IQ OPTION EUROPE LTD

Regulated by the Cyprus Securities and Exchange Commission License no. ***247/14***

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2017

July 2018

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2017 has been prepared by IQ OPTION EUROPE LTD as per the requirements of Regulation (EU) No. 575/2013 issued by the European Commission and the Directive DI144-2014-14 issued by the Cyprus Securities and Exchange Commission.

IQ OPTION EUROPE 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.

*IQ OPTION EUROPE LTD is regulated by the Cyprus Securities and Exchange Commission under License number **247/14.***

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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	**IQOPTION EUROPE LTD**
CIF Authorization date	30/07/2014
CIF License number	247/14
Company Registration Date	12/12/2013
Company Registration Number	HE327751
Investment Services	
Reception & Transmission of orders in relation to one or more financial instruments	
Execution of Orders on Behalf of Clients	
Dealing on own account	
Portfolio Management	
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	

1.2. Purpose

The present report is prepared by IQ OPTION EUROPE 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 247/14 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.

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 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 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.iqoption.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

IQ OPTION EUROPE LTD as a CIF operates worldwide, offering amongst others, CFDs on FX, stocks and cryptocurrencies, and the ability for clients who have opened long positions on BTC/USD CFDs to exchange the funds held at an IQ Option Ltd trading account against the equivalent amount of BTC.

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.

1.4. Regulatory Supervision

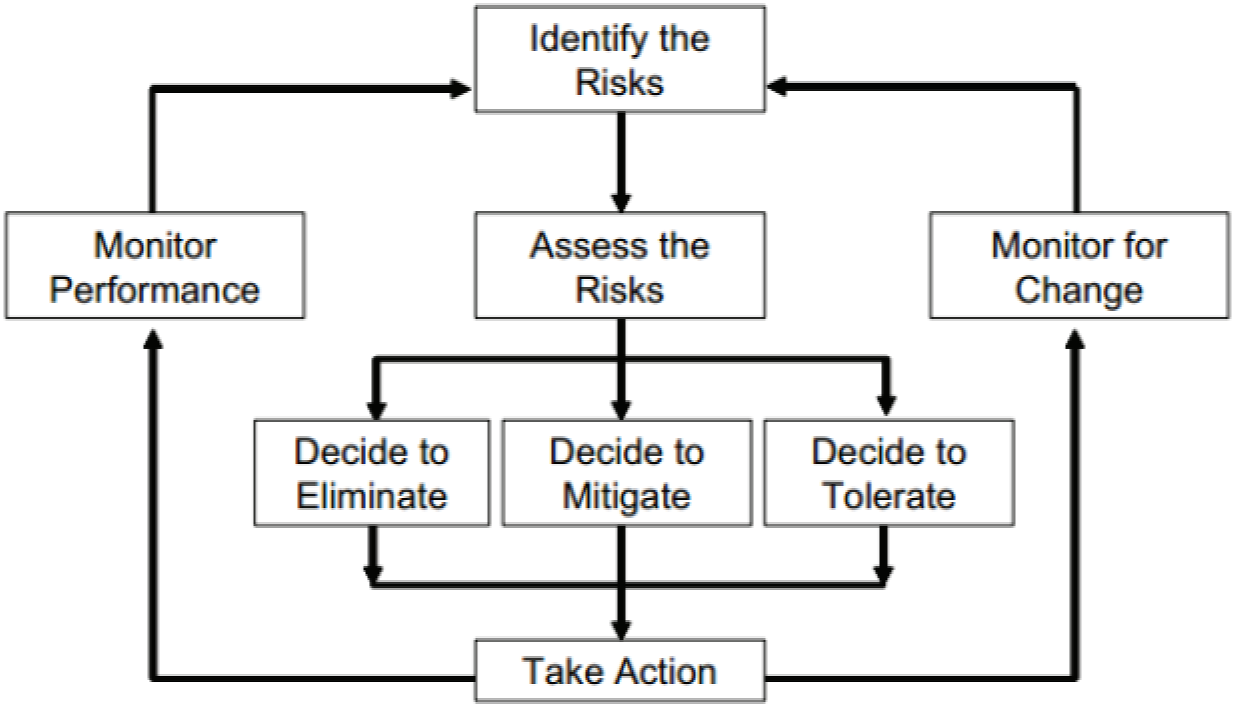
The minimum capital requirements as at 31 December 2017 for the CRD IV were calculated in accordance with the 'Pillar I' rules as set out by the Laws and Regulations, published by the CySEC. All CIFs under CySEC's authority must meet the requirements with respect to capital adequacy and market discipline, 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.
- Directive DI144-2007-01 and 01(A) and 01(B), regarding authorization and operating conditions of Cyprus Investment Firms.

