LEAD CAPITAL MARKETS
leading with experience

LEADCAPITAL MARKETS LIMITED

Regulated by the Cyprus Securities and Exchange Commission License no. ***227/14***

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2017

May 2017

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2017 has been prepared by LeadCapital Markets Limited according to 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.

LeadCapital Markets 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.

LeadCapital Markets Limited is regulated by the Cyprus Securities and Exchange Commission under License number ***227/14.***

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The Board of Directors is ultimately responsible for the risk management framework of the Company. The Risk Management framework is the sum of systems, policies, processes and people within the Company that identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company's operations.

The Board of Directors approves in full the adequacy of Risk Management arrangements of the institution providing assurance that the risk management systems in place are adequate with regards to the institution's profile and strategy.

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1. Introduction

1.1. Investment Firm

Table 1: Company information

Company name	**LeadCapital Markets Limited**
CIF Authorization date	17/02/2014
CIF License number	227/14
Company Registration Date	05/08/2013
Company Registration Number	HE324232
Investment Services	
Reception and transmission of orders in relation to one or more financial instruments	
Execution of Orders on Behalf of Clients	
Dealing on Own Account	
Investment Advice	
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	

1.2. Purpose

The present report is prepared by *LeadCapital Markets 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 227/14 and operates in harmonisation with the Markets in Financial Instruments Directive ("MiFID II").

In accordance with the provisions of 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 (hereinafter the "Regulation" or the "CRR") and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (the "CySEC") for the prudential supervision of investment firms, the Firm has an obligation to publish information relating to risks and risk management, capital structure, capital adequacy as well as the most important characteristics of the Company's corporate governance including its remuneration system on an annual basis at a minimum. The scope of this report is to promote market discipline and to improve transparency of market participants.

This document is updated and published annually; it will, however, be published more frequently if there are significant changes to the business (such as changes to the scale of operations, range of activities, etc.). CySEC is responsible for implementing and enforcing the European Capital Requirements Directive ('CRD'), a capital adequacy framework consisting of three 'pillars':

- **Pillar I** sets minimum capital requirements comprising of base capital resources requirements; credit, market and operational risk capital requirements;
- **Pillar II** requires firms to undertake an overall internal assessment of their capital adequacy, taking into account all the which the firm is exposed to and whether additional capital should be held to cover risks not adequately covered by Pillar I requirements. This is achieved through the Internal Capital Adequacy Assessment Process ("ICAAP")
- **Pillar III** complements Pillars I and II and improves market discipline by requiring firms to disclose information on their capital resources and Pillar I capital requirements, risk exposures and their risk management framework

The 2017 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 set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure Report is audited by the Firm's external auditors and published on the Company's website at www.leadcapitalmarkets.com on an annual basis.

Furthermore, the Board of Directors and the Senior Management have the overall responsibility for the internal control systems in the process of capital adequacy assessment and they have established effective processes to ensure that the full spectrum of risks faced by the Company is properly identified, measured, monitored and controlled to minimise adverse outcomes.

The Company's business effectiveness is based on the guidelines of the risk management policies and procedures put in place. The Board of Directors, Internal Audit, Risk Manager, Compliance and Anti-Money Laundering Officer control and supervise the overall risk system so that all units charged with risk management perform their roles effectively on a continuous basis.

As with all Investment Firms, the Company is exposed to a variety of risks and in particular to credit risk, market risk and operational risk. More information can be found in the sections below.

The Company is making the disclosures on a solo basis.

1.3. The Company

LeadCapital Markets Limited, as a CIF, operates in Western and Eastern Europe, offering Contracts for Difference ("CFD") products.

The Company has a stable business model and this is reflected in:
- A well-balanced capital allocation between the Company's operations
- A geographically balanced model with a high percentage of revenues.

The Company's growth strategy focuses on its existing areas of expertise and the quality of its customer base. The Company strives for sustainable profitability consistent with its cost of capital and a balanced business model. To this end, the Company:

- Seeks to contain the volatility of its results
- Calibrates its capital ratio to ensure a significant safety margin relative to the minimum regulatory requirements
- Monitors the stability and diversification of its funding sources
- Ensures sufficient resilience in scenarios of liquidity shortages
- Tightly controls its foreign-exchange risks

The Company aims to maintain a diversified customer base.

The Company ensures that compliance rules are rigorously respected, especially in the area of anti-money laundering and counterterrorism financing. The Company monitors the loyalty of the behaviour of its employees with regard to customers and all its stakeholders, as well as the integrity of its investment and financial practices.

