IQ OPTION EUROPE LTD

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

DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2018

May 2019

DISCLOSURE

The Disclosure and Market Discipline Report for the year 2018 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 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.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. These disclosures should be read in conjunction with the audited financial statements of the Company.

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'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.

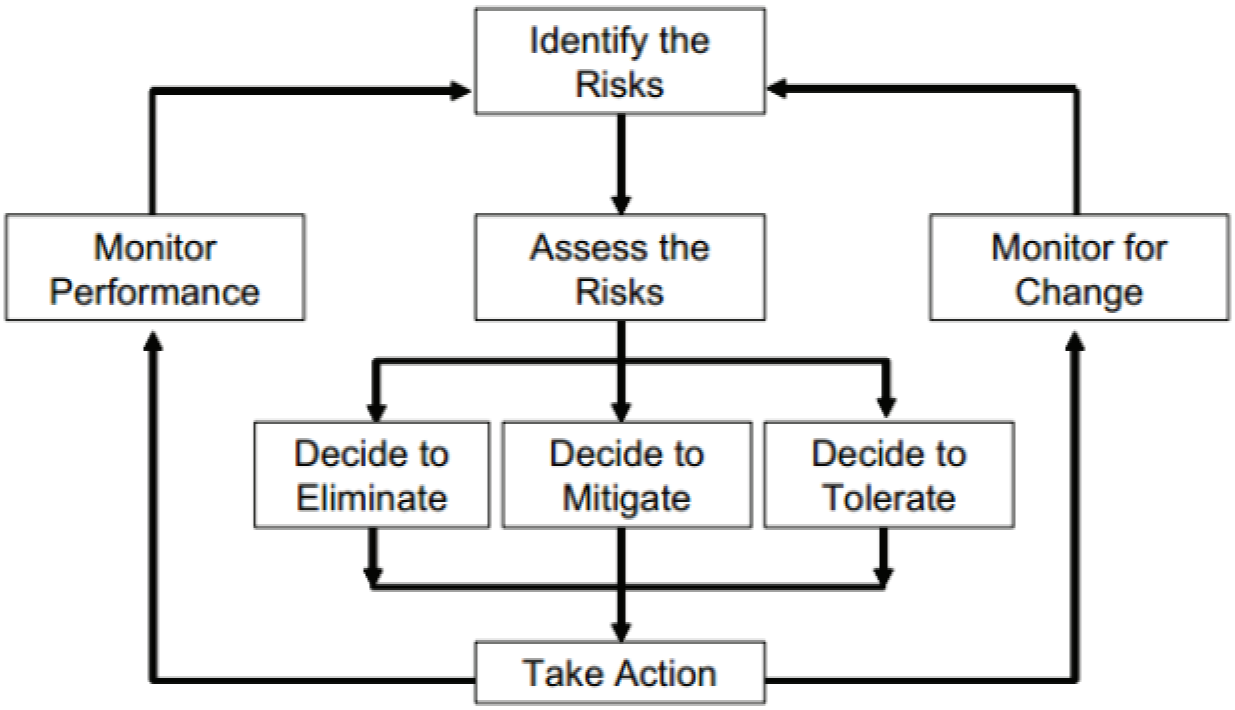
1.4. Regulatory Supervision

The minimum capital requirements as at 31 December 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 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

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 uses the Risk 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 Company's business model requires the identification, assessment, measurement, aggregation and management of the risks, and the allocation of capital among the business units. Risk and capital are managed via a framework of principles and measurement and monitoring processes that are closely aligned with the activities of the Company:

- Core risk management responsibilities are embedded in the Board of Directors and delegated to senior management responsible for execution and oversight. The Board regularly monitors the risk and capital profile.
- The Company operates a Three Lines of Defence ("3LoD") risk management model. The 1st Line of Defence ("1st LoD") are all the business divisions and services who have responsibility for day to day risk management. The 2nd Line of Defence ("2nd LoD") are all the independent risk and control functions, who oversee, support, monitor and report risks. The 3rd Line of Defence ("3rd LoD") is Internal Audit, which assures the effectiveness of the risk governance framework. All 3LoD are independent of one another and accountable for maintaining structures that ensure adherence to the design principles at all levels.
- Risk strategy is approved by the Board of Directors on an annual basis and is defined based on the Risk Appetite and Strategic and Business Plan in order to align risk, capital and performance targets.

