EXNESS (CY) LTD

Pillar III Disclosures

For the Year Ended 31 December 2018

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1 Introduction, Scope and Purpose of this Document

Exness (CY) Ltd ("Exness" or the "Company") was incorporated in Cyprus on the 2nd of September 2011 as a private limited liability Company under the provisions of the Cyprus Companies Law, Cap. 113 with registration number HE 293057.

The Company is authorized and regulated by the Cyprus Securities and Exchange Commission ("CySEC" or the "Commission") under license number 178/12 for the conduct of designated investment business in the Republic of Cyprus and is classified as a "full scope Cyprus Investment Firm" with minimum regulatory capital requirements of €730,000.

The Company's operating license from CySEC permits it to undertake regulated investment services consisting of the services of reception and transmission of orders in relation to one or more financial instruments, the dealing on own account and the execution of orders on behalf of clients.

The Company is also authorized to provide the ancillary services of safekeeping and administration of financial instruments, credit granting and foreign exchange services in relation to the investment services provided, as well as investment research and financial analysis.

Table 1 - Company License Information

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The Company is authorized to provide the following Investment Services, in accordance with the Law 87(I)/2017 regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets (hereinafter, the "Law"):

1. Reception and transmission of orders in relation to one or more financial instruments
2. Execution of orders on behalf of clients
3. Dealing on own account
4. Portfolio Management

The Company is also authorized to provide the following Ancillary Services:

1. Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
2. Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
3. Foreign exchange services where these are connected to the provision of investment services

The Company is authorized to provide the investment services of Reception and Transmission of orders, Execution of Orders on client's behalf, Dealing on Own Account and ancillary services, for the following Financial Instruments, in accordance with the Law:

1. Transferable Securities
2. Money Market Instruments
3. Units in Collective Investment Undertakings
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF.
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls.
8. Derivative instruments for the transfer of credit risk
9. Financial contracts for differences
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

The Company is authorized to provide the investment Service of Portfolio Management, for the following financial instruments in accordance with the Law:

1. Transferable Securities
2. Money Market Instruments
3. Units in Collective Investment Undertakings
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.

1.1 Regulatory Context

The Pillar III Disclosures Report (the "Report") has been prepared in in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the "CRR") as well as the Investment Services Law and other relevant Directives issued by CySEC for the prudential supervision of investment firms, (collectively referred to as "CRDIV").

CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. Furthermore, CRR introduces significant changes in the prudential regulatory regime applicable to institutions including amended minimum capital ratios, changes to the definition of capital and the calculation or risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR is immediately binding on all EU member states. CRD IV governs access to internal governance arrangements including remuneration, Board of Directors (the "Board") composition and transparency.

1.1.1 Capital Buffers

The CRD IV package is the implementation of "Basel III" in Europe. Basel III is a comprehensive set of reform measures in the prudential regulation of financial services developed by the Basel Committee on Banking Supervision. It aims to strengthen the regulation, supervision and risk management of the banking and investment services sectors.

CRD IV is transposed into national laws, which allows national regulators to impose additional capital buffer requirements. Based on the provisions of the Macroprudential oversight of Institutions Law of 2015 which came into force on 1 January 2016, the Central Bank of Cyprus (CBC) is the designated Authority responsible for setting the macroprudential buffers that derive from the CRD IV.

The countercyclical capital buffer (CCB) was introduced as part of the Basel III regime to help counter cyclicality in the financial system. Capital should be accumulated when cyclical systemic risk is judged to be increasing, creating buffers that increase the resilience of the banking sector during periods of stress when losses materialize. This will help maintain the supply of credit and dampen the downswing of the financial cycle. The CCB is also intended to dampen excessive credit growth during the upswing of the financial cycle.

Under the Capital Requirements Directive IV and Capital Requirements Regulation, which gave legal effect to the Basel III agreement in the EU, each member state has a designated authority which is responsible for setting the CCB rate in its jurisdiction. There is also a strong European element to the framework, with the European Systemic Risk Board having the power to issue guidance to national authorities on the implementation of the CCB framework.

In Cyprus, the Central Bank of Cyprus (CBC) is the designated authority responsible for setting the rate and the CCB rate applies to the total risk exposure amount of all licensed credit institutions and investment firms that provide the investment services of dealing on own account, underwriting of financial instruments or placing of financial instruments on a firm commitment basis, with the exception of small or medium-size investment firms (currently 60 in number) exempted by the CBC.