The Company considers its reputation to be an asset of great value that must be protected to ensure its sustainable development. The prevention and detection of the risk of harm to its reputation are integrated within all the Company's operating practices. The Company's reputation is protected by making its employees aware of the values of responsibility, ethical behaviour and commitment.

The Company had the following subsidiaries as at 31 December 2017:

Name	Country of Incorporation	Principal Activities	2017 Holding
Leadtrade Ltd	Cyprus	Investment Services	100%
LCM Marketing Ltd	Israel	Marketing Services	100%
LCM Customer Support Services Ltd	Bulgaria	Customer Support	100%

LCM Customer Support Services Ltd was incorporated on 1st of March 2017.

1.4. Regulatory Supervision

The minimum capital requirements as at 31 December 2017 for the CRD IV were calculated in accordance with the 'Pillar I' rules as set out by the Laws and Regulations, published by the CySEC. All CIFs under CySEC's authority must meet the requirements with respect to capital adequacy and market discipline, which are comprised by the following:

- Law 144(I)/2007: Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereafter "the Law")
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation

- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV
- Directive DI144-2014-14: For the prudential supervision of Investment Firms
- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013

2. Governance and Risk Management

Implementing a high-performance and efficient risk management structure is a critical undertaking for the Company, in all businesses, markets and regions in which it operates, as are maintaining a strong risk culture and promoting good corporate governance.

The Enterprise Risk Management programme (“ERM”) is closely monitored at the highest level of the Company: it is supervised by the Management body, with the participation of members of the Executive Committee, and is the subject of regular reporting to the BoD.

The Board of Directors ensures the adequacy of the Company’s risk management infrastructure, monitoring changes in the cost of risk and approves the risk limits for market risks.

2.1. Types of Risks

Given the diversity and evolution of the Company’s activities, risk management involves the following main categories:

- **Credit and Counterparty risk** (including Country risk): risk of losses arising from the inability of the Company’s customers, issuers or other counterparties to meet their financial commitments. Credit risk includes Counterparty risk linked to market transactions (Replacement risk) and securitisation activities. In addition, Credit risk may be further amplified by Concentration risk, which arises from a large exposure to a given risk, to one or more counterparties, or to one or more homogeneous groups of counterparties; Country risk arises when an exposure (loan, security, guarantee or derivative) becomes liable to negative impact from changing political, economic, social and financial conditions in the country of exposure.
- **Market risk**: risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets.
- **Operational risks** (including Accounting and Environmental risks): risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss.
- **Liquidity risk**: risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.
- **Compliance risk** (including Legal and Tax risks): risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company’s activities.
- **Reputational risk**: risk arising from a negative perception on the part of customers, counterparties, shareholders, investors or regulators that could negatively impact the Company’s

ability to maintain or engage in business relationships and to sustain access to sources of financing.

- **Strategic risk**: risks inherent in the choice of a given business strategy or resulting from the Company's inability to execute its strategy.
- **Business risk**: risk of lower than anticipated profits or experiencing losses rather than a profit.

2.2. Risk Appetite

The Company defines Risk Appetite as the level of risk, by type and by business that the Company is prepared to incur in order to achieve its business objectives, as defined by a set of minimum quantitative metrics and qualitative standards. Risk Appetite is ultimately set by the Board of Directors based on the input of the Risk Manager.

The Risk Appetite Framework takes into account earnings sensitivities to business cycles and credit, market and operational events. The Risk Appetite is one of the strategic oversight tools available to the Management bodies. It underpins the budgeting process and draws on the ICAAP, which is also used to ensure capital adequacy under stressed economic scenarios.

Furthermore, the positioning of the business in terms of risk/return ratio as well as the Company's risk profile by type of risk are analysed and approved by the BoD. The Company's risk appetite strategy is implemented by the Senior Management in collaboration with the BoD and applied by all divisions through an appropriate operational steering system for risks, covering:

- Governance (decision-making, management and supervisory bodies)
- Management (identification of risk areas, authorisation and risk-taking processes, risk management policies through the use of limits and guidelines, resource management)
- Supervision (budgetary monitoring, reporting, leading risk indicators, permanent controls and internal audits)

Essential indicators for determining the Risk Appetite and their adaptations are regularly supervised over the year in order to detect any events that may result in unfavourable developments on the Company's risk profile. Such events may give rise to remedial action, up to the deployment of the recovery plan in the most severe cases.

