2018.

##### **5.3.1.1 Credit Valuation Adjustment (CVA) Risk**

CVA risk represents the risk of mark-to-market losses due to deterioration of credit quality of a counterparty. CVA is the difference in value of a derivative contract with a risk-free counterparty and the value of the contract with the actual counterparty. The CVA risk is an addition to counterparty – and credit risks on specific types of contracts and for specific counterparties.

#### **5.3.2 Settlement Risk**

Regulatory capital requirements (Pillar I) relating to settlement risk is calculated based on the exposure of unsettled transactions at the balance sheet date.

#### **5.3.3 Market Risk**

Regulatory capital requirements (Pillar I) represents position risk on securities held by the Group and foreign currency risk related to the any balance sheet items denominated in currencies other than NOK.

At Company level, the majority of the capital requirement relating to market risk relates to the Company's exposure to USD due to its investment in its 100% owned subsidiary CPSI. At Group level, the majority of the capital requirement relating to market risk relates to CPSI USD denominated balance sheet. CPSI is an integral part of the Group and there are no plans to divest the US business and thereby reduce the USD exposure.

As set out in Section 4.2 "Market Risk" above, the Group considers the underlying market risk to be moderate and the Pillar 1 capital requirements sufficiently covers the Group's risk exposure. However, due to variations in the composition of the balance sheet through the year the Company and the Group has identified an additional Pillar II capital requirement per 31 December 2017 to compensate for this. The Pillar II capital requirement per 31 December 2017 is equal to the difference between highest quarterly capital requirement in relation to Market risk during 2017 and the actual Market risk capital requirement per 31 December 2017.

### 5.3.4 Operational Risk

Regulatory capital requirements (Pillar I) in relation to Operational Risk is calculated based on a percentage of the last three years average revenues (the Standard Method). Operational Risk represents over 50% of the total capital requirement.

As set out in Section 0 “Operational Risk” above, the Group considers the underlying operational risk to be significant, but the Pillar I capital requirements sufficiently cover the Group’s risk exposure. As such the Group has not identified additional capital requirements (Pillar II) above the Pillar I requirements.

The Group does not expect any material changes to the operational risk in 2018.

### 5.3.5 Other Risks and capital requirements

The Group is not subject to Countercyclical Capital Buffers (“CCyB”) or Capital Conservation Buffers (“CCB”) and there are no other regulatory capital requirements other than requirements listed above.

The Group considers other underlying risks as set out in Section 4.4 “Other Risks”. The Group considers the remaining underlying other risks to be sufficiently handled by the above Pillar I capital requirement assessments, and as such has not identified any additional Pillar II capital requirements in relation to these risks.

The Company is planning to start own account trading in convertible bonds and anticipates increased capital requirements in relation to these activities. The Company anticipates that the own account trading activities will build up over time, but has identified an initial capital requirement of NOK 50 million which is anticipated to cover the own account trading activities for the next 12 months. The Company will monitor the developments of the new business area, and if needed enter into a dialogue with its parent company Clarksons Platou AS for additional equity capital.

### 5.3.6 Summary of Pillar II capital requirements

Below is a summary of the Pillar I and Pillar II capital requirements per 31 December 2017:

	Company		Group	
	Regulatory capital requirement (Pillar I)	Additional capital requirement (Pillar II)	Regulatory capital requirement (Pillar I)	Additional capital requirement (Pillar II)
NOK '000				
Credit and counterparty risk	17 374	1 379	9 887	1 144
Market risk	15 673	9 859	20 270	6 722
Operational risk	36 060	-	45 080	-
Other risks				
Planned own account trading in convertible bonds	-	50 000	-	50 000
<b>Total</b>	<b>69 106</b>	<b>61 238</b>	<b>75 237</b>	<b>57 866</b>
Capital needs (Pillar I + Pillar II)		130 344		133 103
Capital needs in % of Pillar I capital requirement		189 %		177 %

## 5.4 Limitations on Large Exposures

The Group is also subject to regulatory limitations on large exposures (*Norw: Forskrift om kredittinstitusjoners og verdipapirforetaks store engasjementer*) which limits the Company and Group’s exposure to individual or interrelated institutions to 100% of the regulatory capital base and exposure to other individual or interrelated entities to 25% of the regulatory capital base. Large exposures are monitored on an on-going basis and are reported to the FSA quarterly.

## 6 Remuneration

In accordance with the Norwegian regulation regarding finance firms and groups (the “Finance Firm Regulation”) (FOR 2016 number 1502) Chapter 15, the Company has adopted a separate remuneration policy (the “Remuneration Policy”) approved by the Company’s Board of Directors.

The composition of fixed and variable remuneration payable to the executive management and risk takers in the Company follows the Finance Firm Regulation. Remuneration to employees in control and surveillance functions has specific remuneration schemes that do not compromise their independence.

The Company’s main principle for the fixed remuneration is that it should match the general wage level for the respective categories of employees, taking into consideration the employee’s individual qualifications and experience. The variable remuneration is performance related and based on a combination of the individual employee’s performance, the performance of the department in which the employee works and the overall result of the Company.

Variable remuneration to the executive management and employees in control and surveillance functions is limited to two times the fixed remuneration as approved by the General Meeting. 50% of the variable remuneration is deferred, and is subject to risk adjustment taking into account the Company’s financial situation and any material and significant errors made by the individual employee and the employee’s department.

The Remuneration Committee has identified five persons as executive management and significant risk takers (including the Chief Executive Officer) and three persons with combined Executive management and risk takers *and* Control and surveillance functions (combined “Identified Personnel”). The Company awarded a total of NOK 33,2 million in variable remuneration for 2017 to the Identified Personnel, of which 50% will be paid out during the start of 2018 and the remaining will be deferred.