

TRADE CAPITAL MARKETS (TCM) LIMITED
(Previously “LEADCAPITAL MARKETS LTD”)

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

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2018

April 2019

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2018 has been prepared by Trade Capital Markets (TCM) Ltd as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive DII44-2014-14 issued by the Cyprus Securities and Exchange Commission.

Trade Capital Markets (TCM) Ltd 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.

Trade Capital Markets (TCM) Ltd is regulated by the Cyprus Securities and Exchange Commission under License number 227/14.

Contact Us

| | |
|-----------|--|
| Address | <i>128-130, Limassol Avenue, Office 301, 3rd Floor, Strovolos, CY-2015 Nicosia</i> |
| Telephone | <i>+357 22 030 446</i> |
| Fax | <i>+357 22 311 033</i> |
| Web site | <i>www.leadcapitalmarkets.com; www.trade.com; www.fnexo.com</i> |
| Email | <i>info@leadcapitalmarkets.com</i> |

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 | Trade Capital Markets (TCM) Ltd |
| CIF Authorization date | 17/02/2014 |
| CIF License number | 227/14 |
| Company Registration Date | 05/08/2013 |
| Company Registration Number | HE 324232 |
| 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 credit 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 Trade Capital Markets (TCM) Ltd (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 Regulation (EU) No. 575/2013 (the “Capital Requirements Regulation”, “CRR”), which was introduced in late 2014, the Company is required to disclose information relating to its risk exposure and management, capital structure, capital adequacy as well as the most important characteristics of the Company’s corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants.

These Pillar III Disclosures are made on a solo basis and are 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 and market risk capital requirements; and the operational risk requirement.
- **Pillar II** requires firms to undertake an overall internal assessment of their capital adequacy, taking into account all the risks 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 2018 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 not preparing consolidated financial statements and is making the disclosures on an individual basis.

1.3. The Company

The principal activity of the Company during the year ended 31 December 2018 was the Business to Consumer (“B2C”) business segment. The Company operates the Trade.com and Finexo.com online trading platform for retail customers to trade Contracts for Difference (“CFDs”) on more than 2,000 different underlying global financial instruments comprising Foreign Exchange, Commodities, Indices, Exchange Traded Funds, Cryptocurrencies, Equities and Bonds. The trading platform is accessible from multiple web and mobile operating systems. The Company mainly operates in the European Union and has 82 employees in Cyprus.

Revenue is generated through dealing spreads on the trading platform, together with income derived through overnight rollover charges and gains/losses on customers’ positions from market-making. No commission is charged to customers for online trading in CFDs.

1.4. Regulatory Supervision

The minimum capital requirements as at 31 December 2018 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 L.87(I)/2017: 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 Company's risk management, supervised at the highest level is compliant with the regulations enforced by CySEC and the European regulatory framework.

The implementation of a high-performance and efficient risk management system is a critical undertaking for the Company, as well as the balance between strong risk culture and the development of its activities.

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

The first phase of the ERM programme was carried out between 2017 and 2018 (year-end). It has improved the consistency and effectiveness of the Company's risk management system by fully integrating risk prevention and management within the day-to-day management of the Company's operations. In particular, the BoD 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. The Company operates a separate Risk Management function, which is responsible for the implementation of the Risk Management Policy, set by the BoD and the Risk Management Committee. The procedures set by the Company ensure that all risks are effectively managed and measured against the set level of risk tolerance. The Risk Management Function consists of the Risk Manager and the Risk Management Committee, which operates independently to the rest of the Company's functions. The Risk Manager reports to the Managing Director of the Company. The Company's Risk Manager will head the Risk Management function which will operate independently and will be responsible for the implementation of the Risk Management Policy of the Company. The Risk Management Policy of the Company is set by the Board of Directors. The Risk Manager shall also submit reports to the Senior Management and Board on a frequent basis, and at least annually, indicating whether the appropriate remedial measures have been taken in the event of any deficiencies.

The Risk Management function can report directly to the Board of Directors, independently from Senior Management, in order to raise concerns and warn where appropriate, if risks identified can affect the Company.

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 given its strategic targets. Risk Appetite is defined using both quantitative and qualitative criteria.

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.

The Company is considering the time and requirements in order to initiate the establishment of a Risk Appetite Statement.

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.

The Company maintains compliance with the ICAAP as required under Pillar II of Basel III and its local implementation in Cyprus, through risk management and governance framework, methodologies, processes and infrastructure.

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.

The Company performs financial modelling and stress analysis on a frequent basis especially when year-end financial results are available or when it revises its business plan.

2.5. 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 practises 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.