On 13 December 2018 the CBC announced the determination of the CCB rate for the first quarter of 2019, based on data up to 30 June 2018. The gap between the credit-to-GDP ratio and its long term trend based on both the broad and narrow (bank) credit definition is negative. Based on this, and taking into account the additional indicators assessed by the CBC, which include non-financial private sector indebtedness, banking sector resilience, the real estate market, the real economy and external imbalances, the CBC has determined that the CCB rate for the first quarter of 2019 will continue to be zero.

Cyprus Investment Firms (CIFs) are required to maintain an institution specific CCyB equivalent to their total risk exposure amount multiplied by the weighted average of the countercyclical buffer rates.

According to paragraph 52(2) of the Directive, the Macroprudential Authority may exempt small and medium sized CIFs from holding an institution specific CCyB, in addition to their CET 1 Capital. Based on the assessment made, using the latest financial data available, the Macroprudential Authority has decided that the Company meets the definition of a small and medium sized CIF and thus is exempted from the requirement to maintain an institution specific CCyB.

Further to the above, the Macroprudential Authority has decided to activate the capital conservation buffer (the "CCB") having exercised its power. The CCB will be phased-in gradually, starting from 1 July 2016 at 0.625% and increasing by 0.625% every year thereafter, until being fully implemented (2.5%) on 1 January 2019. The Company is obliged to maintain a 1.875% CCB in addition to the CET1 capital maintained for the year 2018.

The Macroprudential Oversight of Institutions Law, 2015, also requires the maintenance of additional capital buffer by the systemically important credit institutions and investment firms either at the national level, or at the EU level, referred to as Other Systemically Important Institutions ("O-SII").

The O-SII capital buffer reflects the cost for an institution of being systemically important and reduces the moral hazard from the support of the institution from the state and the taxpayers and compensates for the higher risk it represents for the national financial system and the potential consequences of its failure. The Company is not obliged to maintain an O-SII capital buffer as it is not an O-SII institution.

1.1.2 The 3 Pillars

The Regulatory framework consists of a three "Pillar" approach:

- Pillar I establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating RWA.
- Pillar II requires firms and supervisors to take a view on whether a firm should hold additional capital against risks considered under Pillar I that are not fully captured by the Pillar I process (e.g. credit concentration risk); those risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk); and factors external to the firm (e.g. business cycle effects). Pillar II connects the regulatory capital requirements to the Company's Internal Capital Adequacy Assessment Process ("ICAAP") and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and institutions on a continuous basis and to evaluate how well the institutions are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.
- Pillar III - Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds.

According to the Directive, the risk management disclosures should be included in either the financial statements of the CIFs if these are published, or on their websites. The Pillar III disclosure requirements are contained in relevant Articles of the Regulation. In addition, these disclosures must be verified by the external auditors of the CIF. The CIF will be responsible to submit its external auditors' verification report to CySEC.

The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures has been made by the external auditors and sent to CySEC.

1.2 Pillar III Disclosure Policy

The disclosures included in this Report are made on a solo basis and are published annually. This Report should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2018 which are prepared in accordance with the International Financial Reporting Standards (IFRS). The date of this document is 19 April 2019. Where “reference date” is mentioned, this refers to 31 December 2018.

Unless stated otherwise, all amounts are in thousands of euro (“€” or “EUR”).
The following provides a summary of certain important items of the Company’s Pillar III Disclosure Policy:

1.2.1 Information to be Disclosed

The Company’s policy is to meet all required Pillar III disclosure requirements as detailed in Part Eight of the CRR, to a degree that is appropriate to the nature, size, scope and complexity of its operations and its internal organization. The Regulation provides that institutions may omit one or more disclosures, if such disclosures are not regarded as material, except for the following disclosures:

- Regarding the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved (Article 435 (2) (c) of CRR)
- Own funds (Article 437 of CRR)
- Remuneration policy (Article 450 of CRR)

Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, this was not included in the document.

Disclosure of Confidential Information

The Regulation provides that institutions may omit one or more disclosures, if such disclosures are regarded as confidential or proprietary. The CRR defines proprietary as if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution’s investments therein less valuable.
Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality. Under the light of the above, the Company avoided to disclose such confidential information in this report.