All material risk types are managed via risk management processes, including inter alia credit risk, market risk, operational risk, liquidity risk, business risk, reputational risk and compliance risk. Measurement approaches for quantifying risk and capital demands are implemented across the material risk types. Non-standard risks (reputational risk, model risk, compliance risk) are implicitly covered in the risk management framework, primarily within operational and strategic risk. Systems, processes and policies are critical components of the risk management capability.

The Company promotes a strong risk culture throughout the organization. The aim is to help reinforce the Company's resilience by encouraging a holistic approach to the management of risk and return throughout the organization, as well as the effective management of the risk, capital and reputational profile.

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**: 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**: defined as the current or prospective risk to earnings and capital arising from violations or noncompliance with laws, rules, regulations, agreements, prescribed practices or ethical standards that can lead to fines, damages and/ or the voiding of contracts and can diminish an institution's reputation.
- **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.
- **Business and Strategic risk:** risk of a potential earnings downside due to revenues and/or costs underperforming plan targets. Strategic Risk may arise from poor strategic positioning, failure to execute strategy or lack of effective responses to material negative plan deviations caused by either external or internal factors (including macro, financial and idiosyncratic drivers). Strategic Risk has been defined as part of overall Business Risk**.**

2.2. Risk Appetite

The Company defines Risk Appetite as the level of risk that the Company is willing to assume within its risk capacity in order to achieve the business objectives, as defined by a set of minimum quantitative metrics and qualitative standards

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 Risk Appetite Statement ("RAS") articulates the Company's appetite thresholds. This is important as it provides the definitive view on the broad direction of risk-taking activity the Board of Directors is comfortable that the CIF undertakes and allows decision makers (including those with delegated authority and also those providing oversight) to exercise judgment with greater confidence and speed. The RAS aligns to the risks identified and defined in the RMF. The design and structure of the RAS has taken into consideration best practices recently articulated by the European Central Bank which is aimed at ensuring Boards should be strongly involved in the validation process and monitoring of the RAS.

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

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 analyzed and approved by the Board of Directors. The Company's risk appetite strategy is implemented by the Senior Management in collaboration with the Board of Directors 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, authorization 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 unfavorable developments on the Company's risk profile. Such events may give rise to remedial action, up to the deployment of the recovery plan in the most severe cases.

2.3. Internal Capital Adequacy Assessment Process

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

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. Diversity Policy

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

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

The Company is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practices in the Corporate Governance Code of many EU countries.

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

2.5. Board members' appointment

The Company has established a dedicated recruitment policy in relation to the Board of Directors. The recruitment policy has been reviewed and updated during 2018.

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 these 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.

2.6. 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 in 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.

The Company offers variable remuneration to its employees who are client-facing ("sales force staff") based on Key Performance Indicators (KPIs) that are determined by Senior Management with advice from the Compliance Function. The remuneration structure of these employees is designed in a way to mitigate the risk of creating inappropriate incentive to act against the best interests of the Company's clients i.e. awarding additional remuneration to employees who pressurise their clients into taking actions that are not in the client's best interest. Such practises are prohibited and are not in line with the Company's ethos

This Policy applies to all employees of the Company (relevant persons) who can/may have a material impact on the service provided and/or corporate behaviour of the Company, including persons who are client-facing front-office staff, sales force staff, and/or other staff indirectly involved in the provision of investment and/or ancillary services whose remuneration may create inappropriate incentives to act against the best interests of the Company's clients. This includes persons who oversee the sales force (i.e. supervisors) who may be incentivized to pressurize staff, as well as any persons involved in complaints handling, client retention and product design.

The table below presents the annual remuneration for 2018, of the members of the Board of Directors and Senior Management whose actions have a material impact on the risk profile of the company. No outstanding deferred remuneration and no share options were offered during 2018 and no new sign-on or severance payments. There were no individuals being remunerated €1m or more.