2.3. Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process ("ICAAP") requires institutions to identify and assess risks not adequately covered in Pillar I, maintain sufficient capital to face these risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward looking basis, i.e., internal capital supply to exceed internal capital demand.

Currently the Company is in process of preparing the ICAAP report for 2017.

2.4. Stress Tests

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
- 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 on an annual basis
- 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 of Directors. If the stress testing scenarios reveal vulnerability to a given set of risks, the management should make recommendations to the Board of Directors for mitigation 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

2.5. Risk Management Committee

The Risk Management Committee ("RMC") has oversight of the Risk Management Framework of the Company and specifically the effectiveness of the Risk Management, Governance and Compliance activities of the Company. It advises the Board of Directors in its consideration of the business activities that expose the business to material risks. Furthermore it advises the Board of Directors on considerations and processes for setting the Risk Appetite and related tolerances, taking into account the Board's overall degree of risk aversion and the Company's current financial situation. The Board of Directors retains responsibility for approval of the Company's Risk Appetite.

2.6. Diversity Policy

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success.

The Company recognizes the value of a diverse and skilled workforce and management body, which includes and makes use of differences in the age, skills, experience, background, race and gender between them. A balance of these differences will be considered when determining the optimum composition.

The Company 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 practices in the Corporate Governance Code of many EU countries.

In line with the recent changes in the regulatory reporting framework, the Company is in the process of establishing a dedicated diversity policy in relation to the Management body.

2.7. Board Recruitment

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the Board 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 BoD.

The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities.

Factors considered in the review of potential candidates include:

- Specialised skills and/or 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 judgment
- Risk management experience

In line with the recent changes in the regulatory reporting framework, the Company is in the process of establishing a dedicated recruitment policy in relation to the BoD.

2.8. Remuneration

Remuneration refers to payments or compensations received for services or employment. The remuneration system 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.

During 2017, the Company's remuneration system 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’ provide the right incentives to achieve the key business aims.

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.

Fixed Remuneration (FR)

FR is used to compensate employees for their skills, experience and competencies, commensurate with the requirements, size and scope of their role. For the majority of employees, FR is the primary compensation component, and the share of fixed compensation within Total Compensation is far greater than 50 %.

FR 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. The Policy is also set in comparison with standard market practices employed by the other market participants/competitors.

Remuneration of the Board of Directors of the Company is set individually at a market competitive level that reflects the competencies and contribution required in view of Company’s complexity and the extent of the tasks and responsibilities. Each executive board member individually receives a fixed monthly remuneration. The remuneration of the Non-Executive Directors of the Company comprises of a fixed annual fee.

Variable Remuneration (VR)

VR is predicated on the industry objective of retaining cost flexibility while attracting and retaining the right talent. VR also has the advantage of being able to differentiate performance outcomes and drive behaviors through appropriate incentive systems that can also positively influence culture. As a result, VR is a key feature of market practice compensation in many business lines in the financial services industry globally. Combined with FR, this drives total compensation outcomes that are cost effective, flexible and aligned to performance.

The Company VR scheme allows persons employed in the specific departments of the Company to be remunerated through a combination of a fixed and variable compensation. The Company has developed a robust methodology to ensure that the determination of VR reflects risk-adjusted performance as well as the capital position of the Company.

Variable remuneration reflects sustainable and risk adjusted performance as well as performance in excess of what is required to fulfil the employee's job description as part of the terms of employment and does not exceed 100% of the fixed component of the total compensation for each individual.

Table 2: Aggregate Quantitative Information on Remuneration

€ thousands	No. of staff	Fixed	Variable	Total
Senior Management*	4*	143*	-	143*
Members of staff whose actions have a material impact on the risk profile of the institution and other staff	3	98	-	98
Grand Total	7	241	-	241

*This includes also members of the Board who resigned during the year 2017.

Four members of the Board were not remunerated by the Company.

2.9. Directorships held by Members of the Management Body

In 2017, the members of the Management body of the Company, given their industry experience, have been taking seats in other Company boards. In line with this, the following table indicates the number of positions that each member holds:

Table 3: Directorships held by Members of the Management Body

Name	Position in the CIF	Directorships (Executive)	Directorships (Non-Executive)
George Psomas	Executive Director – CEO (until 28 Nov 17)	**not available**	**not available**
Nicholas Louca	Executive Director – COO (until 2 Jun 17)	**not available**	**not available**
George William Rodger	Executive Director – COO (appointed on 10 Aug 17)	**-**	**1**
Christiana Vasiadou	Executive Director – CEO (appointed on 28 Nov 17)	**-**	**2**
Andros Pelecanos	Independent Non- Executive Director (until 14 Feb 17)	**not available**	**not available**
Michalis Philippou	Independent Non- Executive Director (appointed on 14 Feb 17)	**7**	**-**
Mark Lauterstein	Independent Non- Executive Director (appointed on 19 Jul 17)	**4**	**-**

Vasilios Paraskeva	Independent Non- Executive Director	**1**	**2**

Note: The information in this table is based only on representations made by the Company.