2.6. 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.

The Company's BoD is chosen to be specialists in various fields in order to be able to offer diversity and the expertise required to oversee its smooth operations.

2.7. 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 2018, 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.

Table 2: Aggregate Quantitative Information on Remuneration
 Figures in EUR

| | No. of staff | Fixed € | Variable € | Total € |
|--|--------------|------------|---------------|------------|
| Senior Management and other staff whose actions have a material impact on the risk profile of the Institution | 32 | 1,059,106 | 317,375 | 1,376,481 |

Remuneration Policy

The Company has established a Remuneration Policy which applies to all employees, service providers and affiliates.

The purpose of the Policy is to set out the remuneration practices of the Company taking into consideration the salaries and benefits for certain categories of employees, in accordance with the provisions of Law 87(I)/2017 and Article 27 of the Delegated Regulation 2017/565 as well as ESMA's Questions and Answers Relating to the provision of CFDs and other speculative products to retail investors under MIFID, where these shall comply with specific principles in a way and to the extent that is appropriate to the Company's size, internal organization and the nature, scope and complexity of its activities.

2.8. Directorships held by Members of the Management Body

As at 31/12/2018, 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) |
|------------------------------|------------------------------------|---------------------------|-------------------------------|
| Roei Gavish | Executive Director | 1 | 1 |
| Christiana Vasiadou | Executive Director | 1 | 1 |
| George William Rodger | Executive Director | 1 | 1 |
| Mark Lauterstein | Non-Executive Director | 1 | 1 |
| Marios Hadjiyiannakis | Independent non-Executive Director | 1 | 2 |
| Michalis Philippou | Independent non-Executive Director | 1 | 2 |
| Vasilios Paraskevas | Independent non-Executive Director | 1 | 2 |

2.9. 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 | Due Date |
|---------------------------------------|---|--------------------|--------------------|-----------|-------------------|
| 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 | 30/04/2019 |
| 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 | 30/04/2019 |
| Annual Risk Management Report | Represents the work & activities undertaken by the Risk Manager during the year | Risk Manager | BoD, CySEC | Annual | 30/04/2019 |
| Pillar III Disclosures (Market | The Company is required to disclose information regarding its risk management, capital | Risk Manager | BoD, CySEC, Public | Annual | 30/04/2019 |

| | | | | | |
|-----------------------------------|--|---------------------------|--------------------------|-----------|--|
| Discipline and Disclosure | structure, capital adequacy and risk exposures | | | | |
| Financial Reporting | It is a formal record of the financial activities of the CIF | External Auditor | BoD, CySEC | Annual | 30/04/2019 |
| 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 | 11/05/2018 11/08/2018 11/11/2018 11/02/2019 |

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 on- 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.

From a regulatory perspective, the year 2016 saw the continued implementation of the Banking Union. The European Central Bank (ECB) took the helm of the Single Supervisory Mechanism in the Eurozone in November 2014, and in 2015 determined the Pillar II minimum requirements applicable to European Institutions. The ECB applied the new Supervisory Review and Evaluation Process (SREP) methodology in accordance with the guidelines of the EBA, published end-2014.

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

Tier 2 capital shall be less or equal to one third of Tier 1 Capital.

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)

The solvency ratio is set by comparing the institutions' equity with the sum of risk-weighted assets for credit risk and the capital requirement multiplied by 12.5 for market risk and operational risk.

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 2016, 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.

In line with the above, the Company is obligated to calculate and report on a quarterly basis (see section on *Reporting and Control*), under CRD, its credit risk, market risk and the operational risk requirements the result of which, i.e. solvency/capital ratio, needs to be above 8% + Capital Conservation Buffer [2.5% applicable from 01/01/2019 onwards] (Calculated based on the section above) at all times.

At 31st December 2018, the Total Capital ratio of the Company was 10.78% with total risk-weighted assets of EUR 12,861 thousand.