Table 2: Aggregate Quantitative Information on Remuneration by Board of Directors and Senior Management, and, by Business area

Figures in € thousands	**No. of staff**	**Fixed**	**Variable**	**Total**
Board of Directors and Senior Management*	9	476	43	520

Figures in € thousands		**Total**
Directors*		335
Other (including Heads of Risk, Compliance, Dealing on own Account)		185
Grand Total		520

**All Executive and Non-Executive Directors are included*

2.7. Directorships held by Members of the Management Body

In 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 including the Company

Name	Position in the CIF	Directorships (Executive)	Directorships (Non-Executive)
Sergei Dobrovolskii	Executive Director	6	-
Dmitrii Zaretskii	Executive Director	1	
Loukas Kokkinos	Non - Executive Director	-	4
Christos Samaras	Non - Executive Director	1	1
Dimitrios Exarchos*	Executive director	1	-
Anthon Rabinovich**	Executive director	2	-

Note: The information in this table is based only on representations made by the Company for 31.12.2018.
*Dimitrios Exarchos was appointed on 3/08/2018
**Anthon Rabinovich was appointed 3/08/2018

2.8. 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 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	**30/04/2019**
Financial Reporting	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual	**30/04/2019**
Suitability Report	Clients' money audit	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	**12/05/2018** **11/08/2018** **11/11/2018** **11/02/2019**

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 2018, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus (a) a capital conservation buffer of 1,875% as per the transitional application provisions for buffers (a minimum CAD ratio of 9,875% so far), (b) a countercyclical capital buffer ("CCyB") and systemic risk buffer, 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. It is noted that due to data limitations the Company could not accurately calculate the CCyB and systemic risk buffers. However, the Company's ratio as at 31 December 2018 is well above the regulatory minimum.

The Company's actual capital adequacy ratio for the year ended 31 December 2018 stood at 19,71%, which is above the aforementioned minimum requirement.

3.4. Large Exposure limits

As at 31 December 2018, the Company's exposure to its related entities, was 2,60% of the Company's own funds, which marginally exceeded the 2% large exposure limit set by point (h) of paragraph 61(1) of CySEC Directive 144-2014-14 with regards to a CIF's exposure to its shareholders with more than 10% holding of its share capital, and their connected persons.

3.5. 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 2018, the Total Capital ratio of the Company was 19,71% with total risk weighted assets of EUR 62.214 thousand.

Table 5: Capital Requirements

€ thousands	**Dec 31, 2018 (Audited)**
CAR Ratio	19,71%
Capital Adequacy (CET1) ratio	19,71%
CET1 Capital	12.264
Tier 1 Capital	12.264
Tier 2 Capital	-
Total Own Funds	12.264
Total Credit Risk exposure	14.287
Total Market Risk Exposure	1.372
Operational Risk Exposure	46.554
Total Risk Exposure	62.214
Leverage ratio	46,02%
Capital Conservation Buffer	1,875%

Table 6: 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	11.756	11.756
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	12.357	12.357
Common Equity Tier 1 (CET 1) capital: regulatory adjustments	-	-
Goodwill and other intangible assets (net of related tax liabilities) (negative amount)	(6)	(6)
Additional deductions of CET1 Capital due to Article 3 CRR	(87)	(87)
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	(93)	(93)
Common Equity Tier 1 (CET 1) capital	12.264	12.264
Additional Tier 1 Capital	-	-
Tier 1 Capital	12.264	12.264
Tier 2 Capital	-	-
Total Capital	12.264	12.264
Total risk-weighted assets	62.214	62.214
Capital Ratios		
Common Equity Tier 1 (CET 1) capital ratio	19,71%	19,71%
Tier 1 Capital ratio	19,71%	19,71%
Total Capital ratio	19,71%	19,71%

3.6. 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 2018 the Company's leverage ratio was 46,02%% vs 42,97% in 2017.