During 2017 three Board members resigned from the Board. For these members a confirmation of directorship was not available to the Company.

2.10. Reporting and Control

In line with the requirements set out in the Cyprus Investment Firms Law and subsequent Directives, the Company has been able to maintain a good information flow to the Management body, as it can be seen below:

Table 4: Periodic Reporting Summary

Report Name	Report Description	Owner	Recipient	Frequency
Annual Compliance Report	To inform the Senior Management & the BoD of the Company regarding the Performance of Compliance function during the year	Compliance Officer	BoD, CySEC	Annual
Annual Internal Audit Report	To inform the Senior Management & the BoD of the Company regarding the Internal Auditor during the year	Internal Auditor	BoD, CySEC	Annual
Annual Risk Management Report	Represents the work & activities undertaken by the Risk Manager during the year	Risk Manager	BoD, CySEC	Annual
Pillar III Disclosures (Market Discipline and Disclosure	The Company is required to disclose information regarding its risk management, capital structure, capital adequacy and risk exposures	Risk Manager	BoD, CySEC, Public	Annual
Financial Reporting	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual
Capital Adequacy Reporting	A measure of the CIF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world	Risk Manager / Accounting	Senior Management, CySEC	Quarterly

3. Capital Management and Adequacy

3.1. The Regulatory Framework

In response to the financial crisis of recent years, the Basel Committee, mandated by the G20, has defined the new rules governing capital and liquidity aimed at making the financial sector more resilient. The new Basel III rules were published in December 2010. They were translated into European law by a directive (CRDIV) and a regulation (CRR) which entered into force on 1st January 2014.

The general framework defined by Basel III is structured around three pillars, as in Basel II:

- Pillar I sets the minimum solvency requirements and defines the rules that institutions, that are required to comply with the regulation, must use to measure risks and calculate associated capital requirements, according to standard or more advanced methods
- Pillar II relates to the discretionary supervision implemented by the competent authority, which allows them – based on a constant dialogue with supervised credit institutions – to assess the adequacy of capital requirements as calculated under Pillar I, and to calibrate additional capital requirements with regard to risks
- Pillar III encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to make a better assessment of a given institution's capital, risk exposure, risk assessment processes and, accordingly, capital adequacy

In terms of capital, the main new measures introduced to strengthen institutions' solvency were as follows:

- The complete revision and harmonisation of the definition of capital, particularly with the amendment of the deduction rules, the definition of a standardised Common Equity Tier 1 (or CET1) ratio, and new Tier 1 capital eligibility criteria for hybrid securities
- new capital requirements for the counterparty risk of market transactions, to factor in the risk of a change in CVA (Credit Value Adjustment) and hedge exposures on the central counterparties (CCP)
- The set-up of capital buffers that can be mobilised to absorb losses in case of difficulties. The new rules require institutions to create a conservation buffer and a countercyclical buffer to preserve their solvency in the event of adverse conditions
- Requirements related to capital buffers gradually entered into force as from 1st January 2016, for full application by January 2019
- The set-up of restrictions on distributions, relating to dividends, Additional Tier 1 instruments and variable remuneration, via the maximum distributable amount (MDA) mechanism. At end-2015, the European Banking Authority (EBA) issued an opinion to clarify that the MDA should be applied when an institution no longer complies with its CET1 ratio requirements, including those of Pillar II and capital buffers
- In addition to these measures, there will be measures to contain the size and consequently the use of excessive leverage. To this end, the Basel Committee defined a leverage ratio, for which the definitive regulations were published in January 2014. The Basel leverage ratio compares the

institution's Tier 1 capital to the balance sheet and off-balance sheet items, with restatements for derivatives and pensions. Full scope institutions have been obliged to publish this ratio since 2015. By 2018, regulators will decide whether it is relevant to set a minimum requirement applicable to all institutions.