The company has become a significant CIF and plans to take all the necessary measures to comply with the applicable requirements. The company plans to set up an independent Risk Committee (paragraph 6 of the Directive), Remuneration Committee (paragraph 22 of the Directive) and Nominations Committee (article 18A(2)(a) of the Law) as well as comply with the limitations on the number of directorships an individual may hold (Article 12(5) of the Law).

2. Governance and Risk Management

The Company's approach to risk management is based on the principle that risk management capability must be embedded within the businesses' front line in order to be effective. Senior Management Framework which assists in the appropriate balancing of both the risk and reward components and employees are responsible for risk management in their day to day activities.



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 BoD.

The first phase of the ERM programme continued during 2017.. 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 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.

The Risk Manager has responsibilities for the management of all credit, market and operational risks as well as for the comprehensive control of risk, such as liquidity risk, and continuing development of methods for risk measurement. Also, the Risk Manager is responsible for monitoring, analyzing and reporting risk on a comprehensive basis.

The Company promotes a strong risk culture throughout the organization.

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. **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. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

- **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. The Company's systems are evaluated, maintained and upgraded continuously.
- **Liquidity risk**: risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost, arises when the maturity of assets and liabilities does not match..
- **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 laws and regulations of the state. Non compliance with the regulatory framework could affect the Company' profitability, suspension, revocation or amendment of its licenses and, or other enforcement action.

- **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, promote risk, capital and performance targets, considering risk capacity and appetite constraints from both financial and non-financial risks. Risk Appetite is defined using both quantitative and qualitative criteria.

Risk capacity is defined as the maximum level of risk the Company can assume in both normal and distressed situations before breaching regulatory constraints and its obligations to shareholders.

The Risk Appetite Statement articulates the Company's appetite thresholds. It aligns to the risks identified and defined in the Risk Management Framework.

The Board of Directors reviews and approves the risk appetite and capacity on an annual basis, with aim to ensure that they are consistent with the Company's strategy, business and regulatory environment and stakeholders 'requirements.

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 planning to establish a Risk Appetite Statement within 2018.

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.

The company has prepared an 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

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

In line with the recent changes in the regulatory reporting framework, during 2017 the Company has established a dedicated recruitment policy in relation to the BoD.

The recruitment policy outlines how the Company adheres to its governing regulation with regards to the recruitment of persons as per Article 15 of Law 144(i)/2007 and the Directive DI144-2007-01 of 2011 ensuring that it employs persons 'of sufficiently good repute' and who 'have the skills, knowledge and expertise for performing their assigned responsibilities' and employs personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.

Persons employed by the Company will have the necessary qualifications and meet the criteria of (1) Good repute, (2) Skills, knowledge and expertise, (3) Relevant academic title or degree or professional qualification and relevant experience. Persons employed by the Company will have integrity, morals and credibility and must hold academic and/or have professional qualifications and professional experience relevant to the responsibilities assigned to them. For this purpose, the Company will request the submission of the necessary documentation, which will be kept in the Company's records.

The Recruitment Procedure sets out the stages of the recruitment and selection process that are normally adhered to. However, the Company recognises that in times of changing labour markets there are occasions when the Procedure may need to be adapted to successfully recruit and select Staff in which instances, the reasons for modifying the Procedure will be set out in writing and the variation to the Procedure authorised by the CEO or the General Manager in his absence.