Frequency

The Company’s policy is to publish the disclosures required on an annual basis as per the Company’s obligations under the relevant laws and regulations.

Medium and Location of Publication

The Company’s Pillar III disclosures are published on the Company’s website. Please refer to the following link: www.exness.eu.

Verification

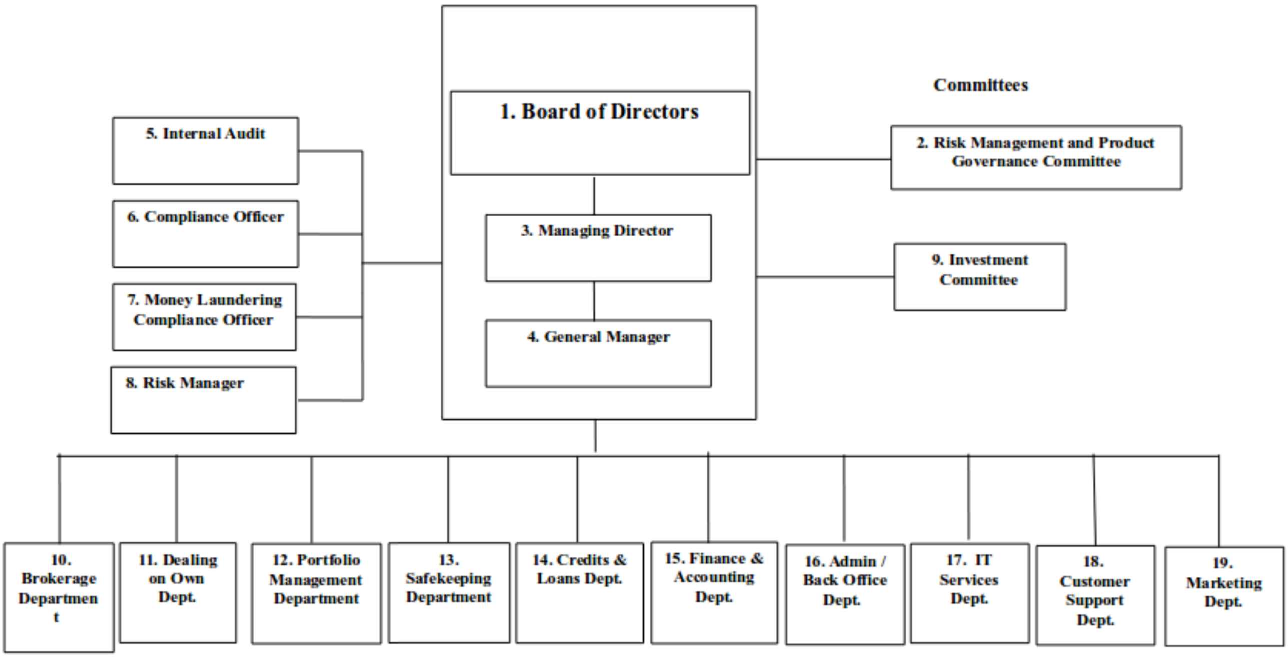
The Company has commissioned its External Auditors to verify its Pillar III Disclosures. The Company in accordance with the provisions of Part Eight of the CRR and paragraph 32(1) of DI144-2014-14 of the CySEC for the prudential supervision of investment firms, has an obligation to publish information relating to risks and risk management on an annual basis at a minimum and to provide a copy of the External Auditor’s verification report to CySEC within five months of each financial year-end.

2 Governance and Risk Management

The Company's systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness.

The risk management and internal control systems are embedded in the operations of the Company and are capable of responding quickly to evolving business risks, whether they arise from factors within the Company or from changes in the business environment.

2.1 Organizational Structure



2.2 The Board of Directors

The Company's Board of Directors (the "Board") has the overall responsibility for the establishment and oversight of the Company's Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust.

The Company has in place the Internal Operations Manual (IOM) which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff constituting the Company.