3.2. Regulatory Capital

According to the International Financial Reporting Standards (IFRS), the Company's regulatory capital consists of Common Equity Tier 1 and Tier 2 Capital.

Common Equity Tier 1 Capital (CET1 Capital)
According to CRR/CRDIV regulations, Common Equity Tier 1 capital is made up primarily of the following:

- Ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts
- Retained earnings
- Other reserves
- Minority interest limited by CRR/CRDIV

Deductions from Common Equity Tier 1 capital essentially involve the following:

- Estimated dividend payment
- Goodwill and intangible assets, net of associated deferred tax liabilities
- Unrealised capital gains and losses on cash flow hedging
- Deferred tax assets on tax loss carry forwards
- Deferred tax assets resulting from temporary differences beyond a threshold
- Any positive difference between expected losses on customer loans and receivables, risk-weighted using the standardised approach, and the sum of related value adjustments and collective impairment losses
- Expected loss on equity portfolio exposures
- Value adjustments resulting from the requirements of prudent valuation

Tier 2 Capital
Tier 2 capital includes:

- Dated subordinated notes
- Any positive difference between (i) the sum of value adjustments and collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardised approach and (ii) expected losses, up to 0.6% of the total credit risk-weighted assets using the Internal Ratings Based approach;
- Value adjustments for general credit risk related to collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardised approach, up to 1.25% of the total credit risk-weighted assets

Deductions of Tier 2 capital essentially apply to the following:

- Tier 2 hybrid treasury shares

- Holding of Tier 2 hybrid shares issued by financial sector entities
- Share of non-controlling interest in excess of the minimum capital requirement in the entities concerned

3.3. Solvency Ratio (Capital Ratio or Capital Adequacy Ratio)

Since 1st January 2014, the new regulatory framework sets minimum requirements to be met for the CET1 ratio and the Tier 1 ratio. For 2015, the minimum requirement for CET1 was 4% and that of Tier 1 5.5%, excluding the Pillar II requirement. The total equity requirement, including CET1, AT1 and Tier 2 equity, was set at 8%. In 2017, the minimum requirement for CET1 was 4.5%, and that of Tier 1 6% with an overall ratio of 8% (including Tier 2).

3.4. Capital Management

Capital management is implemented by the Senior Management. As part of managing its capital, the Company ensures that its solvency level is always compatible with the following objectives:
- Maintaining its financial solidity and respecting the Risk Appetite targets
- Preserving its financial flexibility to finance organic growth
- Adequate allocation of capital among the various business lines according to the Company's strategic objectives
- Maintaining the Company's resilience in the event of stress scenarios
- Meeting the expectations of its various stakeholders: supervisors, debt and equity investors, rating agencies, and shareholders

The Company determines its internal solvency targets in accordance with these.

The CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8% for Pillar I risks plus additional capital buffers as applicable, while it may also impose additional capital requirements for risks not covered by Pillar I. As at 31 December 2017, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus a capital conservation buffer of 1,250% as per the transitional application provisions for buffers, resulting to an overall minimum requirement of 9,250%.

At 31st December 2017, the Total Capital ratio of the Company was 12,75% with total risk-weighted assets of EUR 6.597 thousand.

Table 5: Capital Requirements

Capital Requirements - Pillar 1	31 December 2017
	€ '000
Eligible Own Funds	
Share Capital	6
Share Premium	2.644
Reserves	(1.711)
Audited Losses	90
Core Equity Tier 1 (CET 1)	**1.029**
Additional Tier 1 Capital (AT 1)	-
Total Tier 1 Capital	**1.029**
Tier 2 (Loan)	-
Deductions	
Intangible assets (i.e. software, goodwill etc)	-
ICF	(60)
Deduction due to significant investment in FSE	(128)
Total Deductions	**(188)**
Total Own Funds	**841**
Capital Requirements	
Credit Risk	74
of which Counterparty Credit Risk	-
Market FX Risk	27
EQU Risk	-
COM Risk	-
Operational Risk	427
Total	**528**
CET1 Capital Ratio	**12,75%**
T1 Capital Ratio	**12,75%**
Total Capital Ratio	**12,75%**

Table 6: Regulatory Capital

	31 December 2017
	€ '000
Total Equity as per Financial Statements	
Share capital	6
Share premium	2.644
Retained earnings	(1.621)
Total Common Equity Tier 1	1.029
Additional Tier 1 Capital	0
Total Tier 1 Capital	**1.029**
Tier 2 (Loan)	-
Deductions	
Intangible assets (i.e. software, goodwill etc)	-
ICF	(60)
Deduction due to significant investment in FSE	(128)
Total Deductions	**(188)**
Total Own Funds	**841**