A decision to shortlist, interview or offer employment will be taken without regard to the applicant's sex, race, religion or belief, marital or civil partnership status, age, pregnancy or maternity, sexual orientation or gender reassignment.
This Policy will be reviewed by the Compliance Department, at least annually.

2.7. Remuneration

The Remuneration Policy is aligned with effective conflicts of interest management duties in order to ensure that clients 'interests are not impaired by the Company's remuneration practices and is designed in such a way so as not to create incentives that may lead persons to favour their own interests, or the Company's interest, to the potential detriment of clients.

This policy is consistent with and promotes sound and effective risk management and does not encourage risk taking that exceeds the level of tolerated risk of the Company. It is line with the business strategy, objectives, values and long-term interests of the Company, and incorporates measures to avoid conflict of interest.

The provisions of this Policy are disclosed to relevant persons at the outset.

The Board has the responsibility for the implementation of this policy and its practices and for preventing and dealing with any relevant risks that this policy may create. Review of this policy is made at least annually so as to ensure that the business developments are aligned with all provisions.

Members of the Board of Directors receive a fixed salary only which is awarded based on expertise, responsibility, knowledge and reputation.

The remuneration of Executive Directors, Senior Management and any other risk takers consists of fixed salary, as well as incentive or reward schemes. Such schemes ensure the Company's ability to attract, retain and motivate high quality people required to lead, manage and serve the Company in a competitive environment.

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.

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.

The table below presents the annual remuneration for 2017, of the Senior Management, members of the Board of Directors and other staff whose actions have a material impact on the risk profile of the company. No outstanding deferred remuneration and no share options were offered during 2017 and no new sign-on or severance payments. There were no individuals being remunerated €1m or more.

Table 2: Aggregate Quantitative Information on Remuneration

Figures in EUR '000	**No. of staff**	**Fixed**	**Variable**	**Total**
Board of Directors	6	389	28	417
Senior Management and other staff whose actions have a material impact on the risk profile of the Institution	10	432	57	489
Grand Total	16	821	85	906

Figures in EUR '000	No. of staff	Total
Control Functions (Directors, AML, Compliance, Finance)	12	736
Other (Dealing, Sales and Retention, Granting limits, Safekeeping)	4	170
Grand Total	16	906

2.8. 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)
Alkis Hilton	CEO & Executive Director	1	-
Sergei Dobrovolskii	Executive Director	2	-
Dmitry Zaretskii*	Non- Executive Director	-	1
Georgios Miltiadous**	Non - Executive Director	-	1
Loukas Kokkinos	Non - Executive Director	-	5
Christos Samaras**	Non - Executive Director	1	1
Timofey Baranov***	Executive director	1	-

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

*Dmitry Zaretski resigned on 2/10/17 as Executive and appointed as NED

**George Miltiadous resigned on 01/12/2017 and Christos Samaras was appointed

***Timofey Baranov was appointed on 2/10/2017

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	**30/04/2018**
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	**30/04/2018**
Annual Risk Management Report	Represents the work & activities undertaken by the Risk Manager during the year	Risk Manager	BoD, CySEC	Annual	**30/04/2018**
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	**30/04/2018**
Financial Reporting	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual	**30/04/2018**
Suitability Report	Clients' money audit	External Auditor	BoD,CySEC	Annual	**30/04/2018**
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	**11/05/2017** **11/08/2017** **11/11/2017** **11/02/2018**

3. Capital Management and Adequacy

3.1. The Regulatory Framework

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.

3.2. Regulatory Capital

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

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, riskweighted 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)

As at 31 December 2017, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus (a) a capital conservation buffer of 1,25% as per the transitional application provisions for buffers, (b) a countercyclical capital buffer of 0,03% which is specific for each institution and is determined based on the countercyclical capital buffer rates that apply in the countries of the institution’s counterparties and (c) a systemic risk buffer of 1% for its exposures to Estonia, in response to the decision of the Cyprus Macro-prudential Authority for the capital buffers (i.e. the Central Bank of Cyprus – “CBC”) to adopt, via reciprocity, a macro-prudential measure adopted by the relevant Estonian authority, resulting to an overall minimum requirement of 9,28%.