Table 5: Capital Requirements

| € | Dec 31, 2018 (Audited) | Dec 31, 2017 (Audited) | 2018 increase (decrease) from 2017 | |
|-----------------------------------|---------------------------|---------------------------|---------------------------------------|----------------|
| | | | In € | In % |
| CAR Ratio | 10.78% | 12.75% | - | -1.97% |
| CAR Ratio surplus/(deficit) | 0.91% | 3.50% | - | -2.59 |
| Capital Adequacy (CET1) ratio | 10.78% | 12.75% | - | -1.97% |
| CET1 Capital | 1,386,965 | 841,377 | 545,588 | 64.84% |
| Tier 1 Capital | 1,386,965 | 841,377 | 545,588 | 64.84% |
| Tier 2 Capital | - | - | - | - |
| Total Own Funds | 1,386,965 | 841,377 | 545,588 | 64.84% |
| Total Own Funds surplus/(deficit) | 656,965 | 111,377 | 545,588 | 489.86% |
| Total Credit Risk exposure | 3,255,391 | 920,339 | 2,335,052 | 253.72% |
| Total Market Risk Exposure | 736,715 | 337,568 | 399,147 | 118.24% |
| Operational Risk Exposure | 8,869,058 | 5,338,706 | 3,530,352 | 66.13% |
| Total Risk Exposure | 12,861,164 | 6,596,613 | 6,264,551 | 94.97% |
| Leverage ratio | 18.54% | 38.98% | - | -20.44% |
| Capital Conservation Buffer | 241,147 | 82,458 | 158,689 | 192.45% |

Table 6: Regulatory Capital

| € | 2018 increase (decrease) from 2017 | | | |
|--|---------------------------------------|---------------------------|-----------|----------|
| | Dec 31, 2018 (Audited) | Dec 31, 2017 (Audited) | In € | In % |
| Common Equity Tier 1 (CET 1) capital: instruments and reserves | | | | |
| Capital instruments and the related share premium accounts | 2,650,000 | 2,650,000 | - | - |
| Retained earnings | (1,620,765) | (1,711,340) | 90,575 | -5.29% |
| Accumulated other comprehensive income (loss), net of tax | 419,499 | 90,575 | 328,924 | 363.15% |
| Other | - | - | - | - |
| Common Equity Tier 1 (CET 1) capital before regulatory adjustments | 1,448,734 | 1,029,235 | 419,499 | 40.76% |
| Common Equity Tier 1 (CET 1) capital: regulatory adjustments | | | - | - |
| Goodwill and other intangible assets (net of related tax liabilities) (negative amount) | - | (128,057) | 128,057 | -100.00% |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities where the conditions in Art. 38 (3) CRR are met) (negative amount) | - | | - | - |
| Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 15 % threshold and net of eligible short positions) (negative amount) | | | - | - |
| Other regulatory adjustments | (61,769) | (59,801) | (1,968) | 3.29% |
| Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital | (61,769) | (187,858) | 126,089 | -67.12% |
| Common Equity Tier 1 (CET 1) capital | 1,386,965 | 841,377 | 545,588 | 64.84% |
| Additional Tier 1 Capital | - | - | - | - |
| Tier 1 Capital | 1,386,965 | 841,377 | 545,588 | 64.84% |
| Tier 2 Capital | - | | - | - |
| Total Capital | 1,386,965 | 841,377 | 545,588 | 64.84% |
| Total risk-weighted assets | 12,861,164 | 6,596,613 | 6,264,551 | 94.97% |
| Capital Ratios | | | | |
| Common Equity Tier 1 (CET 1) capital ratio | 10.78% | 12.75% | - | -1.97% |
| Tier 1 Capital ratio | 10.78% | 12.75% | - | -1.97% |
| Total Capital ratio | 10.78% | 12.75% | - | -1.97% |

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

| € | | |
|---|-------------|-------------|
| Common Equity Tier 1 (CET 1) capital: instruments and reserves | | |
| Capital instruments and the related share premium accounts | 2,650,000 | 2,650,000 |
| Retained earnings | (1,620,765) | (1,620,765) |
| Accumulated other comprehensive income (loss), net of tax | 419,499 | 419,499 |
| Other | - | - |
| Common Equity Tier 1 (CET 1) capital before regulatory adjustments | 1,448,734 | 1,448,734 |
| Common Equity Tier 1 (CET 1) capital: regulatory adjustments | | |
| Goodwill and other intangible assets (net of related tax liabilities) (negative amount) | - | - |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities where the conditions in Art. 38 (3) CRR are met) (negative amount) | - | - |
| Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 15 % threshold and net of eligible short positions) (negative amount) | | |
| Other regulatory adjustments | (61,769) | (61,769) |
| Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital | (61,769) | (61,769) |
| Common Equity Tier 1 (CET 1) capital | 1,386,965 | 1,386,965 |
| Additional Tier 1 Capital | - | - |
| Tier 1 Capital | 1,386,965 | 1,386,965 |
| Tier 2 Capital | - | - |
| Total Capital | 1,386,965 | 1,386,965 |
| Total risk-weighted assets | 12,861,164 | 12,861,164 |
| Capital Ratios | | |
| Common Equity Tier 1 (CET 1) capital ratio | 10.78% | 10.78% |
| Tier 1 Capital ratio | 10.78% | 10.78% |
| Total Capital ratio | 10.78% | 10.78% |

Deductions from Own Funds:

The Company, in accordance with Article 36 of the CRR, deducted from CET 1 capital the amount of EUR61,769 representing the Investors Compensation Fund (“ICF”) contributions as per Circular C162 of the CySEC dated 10 October 2016.