Table 7: Own funds disclosure template under the Transitional and Full – phased in definition

At 31 December 2017	Transitional Definition	Full - phased in Definition
	€'000	**€'000**
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	2.650	2.650
Retained earnings	(1.621)	(1.621)
Translation reserve	-	-
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	0	0
Funds for general banking risk	0	0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1.029**	**1.029**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(0)	(0)

At 31 December 2017	Transitional Definition	Full - phased in Definition
	€'000	**€'000**
ICF	(60)	(60)
Deduction due to significant investment in FSE	(128)	(128)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(188)**	**(188)**
Common Equity Tier 1 (CET1) capital	**841**	**841**
Additional Tier 1 (AT1) capital	**0**	**0**
Tier 1 capital (T1 = CET1 + AT1)	**841**	**841**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**841**	**841**
Total risk weighted assets	**6.597**	**6.597**
Capital ratios and buffers		
Common Equity Tier 1	12,75%	12,75%
Tier 1	12,75%	12,75%
Total capital	12,75%	12,75%

3.5. Leverage Ratio

The Company steers its leverage effect according to the CRR leverage ratio rules, as amended by the delegated act of 10th October 2014. Steering the leverage ratio means both calibrating the amount of Tier 1 capital (the ratio's numerator) and controlling the Company's leverage exposure (the ratio's denominator) to achieve the target ratio levels that the Company sets for itself.

The Company aims to maintain a leverage ratio that is significantly higher than the 3% minimum in the Basel Committee's recommendations. The leverage ratio is in an observation phase in order to set the minimum requirements. Once they have been set, the Company's target will be adjusted as needed.

At the end of 2017 the Company's leverage ratio was 38.98%.

Tables 8.1-8.3: Leverage ratio common disclosure

Table 8.1 Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts
1	Total assets as per published financial statements	2.012
4	Adjustments for derivative financial instruments	0
7	Other adjustments	146
8	**Total leverage ratio exposure**	**2.158**

Table 8.2 Leverage ratio common disclosure

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2.158
2	(Asset amounts deducted in determining Tier 1 capital)	0
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	2.158
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	0
11	**Total derivative exposures (sum of lines 4 to 10)**	0

Securities financing transaction exposures		
		CRR leverage ratio exposures
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0
Other off-balance sheet exposures		
19	Other off-balance sheet exposures (sum of lines 17 to 18)	0
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposures		
20	**Tier 1 capital**	841
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	2.158
Leverage ratio		
22	Leverage ratio	38,98%

Table 8.3 Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	2.158
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	2.158
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	0
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	1.729
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	0
EU-10	Corporate	108
EU-11	Exposures in default	0
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	321

4. Credit Risk

Credit risk corresponds to the risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments.

The Company's credit risk mainly arises:

- By the Company's deposits in credit and financial institutions
- By assets mainly held from debtors or prepayments made

The Company follows the Standardized Approach under Pillar I 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).

The Company follows both regulatory and compliance oriented credit risk mitigation ("CRM") 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 of Directors, which then determines the firm'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 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.

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.

Concentration Risk
Concentrations are measured using a standardised model and individual concentration limits are defined for large exposures. Any concentration limit breach is managed over time by reducing exposures.

4.1. External Ratings

For the purpose of calculating the capital requirements of the Company, mainly under the credit risk requirement, the external credit ratings from **Moody's Analytics** have been applied for the exposure classes listed below:

- Exposures to central governments or central banks
- Exposures to public sector entities
- Exposures to institutions
- Exposures to corporates

The general association with each credit quality step complies with the standard association published by CySEC as follows:

Credit Quality Step	Moody's Rating	Institution Risk Weight (Below 3 months)	Institution Risk Weight (Above 3 months)	Sovereigns Risk Weight	Corporate Risk Weight
1	Aaa to Aa3	20%	20%	0%	20%
2	A1 to A3	20%	50%	20%	50%
3	Baa1 to Baa3	20%	50%	50%	100%
4	Ba1 to Ba3	50%	100%	100%	100%
5	B1 to B3	50%	100%	100%	150%
6	Caa1 and below	150%	150%	150%	150%

For exposures to regional governments or local authorities, public sector entities and institutions, the external ratings are applied in the following priority (i) Issue/Exposure (ii) Issuer/Counterparty (iii) Sovereign.