The Company’s actual capital adequacy ratio for the year ended 31 December 2017 stood at 16,44%, which is above the aforementioned minimum requirement.

Countercyclical Capital Buffer

As set out in the CRDIV, an institution-specific countercyclical buffer is calculated as the product of the institution’s total risk exposure amount, and the institution-specific countercyclical capital buffer rate, which consists of the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the institution are located.

Table 5: Geographical breakdown of credit exposures used for the calculation of the Countercyclical Capital Buffer

Countries	General Credit Exposures		Trading Book Exposures		Own Funds Requirements			Own Funds Requirements Weights	Counter-cyclical Buffer Rate
	SA	IRB	SA	IRB	General Credit Risk Exposures	Trading Book Exposures	Total		
	($'000)							%	%
Cyprus	15.202	-	-	-	1.216	-	1.216	100%	0%
United Kingdom	-	-	-	-	-	-	-	0%	0%
Estonia	-	-	-	-	-	-	-	0%	0%
Germany	-	-	-	-	-	-	-	0%	0%
Latvia	-	-	-	-	-	-	-	0%	0%
United States	-	-	-	-	-	-	-	0%	0%
Total	**15.202**	**-**	**-**	**-**	**-**	**-**	**1.216**	**100%**	

Table 6: Amount of institution-specific Countercyclical Capital Buffer for 31 December 2017

Amount of institution-specific countercyclical capital buffer	Amount ($'000)
Total Risk Exposure Amount	16.116
Institution specific countercyclical buffer rate	0,00%
Institution-specific countercyclical capital buffer requirement	-

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.

At 31st December 2017, the Total Capital ratio of the Company was 16,44% with total risk weighted assets of EUR51.700 thousand.

Table 7*: Capital Requirements*

			2017 increase (decrease) from 2016	
€ thousands	**Dec 31, 2017 (Audited)**	**Dec 31, 2016 (Audited)**	In €	In %
CAR Ratio	16,44%	29,77%	-	-11.67%
Capital Adequacy (CET1) ratio	16,44%	29,54%	-	-11,44%
CET1 Capital	8.500	1.919	6.581	342,94%
Tier 1 Capital	8.500	1,919	6,581	342.94%
Tier 2 Capital	-	16	(16)	-100%
Total Own Funds	8.500	1.935	6.565	339,32%
Total Own Funds surplus/(deficit)	7.770	1.810	5.373	295,20%
Total Credit Risk exposure	16.116	5.207	10.909	209,51%
Total Market Risk Exposure	286	262	24	9,23%
Operational Risk Exposure	35.298	1,03	29.524	2.866,41%
Total Risk Exposure	51.700	6.498	40.459	622,64%
Leverage ratio	42,97%	21,91%	-	21,06%
Capital Conservation Buffer	1,25%	-	-	-

Table 8: Regulatory Capital

€ thousands	Dec 31, 2017 (Audited)	Dec 31, 2016 (Audited)	2017 increase (decrease) from 2016 In €	In %
Common Equity Tier 1 (CET 1) capital: instruments and reserves				
Capital instruments and the related share premium accounts	601	601	-	-
Retained earnings	1,363	1,363	-	-
Accumulated other comprehensive income (loss), net of tax	6,635	-	6,635	-
Other	-	-	-	-
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	8,600	1,964	6,635	337.74%
Common Equity Tier 1 (CET 1) capital: regulatory adjustments				
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	(13)	(2)	(10)	413.15%
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	(87)	(43)	(44)	103.01%
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	(100)	(45)	(54)	119.98%
Common Equity Tier 1 (CET 1) capital	8,500	1,919	6,581	342.87%
Additional Tier 1 Capital	-	-		
Tier 1 Capital	8,500	1,919	6,581	342.87%
Tier 2 Capital	-	16	(16)	-100%
Total Capital	8,500	1,935	6,565	339.32%
Total risk-weighted assets	51,700	6,498	46,957	622.64%
Capital Ratios				
Common Equity Tier 1 (CET 1) capital ratio	16.44%	29.54%	-	-11.44%
Tier 1 Capital ratio	16.44%	29.54%	-	-11.44%
Total Capital ratio	16.44%	29.77%	-	-11.67%