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 is required to report and monitor its leverage ratio at least on a quarterly basis.

The leverage ratio is a simple non-risk adjusted capital measure, defined as a measure of Tier 1 capital percentage of the total exposures. The leverage ratio intends to constrain leverage and bring institution's assets more in line with their capital, in order to help the Company mitigate the destabilizing deleveraging process in downturns situations.

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 2018 the Company's leverage ratio was 18.03% vs 38.98% in 2017.

Table 8: Leverage ratio common disclosure

| € | CRR leverage ratio exposures |
|---|------------------------------|
| On-balance sheet exposures (excluding derivatives and SFTs) | 7,481,186 |
| Derivative exposures | - |
| Securities financing transaction exposures | - |
| Other off-balance sheet exposures | - |
| Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet) | - |
| Tier 1 capital | 1,386,965 |
| Total leverage ratio exposures | 7,481,186 |
| Leverage ratio | 18.54% |

Table 9: Split-up of on balance sheet exposures

| € | CRR leverage ratio exposures |
|---|------------------------------|
| Trading book exposures | - |
| Banking book exposures, of which: | 7,481,186 |
| Covered bonds | - |
| Exposures treated as sovereigns | - |
| Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns | - |
| Institutions | 4,703,145 |

| | |
|---|------------------|
| Secured by mortgages of immovable properties | - |
| Retail exposures | 1,846,630 |
| Corporate | 381,869 |
| Exposures in default | - |
| Other exposures (e.g. equity, securitisations, and other non-credit obligation assets) | 549,542 |
| Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures) | 7,481,186 |

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 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 2018, the Company's capital usage for credit risk amounted to EUR260 thousand thousand, while the risk weighted exposure was EUR3,255 thousand (compared to EUR74 thousand and EUR920 thousand, respectively, as at 31 December 2017). The tables below indicate the Company's credit risk exposure.

Table 10: Asset Class Breakdown of Net Credit Risk Exposure and Minimum Capital Requirement as at 31 December 2018, €

| Asset Class | Net value of exposures at the end of the period | Minimum capital requirement |
|---|---|-----------------------------|
| Central governments or Central Banks | - | - |
| Public sector entities | - | - |
| Institutions | 940,629 | 75,250 |
| Corporates | 381,869 | 30,550 |
| <i>Of which: SMEs</i> | - | - |
| Retail | 1,384,972 | 110,798 |
| <i>Of which: SMEs</i> | - | - |
| Equity exposures | 281,595 | 22,528 |
| Other exposures | 266,326 | 21,306 |
| Total risk weighted assets | 3,255,391 | |
| Total Credit Risk Capital Requirements | | 260,431 |

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

| Asset class | Exposure before CRM | Exposure after CRM |
|---|---------------------|--------------------|
| Central governments or Central Banks | - | - |
| Public sector entities | - | - |
| Institutions | 940,629 | 940,629 |
| Corporates | 381,869 | 381,869 |
| <i>Of which: SMEs</i> | - | - |
| Retail | 1,384,972 | 1,384,972 |
| <i>Of which: SMEs</i> | - | - |
| Equity exposures | 281,595 | 281,595 |
| Other exposures | 266,326 | 266,326 |
| Total risk weighted assets | 3,255,391 | 3,255,391 |
| Total Credit Risk Capital Requirements | 260,431 | 260,431 |

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, €

| Asset class | Albania | Austria | Bulgaria | Canada | Cyprus | Gibraltar | Isle of Man | Italy | Romania | Sweden | Singapore | United Kingdom | Total |
|--|---------|---------|----------|---------|-----------|-----------|-------------|--------|---------|--------|-----------|----------------|-----------|
| Central governments or Central Banks | - | | | | | | | | | | | | - |
| Public sector entities | - | | | | | | | | | | | | - |
| Institutions | - | 3 | | 168,118 | 471,821 | | | 66,278 | 1,048 | 83,555 | 2,766 | 147,041 | 940,630 |
| Corporates | 243 | | | | | 381,261 | 365 | | | | | | 381,869 |
| Of which: SMEs | - | | | | | | | | | | | | - |
| Retail | - | | | | 1,384,972 | | | | | | | | 1,384,972 |
| Of which: SMEs | - | | | | | | | | | | | | - |
| Equity exposures | - | | 56,595 | | 225,000 | | | | | | | | 281,595 |
| Other exposures | - | | | | 266,326 | | | | | | | | 266,326 |
| Total risk weighted assets | 243 | 3 | 56,595 | 168,118 | 2,348,119 | 381,261 | 365 | 66,278 | 1,048 | 83,555 | 2,766 | 147,041 | 3,255,392 |
| Total Credit Risk Capital Requirements | 19 | - | 4,528 | 13,449 | 187,850 | 30,501 | 29 | 5,302 | 84 | 6,684 | 221 | 11,763 | 260,430 |