For exposures to central governments or central banks and corporates the external ratings are applied in the following priority (i) Issue/Exposure (ii) Issuer/Counterparty.

Please note that the external ratings are not taken into account where exceptions or discretions as per the CRR apply.

4.2. Quantitative Information

The credit exposures in this section are measured using the standardized approach. Exposures are broken down by sectors and obligor ratings.

At 31st December 2017, the Company's capital requirements for credit risk amounted to EUR 74 thousand (EUR 920 thousand total risk-weighted credit risk exposure). The tables below indicate the Company's credit risk exposure.

Table 9: Asset Class Breakdown of Net Credit Risk Exposure and Minimum Capital Requirement as at 31 December 2017, € thousands

RWA and Capital Requirements per Asset Class	Risk-weighted amounts	Minimum capital requirement
	€'000	**€'000**
Corporate	108	9
Institution	345	28
Other Items	168	13
Equity	299	24
Total	**920**	**74**

Table 10: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Exposure Class, € thousands

Exposure before and after CRM per Asset class	Exposure before CRM	Exposure after CRM
	€'000	**€'000**
Corporate	108	108
Institution	1.728	1.728
Other Items	168	168
Equity	154	154
Total	**2.158**	**2.158**

Table 11: Exposures Post Value Adjustments (before and after applying Credit Risk Mitigation) by Exposure Class, € thousands

Average exposure before CRM per Asset class	Average exposure value
	€'000
Corporate	80
Institution	2.499
Retail	451
Other Items	294
Equity	139
Total	**3.463**

Table 12: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Significant Geographic Area and Material Exposure Class, € thousands

Exposure before CRM per Country and Asset Class	Cyprus	Italy	United Kingdom	Other	Total
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Corporate	-	-	-	108	108
Institution	224	900	413	191	1.728
Other Items	168	-	-	-	168
Equity	97	-	-	57	154
Total	**489**	**900**	**413**	**356**	**2.158**

Table 13: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Industry and Exposure Class, € thousands

Exposure before CRM per Industry and Asset Class	Financial	Other	Total
	€'000	**€'000**	**€'000**
Corporate	108	-	108
Institution	1.728	-	1.728
Other Items	-	168	168
Equity	154	-	154
Total	**1.990**	**168**	**2.158**

Table 14: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Residual Maturity and by Material Exposure Class, € thousands

Exposure before CRM per Maturity and Asset Class	Up to 3 months	More than 3 months and NA	Total
	€'000	**€'000**	**€'000**
Corporate	108	-	108
Institution	1.728	-	1.728
Other Items	168	-	168
Equity	154	-	154
Total	**2.158**	**-**	**2.158**

Table 15: Credit Quality Concentration, € thousands

Exposure before and after CRM per Credit Quality Step of Counterparty	Exposure values before CRM	Exposure values after CRM
	€'000	**€'000**
CQS 1	50	50
CQS 3	1.414	1.414
CQS 4	3	3
Unrated	691	691
Total	**2.158**	**2.158**

5. Market Risk

Market risk corresponds to the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets.

As mentioned above, in the context of Pillar I, market risk mainly arises as:

Position Risk: It refers to the probability of loss associated with a particular trading/security (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.

The Company manages and mitigates its exposure to market risk with the following methods:

1. Low market risk appetite
2. Business model focussed on the customer
3. Independent calculation of the results of market activities by the risk function
4. Strict ex ante control of products, underlying assets and currencies as well as of the corresponding valuation models

5.1. Quantitative Information

The Company's capital requirements related to market risk are mainly determined using the standardized approach.

The Company's total capital usage for market risk as at 31 December 2017 amounted to EUR 27 thousands.

6. Operational Risk

Operational risks (including accounting and environmental risks) correspond to the risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss. This section describes the monitoring of the Company's operational risk, in addition to providing an analysis of the Company's operational risk profile and regulatory capital requirements.

The Company has developed processes, management tools and a control infrastructure to enhance the Company-wide control and management of the operational risks that are inherent in its various activities. These include, among others, general and specific procedures, permanent supervision, business continuity plans and functions dedicated to the oversight and management of specific types of operational risks, such as fraud, risks related to external service providers, legal risks, information system security risks and compliance risks.

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.

The Company manages its operational risk through the following approaches:

- Measuring and tracking operational losses and incidents across the organization to identify root causes
- Outsourcing marketing and technology services to business partners while avoiding high-risk third party where possible
- Managing IT infrastructure to ensure system availability, continuity and capacity to meet the business requirements as well as to protect against threats as cyber attacks

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, 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-eye" structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management. 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 employs 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
- Regular Training and awareness

6.1. Quantitative Information

For the calculation of operational risk in relation to the capital adequacy returns, the Company uses the basic indicator approach.