Table 9: Own funds disclosure template under the Transitional and Full – phased in definition

€ thousands	Transitional Definition	Full – phased in Definition
Common Equity Tier 1 (CET 1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	601	601
Retained earnings	7.998	7.998
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	8.599	8.599
Common Equity Tier 1 (CET 1) capital: regulatory adjustments		
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	(13)	(13)
Additional deductions of CET1 Capital due to Article 3 CRR	(87)	(87)
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	(100)	(100)
Common Equity Tier 1 (CET 1) capital	8.500	8.500
Additional Tier 1 Capital	-	-
Tier 1 Capital	8,500	8,500
Tier 2 Capital	-	-
Total Capital	8.500	8.500
Total risk-weighted assets	51.700	51.700
Capital Ratios		
Common Equity Tier 1 (CET 1) capital ratio	16,44%	16,44%
Tier 1 Capital ratio	16,44%	16,44%
Total Capital ratio	16,44%	16,44%

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 42,97% vs 21,91% in 2016.

Table 10: Leverage ratio common disclosure

€ thousands	**CRR leverage ratio exposures**
On-balance sheet exposures (excluding derivatives and SFTs)	19.783
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	8.500
Total leverage ratio exposures	19.783
Leverage ratio	42,97%

Table 11: Split-up of on balance sheet exposures

€ thousands	**CRR leverage ratio exposures**
Trading book exposures	-
Banking book exposures, *of which*:	**19.783**
Covered bonds	-
Exposures treated as sovereigns	-
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
Institutions	4.581
Secured by mortgages of immovable properties	-
Retail exposures	-
Corporate	12.753
Exposures in default	-
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2.449
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	**19.783**

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.

Table 12: Geographical distribution of exposures

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer ($000)	General Credit Exposures		Trading Book Exposure		Own Funds Requirements			Own Funds Requirements Weights	Countercyclical Buffer Rate
	SA	IRB	SA	IRB	General Credit Ris Exposures	Trading Book Exposures	Total		0%
Cyprus	15.202	-	-	-	1.216	-	1.216	100%	0%
United Kingdom	-	-	-	-	-	-	-	0%	0%
Estonia	-	-	-	-	-	-	-	0%	0%
Germany	-	-	-	-	-	-	-	0%	0%
Latvia	-	-	-	-	-	-	-	0%	0%
United States	-	-	-	-	-	-	-	0%	0%
Total	15.202	-	-	-	1.216	-	1.216	100%	

Table 13: Amount of institution-specific countercyclical buffer for 31 December 2017

Amount of institution-specific countercyclical capital buffer ($000)	Amount
Total Risk Exposure Amount	16.116
Institution specific countercyclical buffer rate	0%
Institution specific countercyclical buffer requirement	-

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:

Table 14: Mapping of ECAI credit assessments to Credit Quality Step

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 usage for credit risk amounted to EUR1,289 thousand, while the risk weighted exposure was EUR16,116 thousand (compared to EUR416 thousand and EUR5,207 thousand, respectively, as at 31 December 2016). The tables below indicate the Company's credit risk exposure.

Table 15: Asset Class Breakdown of Net Credit Risk Exposure and Minimum Capital Requirement as at 31 December 2017, € thousands

Asset Class	Risk-weighted amounts	Minimum capital requirement
Central governments or central banks	-	-
Public sector entities	-	-
Institutions	916	73
Corporates	12.753	1.020
Of which: SMEs	-	-
Retail	-	-
Of which: SMEs	-	-
Equity exposures	-	-
Other exposures	2.447	196
Total risk weighted assets	16,116	-
Total Credit Risk Capital Requirements	-	1,289

Table 16: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Exposure Class, € thousands