The Company implements and maintains adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

The Board is required to assess and review the effectiveness of the policies, arrangements and procedures put in place for the Company to comply with its obligations under the Law, as subsequently amended or replaced, as well as the relevant CySEC Directives and the CRR, and to take appropriate measures to address any deficiencies. In particular, when managing and/or assessing risks, the responsibilities of the Board of Directors and Senior Management may be summarized as follows:

- Approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks that Exness is or might be exposed to, including those posed by the macroeconomic environment in which it operates.
- Ensure that all the Risk Management regulatory requirements are applied, and that appropriate systems and controls are introduced.
- Be actively involved in and ensure that adequate resources are allocated to the management of all material risks, as well as in the valuation of assets, the use of external credit ratings and internal models relating to those risks.
- Review and approve the Annual Risk Management Report and take all action as deemed appropriate under the circumstances to remedy any weaknesses and/or deficiencies identified therein.

At 31 December 2018, the Board of Directors of the Company comprised of two Executive Directors and three Non- Executive Directors of which two were independent.

Table 1: Exness (Cy) Ltd Board of Directors 2018

Name	Position
Mr. Petr Valov	Managing Director, Executive Director, part of “4-Eyes”, CY-based
Mr. Socratis Fekkas	General Manager, Executive Director, part of “4-Eyes”, CY- based
Mr. Georgios Tsaparillas	Non-Executive Director, CY-based
Mrs. Irene Xyda	Independent, Non-Executive Director, CY-based
Mrs. Loukia Dicomiti	Independent, Non-Executive Director, CY-based

2.3 Recruitment Policy for the Selection of Members of the Management Body

Recruitment of the Board members combines an assessment of both technical capability and competency skills referenced against the Company’s leadership framework in compliance with the Law which requires that members of the Board shall at all times be of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board is required to reflect an adequately broad range of experiences.

Nominees are subject to the approval of the Board of Directors, whilst adherence to the requirements of the Law pertaining to the number of directorships which may be held at the same time by each director of a significant CIF is also a prerequisite. Regulatory approval from CySEC is coordinated through the Compliance Officer. Review is performed to establish the specific experience and skills needed to ensure the optimum blend of individual and aggregate capability having regard to the Company’s long-term strategic plan.

2.4 Diversity Policy for the Selection of Members of the Management Body

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy and developing talent at every level within the organization.

2.5 Number of Directorships held by Board Members

All members of the Board commit sufficient time to perform their functions in the Company. The number of directorships which may be held by a member of the Board at the same time shall take into account individual circumstances and the nature, scale and complexity of the Company's activities. Unless representing the Republic, members of the Board of a CIF that is significant in terms of its size, internal organization and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- one executive directorship with two non-executive directorships
- four non-executive directorships

The table below provides the number of directorships each member of the management body of the Company holds at the same time in other entities. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below. Executive or non-executive directorships held within the same group, are considered as a single directorship.

Table 2: Number of directorships held by the Company's Board members

Name	Position	Executive Directorships*	Non-Executive Directorships*
Mr. Petr Valov:	Executive Director	2	10
Mr. Socratis Fekkas	Executive Director	1	1
Mr. Georgios Tsaparillas	Non-Executive Director	4	10
Mrs. Irene Xyda	Independent Non-Executive Director	0	1
Mrs. Loukia Dicomiti	Independent Non-Executive Director	0	1

**Including position in Exness*

2.6 Board Committees

2.6.1 Risk Management & Product Governance Committee

The Board has established a Risk Management & Product Governance Committee to oversee on behalf of the Board all matters relating to risk management and regulatory compliance. The Risk Management & Product Governance Committee's arrangements put in place are proportionate to the size, complexity and risk profile of the Company. The Committee acts independently from the management of the Company.

The Risk Management & Product Governance Committee, inter alia, scrutinizes, and decides on various risks inherent with the operation of the Company with the view to formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company. Moreover, the Committee reviews the risk management procedures in place (monitors and controls the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department).

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify. The Risk Management & Product Governance Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.
The Committee meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Committee, as well as by the Risk Manager.

As at 31 December 2018 the Risk Management & Product Governance Committee comprised of 2 Executive Directors, the Company's Head of Dealing on Own Account Department, and the outsourced Risk Manager. All members of the Committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy, risk appetite, risk management policies and risk management practices of the Company. During 2018 the Risk Management & Product Governance Committee convened two times.