Based on the relevant calculations the Company's capital requirement in respect to operational risk, as at 31 December 2017, was EUR 427 thousands.

7. Liquidity risk

Liquidity risk corresponds to the risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.

The Company's primary objective is to ensure the funding of its activities in the most cost-effective way by managing liquidity risk and adhering to regulatory constraints. The liquidity system aims at providing a balance sheet framework with assets and liabilities target structure that is consistent with the risk appetite defined by the Board of Directors:

- The assets structure should allow the businesses to develop their activities in a way that is liquidity-efficient and compatible with the target liabilities structure.
- The liabilities structure is based on the ability of the businesses to collect financial resources from customers and the ability of the Company to sustainably raise financial resources on the markets, in accordance with its risk appetite

The principles and standards applicable to the management of liquidity risks are defined by the Company's governing bodies, whose duties in the area of liquidity are listed below:
The Company's Board of Directors (i) establishes the level of liquidity risk tolerance as part of the Risk Appetite exercise, (ii) meets regularly to examine the Company's liquidity risk situation, on a quarterly basis
The Senior Management (i) sets budget targets in terms of liquidity (ii) allocates liquidity to the pillars

To minimize its exposure to liquidity risk, the CIF implements the below Liquidity Risk Mitigation Strategies:

- In accordance with the CySEC clients' money rules, the Company holds in segregated, clearly designated as clients' money bank accounts, all the funds of its clients. Hence the liquidity risk in relation to all clients' trading activity is very low
- Regular analysis & reporting to the Board of Directors on the funding needs of the Company
- Monitoring of the Company's exposures and diversification to avoid rise of concentration risk as per the internal policies
- Cash Management

As at 31/12/2017, the Company held EUR 1.4 million in bank accounts.

The Company is taking due care in safeguarding client assets held in fiduciary capacity and performs the following mitigation strategies:

- These assets are held by the Company in a fiduciary capacity and are not included in the Company's funds nor its financial statements
- The funds are held in client segregated bank accounts
- Frequent reconciliations are performed internally and also from the External Auditors which also are tasked to verify and submit to CySEC annual reports.

8. Compliance, Reputational and Legal Risks

Compliance risk (including legal and tax risks) corresponds to the risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company's activities.

Compliance means acting in accordance with applicable regulatory rules, as well as professional, ethical and internal principles and standards. Fair treatment of customers, with integrity, contributes decisively to the reputation of the Company.

By ensuring that these rules are observed, the Company works to protect its customers and, in general, all of its counterparties, employees, and the various regulatory authorities to which it reports.

Compliance System and Department
Independent compliance structures have been set up within the Company's different business lines around the world to identify and prevent any risks of non-compliance.

The Compliance Officer verifies that all compliance laws, regulations and principles applicable to the Company's services are observed, and that all staff respect codes of good conduct and individual compliance. The Compliance Officer also monitors the prevention of reputational risk and provides expertise for the Company performs controls at the highest level and assists with the day-to-day operations. The Compliance Officer is amongst others responsible for:

- Monitor and asses the adequacy of the compliance.
- Perform on a regular basis a compliance risk assessment of the investments services provided by the Company.
- Support for staff training
- Review and if necessary update the IPM
- Random review of client files to control the account opening procedure and the Company's record keeping.
- Overview of the complaints process

In 2017 the Company has significantly updated the Manual of Operations Policies and Procedures in order to reflect the changes due to MiFID II.

8.1. Prevention of Money Laundering and Terrorism Financing

Money laundering and terrorist financing risk mainly refers to the risk where the Company may be used as a vehicle to launder money and/or assist/involved in financing terrorism.

The Company has in place and is updating as applicable, certain policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks. Among others, these policies, procedures and controls include the following:

- The adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing risks faced by the Company
- The adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing risk
- Setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents from independent and reliable sources, third party information)
- Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction
- Monitoring and reviewing the business relationship or an occasional transaction with clients and potential clients of high risk countries
- ensuring that the Company's personnel receive the appropriate training and assistance

The Company is frequently reviewing its policies, procedures and controls with respect to money laundering and terrorist financing to ensure compliance with the applicable legislation and incorporated, as applicable, any new information issued/available in this respect.