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

| Asset class | Financial Services | Payment Processor | Other Industry | Total |
|--------------------------------------|--------------------|-------------------|----------------|-----------|
| Central governments or Central Banks | - | - | - | - |
| Public sector entities | - | - | - | - |
| Institutions | 381,261 | 674,778 | 141,923 | 1,197,962 |
| Corporates | 123,928 | - | 608 | 124,536 |
| Of which: SMEs | - | - | - | - |
| Retail | - | - | 1,384,972 | 1,384,972 |
| Of which: SMEs | - | - | - | - |
| Equity exposures | - | - | 281,595 | 281,595 |
| Other exposures | - | 14,301 | 252,026 | 266,327 |
| Total risk weighted assets | 505,189 | 689,079 | 2,061,124 | 3,255,392 |

| | | | | |
|---|--------|--------|---------|---------|
| Total Credit Risk Capital Requirements | 40,415 | 55,126 | 164,890 | 260,431 |
|---|--------|--------|---------|---------|

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, €

| Asset class | Up to 3 months | More than 3 months | Total |
|---|------------------|--------------------|------------------|
| Central governments or Central Banks | - | - | - |
| Public sector entities | - | - | - |
| Institutions | 982,629 | - | 982,629 |
| Corporates | 381,869 | - | 381,869 |
| Of which: SMEs | - | - | - |
| Retail | 1,384,972 | - | 1,384,972 |
| Of which: SMEs | - | - | - |
| Equity exposures | 281,595 | - | 281,595 |
| Other exposures | 266,326 | - | 266,326 |
| Total risk weighted assets | 3,297,392 | - | 3,297,392 |
| Total Credit Risk Capital Requirements | 263,791 | - | 263,791 |

Table 15: Credit Quality Concentration, €

| Credit Quality Step | Exposure before CRM | Exposure after CRM |
|---------------------|---------------------|--------------------|
| 1 | 2,766 | 2,766 |
| 2 | - | - |
| 3 | 212,722 | 212,722 |
| 4 | 365 | 365 |
| 5 | - | - |
| 6 | - | - |
| Unrated | 3,039,538 | 3,039,538 |
| Total | 3,255,391 | 3,255,391 |

Large Exposures:

An institution's exposure to a Counterparty shall be considered as a large exposure if its value exceeds the 10% of its Own Funds.

Large Exposures' limits in the banking book:

The Company's total amount of exposure to a client or a group of connected clients shall not exceed 25% of its Own Funds. When the client is an institution or a group of institutions, the total exposure amount shall not exceed 25% of the Company's Own Funds or EUR150 million, whichever is higher provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to all connected clients that are not institutions does not exceed 25% of the Company's Own Funds.

The Company is required to report and monitor its Large Exposures on a quarterly basis.

The table below presents the Company's Large Exposures as at 31/12/2018.

| Large Exposures to Institution and non-Institutions: | | | |
|---|-----------|----------------|--|
| Counterparty | Exposure | % of Own Funds | |
| Unicredit | 331,390 | 23.89% | |
| Gibraltar International Bank | 381,261 | 27.49% | |
| Handelsbank | 417,775 | 30.12% | |
| Eurobank | 502,104 | 36.20% | |
| Barclays Bank | 732,206 | 52.79% | |
| PSP Equity | 840,589 | 60.61% | |
| Magnasale | 1,845,542 | 133.06% | |

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 through:

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 monitors these exposures on a daily basis and has policies to minimize its market risk exposures which are in accordance with the CRR.

In 2018, the Company's market risk mainly emanated from foreign exchange fluctuations which affect the Company's deposits in foreign currencies as well as from positions held during forex trading.

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 2018 amounted to EUR59 thousand, while the market risk risk-weighted exposure amounted to EUR737 thousand (compared to EUR27 thousand and EUR338 thousand, respectively, as at 31 December 2017).