Table 7: Summary reconciliation of accounting assets and leverage ratio exposures

€ thousands	**Applicable Amounts**
Total assets as per published financial statements	26.647
Adjustments for derivative financial instruments	63
Other adjustments	(58)
Total leverage ratio exposure	26.651

Table 8: Leverage ratio common disclosure

€ thousands	**CRR leverage ratio exposures**
On-balance sheet exposures (excluding derivatives and SFTs)	26.681
Derivative exposures	63
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)	(93)
Tier 1 capital	12.264
Total leverage ratio exposures	26.651
Leverage ratio	46,02%

Table 9: Split-up of on balance sheet exposures

€ thousands	**CRR leverage ratio exposures**
Trading book exposures	-
Banking book exposures, *of which*:	26.651
Covered bonds	-
Exposures treated as sovereigns	-
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
Institutions	13.684
Secured by mortgages of immovable properties	-
Retail exposures	-
Corporate	1.383

Exposures in default	-
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	11.584
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	**26.651**

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 observed per country, industry and large exposures. The management of concentrations is integrated as part of the management of individual risk types, are monitored on an ongoing basis and diversification takes place where such concentrations pose regulatory risks. Large Exposures concentration risk is monitored on a quarterly basis, and any exposure which exceeds the limits is managed over time to reduce 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 10: 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 2018, the Company's capital usage for credit risk amounted to EUR1.143 thousand, while the risk weighted exposure was EUR14.287 thousand (compared to EUR1.289 thousand and EUR16.116 thousand, respectively, as at 31 December 2017). The tables below indicate the Company's credit risk exposure.

Table 11: Asset Class Breakdown of Net Credit Risk Exposure and Minimum Capital Requirement as at 31 December 2018, € thousands

Asset Class € thousands	Risk-weighted amounts	Minimum capital requirement
Central governments or central banks	-	-
Public sector entities	-	-
Institutions	2.756	220
Corporates	1.383	111
Of which: SMEs	-	-
Retail	4.448	356
Of which: SMEs	-	-
Equity exposures	1.616	129
Other exposures	4.084	327
Total	14.287	1.143

Table 12: Exposures Post Value Adjustments by Exposure Class, € thousands

Asset class € thousands	Original Exposure
Central governments or central banks	
Public sector entities	
Institutions	13.684
Corporates	1.383
Of which: SMEs	
Retail	5.884
Of which: SMEs	
Equity exposures	1.616
Other exposures	4.084
Total	26.651

Table 13: Exposures Post Value Adjustments by Industry and Exposure Class, € thousands

Asset class € thousands	Financial Services	Other Industry	Total
Central governments or central banks	-	-	-
Public sector entities	-	-	-
Institutions	13.684	-	13.684
Corporates	40	1.343	1.383
Of which: SMEs	-	-	-
Retail	63	5.821	5.884
Of which: SMEs	-	-	-
Equity exposures	1.616	-	1.616
Other exposures	-	4.084	4.084
Total	15.403	11.248	26.651

Table 14: Exposures Post Value Adjustments by Residual Maturity and by Material Exposure Class, € thousands

Asset class € thousands	Up to 3 months	More than 3 months	Total
Central governments or central banks	-		-
Public sector entities	-		-
Institutions	13.660	24	13.684
Corporates	331	1.052	1.383
Of which: SMEs	-		-
Retail	5.884		5.884
Of which: SMEs	-		-
Equity exposures	-	1.616	1.616
Other exposures	4.084		4.084
Total	23.959	2.692	26.651

*Table 15: Credit Quality Concentration, € thousands**

Credit Quality Step € thousands	Exposure before CRM
1	-
2	1.003
3	-
4	-

5	-
6	-
Unrated	25.648
Total	26.651

**Due to data limitations, the Exposure after CRM cannot be disclosed*

4.3 Counterparty Credit Risk

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

The Company applies the Mark-to-Market Method to calculate its Counterparty Credit Risk exposure. As at the year end, the Company used the trading margin of its clients to reduce the Counterparty Credit Risk arising from its open trades. However, there are some limitations in the Company's raw data emanating from limitations of the Company's systems. The Company aims to take all steps necessary to rectify the data issues.