Asset class	Exposure before CRM	Exposure after CRM
Central governments or central banks	-	-
Public sector entities	-	-
Institutions	4.581	4.581
Corporates	12.753	12.753
Of which: SMEs	-	-
Retail	-	-
Of which: SMEs	-	-
Equity exposures	-	-
Other exposures	2.449	2.449
Total risk weighted assets	19.783	19.783
Total Credit Risk Capital Requirements	1,289	1,289

Table 17: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Significant Geographic Area and Material Exposure Class, € thousands

Asset class	Cyprus	United Kingdom	Estonia	Germany	Latvia	United States	Total
Central governments or central banks	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-
Institutions	961	1	4	2.006	1.564	45	4.581
Corporates	12.753	-	-	-	-	-	12.753
Of which: SMEs	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-
Of which: SMEs	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other exposures	2.449	-	-	-	-	-	2.449
Total risk weighted assets	16.163	1	4	2.006	1.564	45	19.783
Total Credit Risk Capital Requirements	1,231.36	0.013	0.071	32.102	25.023	0.717	1,289.289

Table 18: *Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Industry and Exposure Class, € thousands*

Asset class	Financial Services	Payment Processor	Other Industry	Total
Central governments or central banks	-	-	-	-
Public sector entities	-	-	-	-
Institutions	4.581	-	-	4.581
Corporates	-	-	12.753	12.753
Of which: SMEs	-	-	-	-
Retail	-	-	-	-
Of which: SMEs	-	-	-	-
Equity exposures	-	-	-	-
Other exposures	-	-	2.449	2.449
Total risk weighted assets	4.581	-	15.202	19.783
Total Credit Risk Capital Requirements	41	-	1,248	1,289

Table 19*: Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Residual Maturity and by Material Exposure Class, € thousands*

Asset class	Up to 3 months	More than 3 months	Total
Central governments or central banks	-	-	-
Public sector entities	-	-	-
Institutions	4.581	-	4.581
Corporates	12.753	-	12.753
Of which: SMEs	-	-	-
Retail	-	-	-
Of which: SMEs	-	-	-
Equity exposures	-	-	-
Other exposures	2.449	-	2.449
Total risk weighted assets	19.783	-	19.783
Total Credit Risk Capital Requirements	1,289	-	1,289

Table 20: Credit Quality Concentration, € thousands

Credit Quality Step	Exposure before CRM	Exposure after CRM
1	-	-
2	2.006	2.006
3	-	-
4	-	-
5	-	-
6	-	-
Unrated	17.777	17.777
Total	19.783	19.783

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 2017, 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 2017 amounted to EUR23 thousand, while the market risk risk-weighted exposure amounted to EUR286 thousand (compared to EUR21 thousand and EUR262 thousand, respectively, as at 31 December 2016).

Table 21: Market risk capital requirements

	RWAs	Capital Requirements
Foreign exchange risk	286	23
USD	286	23
Equity risk	-	-
Interest rate risk	-	-
Commodity risk	-	-
Total	286	23

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, 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
- 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 EUR2,444 thousand, while the operational risk-weighted exposure was EUR35,298 thousand (compared to EUR82 thousand and EUR1,029 thousand respectively as at 31 December 2016).

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 31/12/2017, the Company held EUR5.5 million in its bank accounts.

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 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.

8.1. Compliance Transformation Programme

In light with the changes arising from MiFID II, which will come into force from 2018 onwards, the Company will launch 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 will 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.

8.2. 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.

9. Appendix - Specific References to CRR

CRR Ref	High Level Summary	Compliance Reference
Scope of disclosure requirements		
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
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements.	1.2
Means of disclosures		
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
Risk management objectives and policies		
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
Scope of application		
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 riskweighted 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

Exposure to counterparty credit risk (CCR)		
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
Credit Risk Adjustments		
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)	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) (i)		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
Unencumbered assets		
443	Disclosures on unencumbered assets.	N/A
Use of ECAI's		
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
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	5
Operational Risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	6
Exposures in equities not included in the trading book		
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
Exposure to interest rate risk on positions not included in the trading book		
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
Remuneration Disclosures		
450	Remuneration Policy	2.7
Leverage		

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
Use of Credit Risk mitigation techniques		
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
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	N/A