Table 16: Market risk capital requirements

| | RWA | Capital requirements |
|-----------------------------|------------|-----------------------------|
| Foreign Exchange | 666,427 | 53,314 |
| Of which: USD | 280,447 | 22,436 |
| GBP | 332,048.00 | 26,564 |
| CZK | 26,291.00 | 2,103 |
| RON | 234.00 | 19 |
| PLN | 26,837.00 | 2,147 |
| ALL | - | - |
| Other | | - |
| Gold Position | (570) | (46) |
| Traded Debt Instrument Risk | - | - |
| Equity Risk | 30,447 | 2,436 |
| Commodity Risk | 39,841 | 3,187 |
| Total | 736,715 | 58,937 |

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.

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, at 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.
- Training and awareness.

6.1. Quantitative Information

The operational risk capital usage, as at 31 December 2018, was EUR710 thousand, while the operational risk risk-weighted exposure was EUR8,869 thousand (compared to EUR427 thousand and EUR5,339 thousand as at 31 December 2017).

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:

- 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.

The Company has undertaken a specific review of its liquidity risks and believes that it is able to meet its upcoming maturities. As at 31/12/2018, the Company held EUR4,914 thousand in its bank accounts.

Furthermore, the client assets held in fiduciary capacity (in segregated accounts) were EUR11,216 thousand. The Company is taking due care in safeguarding these assets 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. Negative Balance Protection Risk Management

‘Negative Balance Protection’ is a precautionary measure that firms take in order to safeguard their clients.

The negative balance protection aims at protecting retail clients in exceptional circumstances where there is a price change in the underlying that is sufficiently large and sudden to prevent the CFD provider from closing out the position as required by the margin close-out protection, resulting to a negative account value.

Large market events can cause gapping, preventing the automatic margin close-out protection from being effective.

The purpose of a negative balance protection is to ensure that an investor's maximum losses from trading CFDs, including all related costs, are limited to the total funds related to trading CFDs that are in the investor's CFD trading account.

The Company allocates sufficient Capital so as to ensure that the market risk is covered, in order to comply with the Negative Balance Protection. Furthermore, the NBP is addressed in the context of the Company’s ICAAP report and reviewed on a regular basis.

9. Risk Transferring Arrangements

‘Risk transfer arrangement’ is defined as the transferring of risk and liability to a third party.

According to the CySEC communication to all CIFs, CFD CIFs under a EUR125,000 Limited License or under EUR730,000 License, which have in place LP Contractual Arrangements with entities domiciled in jurisdictions that do not have or it is unlikely to have an adequately to have an adequate prudential regime in relation to investment firms. This inevitability creates an additional risk element. To this end, such CFD CIFs operating under EUR125,000 Limited License or under EUR730,000 License must maintain an additional capital buffer of the highest quality of their capital (Common equity tier 1 capital) against the risks that such arrangements entail.

Therefore, CFD CIFs operating under EUR125,000 Limited License or under EUR730,000 License that collaborate and have in place LP Contractual Arrangements with entities domiciled in a third country listed in Annex I of the Commission Implementing Decision (EU) 2016/230, as in force, or which is not a member of the G20, are required to have an additional buffer of CET 1 Capital of at least:

1. €2.000.000 or
2. Equal to 2% of their total risk exposure,

whichever is the higher. It should be noted that this is a minimum buffer which should be further evaluated in the context of ICAAP and if deemed necessary it should be increased accordingly.

CFD CIFs operating under EUR125,000 Limited License or under EUR730,000 License that have in place adequate LP Contractual Arrangements solely with EEA regulated entities or with duly authorized and regulated entities domiciled in a third country which is listed in Annex I of the Commission Implementing Decision (EU) 2016/230, as in force, or is a member of the G20, are not required to have additional capital buffer as above. However, they should in any case assess the risks associated with the risk transferring arrangements and if in the context of ICAAP or SREP is deemed necessary, they should maintain an additional capital buffer.

The Company collaborates and have in place LP contractual arrangements solely with EEA regulated entities or with duly authorized and regulated entities domiciled in a third country listed in Annex I of the Commission Implementing Decision (EU) 2016/230 as in force or is a member of G20. Therefore, the Company does not need to include a minimum CET 1 additional capital buffer.

The Company assesses the risks associated with their risk transferring arrangements in the context of its ICAAP.