*Table 16: Exposures to Counterparty Credit Risk, € thousands**

Type of exposure **€ thousands**	**Positive Fair Value**		**Nominal Value**	**Exposure Amount before CRM**	**Risk Weighted Assets**	**Capital Requirements**
FX Derivatives	6	248	1.134	17	8	1
Derivatives on Gold	11		84	12	17	1
Commodity Derivatives (including Cryptos)	21	3	58	26	35	3
Equity Derivatives	15	111	126	9	22	2
Bonds	-				-	
Total	53	362	1.402	64	82	7

**Due to data limitations, the Exposure after CRM cannot be disclosed*

4.4. Financial instruments – impairment

The effect of adopting IFRS 9 on the carrying amounts of financial assets as of 1 January 2018 relates solely to the new impairment requirements and is equal to EUR 86.716.

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortised costs. The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs: other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- Borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- Financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be Baa3 or higher per Moody's rating agency or BBB- or higher per Moody's Rating Agency.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at Fair Value through Other Comprehensive Income (“FVOCI”) are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

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:

Interest rate risk in the trading book: The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

Equity Risk: The financial risk involved in holding equity in a particular investment.

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 exposure at Market Risk emanates from FX Risk, Equity and Commodity Risk

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 EUR110 thousand, while the market risk risk-weighted exposure amounted to EUR1.372 thousand (compared to EUR23 thousand and EUR286 thousand, respectively, as at 31 December 2017).

Table 17: Market risk capital requirements, € thousands

€ thousands	RWAs	Capital Requirements
Foreign exchange risk	1.020	82
Equity risk	222	18
Interest rate risk	-	-
Commodity risk	130	10
Total	1.372	110

6. Operational Risk

Operational 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. It includes legal risk but excludes business and reputational risk.

During 2018, the Company further enhanced its capabilities in Operational Risk Management, in conjunction with the Three Lines of Defence (“3LoD”) Program. Specifically, the Company enhanced the roles and responsibilities of the first and second line in managing operational risk, strengthening governance and delivery of improved tools to support risk identification and assessment.

The Company takes decisions to manage operational risks, both strategically, as well as in day-to-day business. Two principles form the foundation of operational risk management to be based on the following two principles:

Operational Risk Principle I: Risk Owners have full accountability for their operational risks and have to manage against a defined risk specific appetite. Risk owners are accountable for managing all operational risks in their business/processes with an end-to-end process view, within defined operational risk specific appetite and for identifying, establishing and maintaining first level controls.

Operational Risk Principle II: The Board of Directors establishes the risk management framework and defines the Risk Appetite. The Company manages operational risk using the Risk Management framework, which enables the determination of the operational risk profile in comparison to the risk tolerance, systematic identification of operational risk themes and concentrations and to define risk mitigating measures and priorities.

The Company manages operational risk using the Risk Management framework, which enables the determination of the operational risk profile in comparison to the risk tolerance, systematic identification of operational risk themes and concentrations and to define risk mitigating measures and priorities.

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 2018, was EUR 3.724 thousand, while the operational risk-weighted exposure was EUR 46.554 thousand (compared to EUR 2,444 thousand and EUR 35.298 thousand respectively 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 EUR 14.7 million in cash and cash equivalents of which EUR 11.9 were in bank accounts.

8. Compliance and Reputational Risks

Compliance risk defined as the current or prospective risk to earnings and capital arising from violations or noncompliance with laws, rules, regulations, agreements, prescribed practices or ethical standards that can lead to fines, damages and/ or the voiding of contracts and can diminish an institution's reputation.

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.

A settlement has been reached between CySEC and the Company as announced on 21.05.2019 for possible violations of The Investment Services and Activities and Regulated Markets Law (L.144(I)/2007) and The Prevention and Suppression of Money Laundering Activities Law (L.188(I)/2007) and of the Directives issued thereof. The settlement reached has been paid in full and was already included in the 31.12.2018 Audited Financial Statements as a "provision for other liabilities and charges".

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 Terrorist 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 1-Balance sheet reconciliation

Balance sheet reconciliation € thousands	2018
Capital and reserves	
Share capital	3
Share premium	598
Reserves	11.756
Total Equity as per Audited Financial Statements	12.357
Less: ICF Contribution	87
Less: Intangible assets	6
Total Own funds as per CoRep	12.264
Diff	