10. 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 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 responsible for:

- The Company's financial security (prevention of money laundering and terrorism financing; know-your-customer obligations; embargoes and financial sanctions)
- Developing and updating consistent standards for the function, promoting a compliance culture, coordinating employee training and managing Company regulatory projects
- Coordinating a compliance control mechanism within the Company (second-level controls), overseeing a normalised Compliance process, oversight of personnel operations and, finally, managing large IT projects for the function
- Preventing and managing conflicts of interest
- Proposing ethical rules to be followed by all Company employees
- Training and advising employees and raise their awareness of compliance issues
- Building and implementing steering and organisational tools for the function: Compliance and Reputational Risk dashboards, forums to share best practices, meetings of functional compliance officers
- Generally monitoring subjects likely to be harmful to the Company's reputation

10.1. Compliance Transformation Programme

In light with the changes arising from MiFID II, which came into force from 2018 onwards, the Company launched a programme from 2017 to 2018 to transform and improve the Compliance function, in particular to raise the monitoring standards and better fulfil the increasing requirements of regulatory authorities.

Among other things, this programme aims to strengthen governance and increase the resources made available to the function, both by recruiting additional resources and by investing in streamlining the Compliance function's existing IT applications and strengthening alert controls and management.

It targets the continued enhancement of priority functions, the central tools for monitoring regulatory application (including training, harmonisation, and regulatory oversight), financial security, constant oversight, customer protection, market integrity (including preventing conflicts of interest), and reporting quality.

The Company intends to uphold the strictest rules in order to ensure high ethical and professional standards.

10.2. 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/be 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.

11. Appendix - Specific References to CRR

| CRR Ref | High Level Summary | Compliance Reference |
|--|--|----------------------|
| <i>Scope of disclosure requirements</i> | | |
| 431(1) | Requirement to publish Pillar III disclosures. | 1.2 |
| 431(2) | Disclosure of operational risk information. | 6 |
| 431(3) | Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness. | 1.1 |
| 431(4) | Explanation of ratings decisions to SMEs upon request. | N/A |
| <i>Frequency of disclosure</i> | | |
| 433 | Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements. | 1.2 |
| <i>Means of disclosures</i> | | |
| 434(1) | To include disclosures in one appropriate medium, or provide clear cross-references to other media. | 1.2 |
| 434(2) | Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate. | 1.2 |
| <i>Risk management objectives and policies</i> | | |
| 435(1) (a) | Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation/hedging policies | 2, 4, 5 and 6 |
| 435(1) (b) | | 2, 4, 5 and 6 |
| 435(1) (c) | | 2, 4, 5 and 6 |
| 435(1) (d) | | 2, 4, 5 and 6 |
| 435(1) (e) | Declaration approved by the BoD on adequacy of risk management arrangements | Preface |
| 435(1) (f) | Concise risk statement approved by the BoD | Preface |
| 435(2) | Information, once a year at a minimum, on governance arrangements. | 2 |
| 435(2) (a) | Number of directorships held by members of the BoD. | 2.8 |
| 435(2) (b) | Recruitment policy of BoD members, their experience and expertise. | 2.6 |
| 435(2) (c) | Policy on diversity of BoD members, its objectives and results against targets. | 2.5 |
| 435(2) (d) | Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year. | N/A |
| 435(2) (e) | Description of information flow on risk to BoD. | 2.9 |
| <i>Scope of application</i> | | |
| 436(a) | Name of institution. | 1.1 |
| 436 (b) | Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are: | N/A |

| | | |
|-----------------------------|--|-----|
| 436 (b) (i) | Fully consolidated; | N/A |
| 436 (b) (ii) | Proportionally consolidated; | N/A |
| 436 (b) (iii) | Deducted from own funds; | N/A |
| 436 (b) (iv) | Neither consolidated nor deducted. | N/A |
| 436 (c) | Impediments to transfer of funds between parent and subsidiaries. | N/A |
| 436 (d) | Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any). | N/A |
| 436 (e) | Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities. | N/A |
| Own Funds | | |
| 437 (1) | Requirements regarding capital resources table | 3.4 |
| 437 (1) | | 3.4 |
| 437 (1) (a) | | 3.4 |
| 437 (1) (b) | | 3.4 |
| 437 (1) (c) | | 3.4 |
| 437 (1) (d) (i) | | 3.4 |
| 437 (1) (d) (ii) | | 3.4 |
| 437 (1) (d) (iii) | | 3.4 |
| 437 (1) (e) | | 3.4 |
| 437 (1) (f) | | 3.4 |
| 437(2) | EBA shall develop implementation standards for points (a), (b), (d) and (e) above | N/A |
| Capital Requirements | | |
| 438(a) | Summary of institution's approach to assessing adequacy of capital levels. | 2.3 |
| 438(b) | Result of ICAAP on demand from competent authority. | 2.3 |
| 438(c) | Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure). | 4 |
| 438(d) | Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class. | N/A |
| 438(d) (i) | | N/A |
| 438(d) (ii) | | N/A |
| 438(d) (iii) | | N/A |
| 438(d) (iv) | | N/A |
| 438(e) | Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits. | 5.1 |
| 438(f) | Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable. | 6.1 |

| <i>Exposure to counterparty credit risk (CCR)</i> | | |
|---|---|-----|
| 439(a) | Description of methodology to assign internal capital and credit limits for counterparty credit exposures. | N/A |
| 439(b) | Discussion of policies for securing collateral and establishing reserves. | N/A |
| 439(c) | Discussion of policies as regards wrong-way exposures. | N/A |
| 439(d) | Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade. | N/A |
| 439(e) | Derivation of net derivative credit exposure. | N/A |
| 439(f) | Exposure values for mark-to-market, original exposure, standardised and internal model methods. | N/A |
| 439(g) | Notional value of credit derivative hedges and current credit exposure by type of exposure. | N/A |
| 439(h) | Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type. | N/A |
| 439(i) | Estimation of alpha, if applicable. | N/A |
| <i>Credit Risk Adjustments</i> | | |
| 442(a) | Definitions for accounting purposes of 'past due' and 'impaired'. | N/A |
| 442(b) | Approaches for calculating credit risk adjustments. | N/A |
| 442(c) | Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by different types of exposures. | 4.2 |
| 442(d) | Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by significant geographic areas and material exposure classes. | 4.2 |
| 442(e) | | 4.2 |
| 442(f) | Exposures post value adjustments by residual maturity and by material exposure class. | 4.2 |
| 442(g) | | N/A |
| 442(g) (i) | Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type. | N/A |
| 442(g) (ii) | | N/A |
| 442(g) (iii) | | N/A |
| 442(h) | Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography. | N/A |
| 442(i) | Reconciliation of changes in specific and general credit risk adjustments. | N/A |
| 442(i) (i) | | N/A |
| 442(i) (ii) | | N/A |
| 442(i) (iii) | | N/A |
| 442(i) (iv) | | N/A |
| 442(i) (v) | | N/A |

| | | |
|---|---|-----|
| 442 endnote | Specific credit risk adjustments recorded to income statement are disclosed separately. | N/A |
| <i>Unencumbered assets</i> | | |
| 443 | Disclosures on unencumbered assets. | N/A |
| <i>Use of ECAI's</i> | | |
| 444(a) | Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes. | 4.1 |
| 444(b) | Exposure classes associated with each ECAI. | 4.1 |
| 444(c) | Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book; | 4.1 |
| 444(d) | Mapping of external rating to credit quality steps. | 4.1 |
| 444(e) | Exposure values pre- and post-credit risk mitigation, by credit quality step. | 4.1 |
| <i>Exposure to market risk</i> | | |
| 445 | Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk. | 5 |
| <i>Operational Risk</i> | | |
| 446 | Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered. | 6 |
| <i>Exposures in equities not included in the trading book</i> | | |
| 447(a) | Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used. | N/A |
| 447(b) | Recorded at fair value and actual prices of exchange traded equity where it is materially different from fair value. | N/A |
| 447(c) | Types, nature and amounts of the relevant classes of equity exposures. | N/A |
| 447(d) | Cumulative realised gains and losses on sales in the period. | N/A |
| 447(e) | Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital. | N/A |
| <i>Exposure to interest rate risk on positions not included in the trading book</i> | | |
| 448(a) | Nature of interest rate risk and key assumptions in measurement models. | N/A |
| 448(b) | Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency. | N/A |
| <i>Remuneration Disclosures</i> | | |
| 450 | Remuneration Policy | 2.7 |
| <i>Leverage</i> | | |
| 451(1) (a) | Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items. | 3.5 |
| 451(1) (b) | | 3.5 |
| 451(1) (c) | | 3.5 |

| | | |
|--|---|-----|
| 451(1) (d) | Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year. | N/A |
| 451(1) (e) | | N/A |
| 451(2) | EBA shall develop implementation standards for points above. | N/A |
| <i>Use of Credit Risk mitigation techniques</i> | | |
| 453(a) | Policies and processes, and an indication of the extent to which the CIF makes use of on- and off-balance sheet netting. | N/A |
| 453(b) | Policies and processes for collateral valuation and management. | N/A |
| 453(c) | Description of types of collateral used by the CIF. | N/A |
| 453(d) | Types of guarantor and credit derivative counterparty, and their creditworthiness. | N/A |
| 453(e) | Information about market or credit risk concentrations within the credit mitigation taken. | N/A |
| 453(f) | For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure value covered by eligible collateral. | N/A |
| 453(g) | For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives. | N/A |
| <i>Use of the Advanced Measurement Approaches to operational risk</i> | | |
| 454 | Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk. | N/A |