The main objectives of the Risk Management & Product Governance Committee are as follows:

- To ensure that the Company has implemented a risk management framework based on the three pillars of (i) risk strategy and appetite (ii) risk governance and organization and (iii) risk management process.
- To review and assess the integrity and adequacy of the Company's Risk Management framework, including processes, policies, organizational structure and arrangements on an ongoing basis.
- To promote a consistent risk management oversight at Company level.
- To provide an overview of the Company's risk and compliance management arrangements. The Risk & Compliance Committee is required to make suitable arrangements in order to identify any risk management and compliance deficiencies and approves policies that need to be implemented by the relevant departments within the Company.
- To oversee and implement the Product Governance policies of the company as emanating from the Law.
- To oversee the implementation of risk limits across the different kinds of risks (including credit, market and liquidity risk) and consider/approve any limit excesses based on this risk limit structure and authorities to be in place at the Company.
- To review whether the prices of liabilities and assets offered to clients take fully into account the Company's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the Risk Management & Product Governance Committee shall present a remedy plan to the Board of Directors.
- To review the annual and other reports prepared by the Risk and Compliance functions and make recommendations for remedial and other actions.
- To monitor the process for establishing the Internal Capital Adequacy Assessment Process ("ICAAP") methodology according to Pillar II and reviewing the ICAAP Report.
- To review the Company's Pillar III disclosures.

Table 3: Risk Management and Product Governance Committee

Name	Position
Mr. Petr Valov:	Managing Director
Mr. Socratis Fekkas	General Manager and ex officio and without any voting rights
Ms. Julia Kozlova	Head of Dealing on Own Account Department
Grant Thornton Funds Services (Cyprus) Ltd	Risk Manager

2.6.2 Investment Committee

An Investment Committee has been formed to ensure the implementation of a prudent investment policy and the monitoring of the provision of adequate investment services to Clients. The Investment Committee reports directly to the Senior Management and its members are shown in the table below:

Table 4: Investment Committee

Name	Position
Mr. Petr Valov:	Managing Director
Mr. Socratis Fekkas	General Manager and ex officio and without any voting rights
Ms. Julia Kozlova	Head of Dealing on Own Account Department

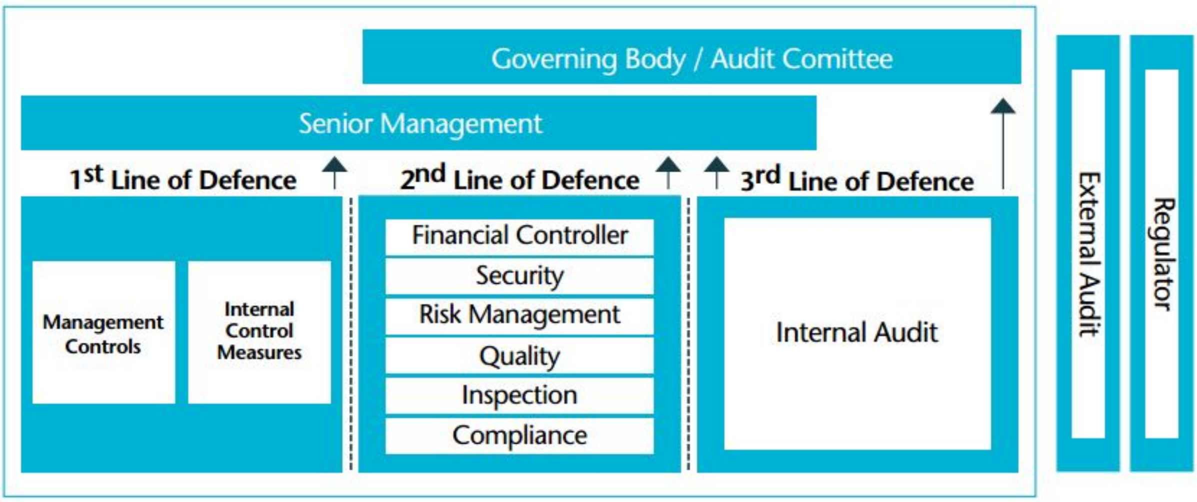
The Investment Committee is responsible, inter alia:

- to supervise the proper choice of investments (framework for investment decisions)
- to analyze the investment potential and contribute to the elaboration of the investment policy, as applicable
- to determine the Company's pricing methodology
- to decide upon the markets and types of Financial Instruments in which the Company shall be active
- to determine the mode, content and frequency of the Client's briefing
- to brief the Internal Auditor, as applicable
- to review the Company Investment Policy whenever a material change occurs
- to analyze the economic conditions and the investment alternatives based on a thorough examination of third-party reports
- to annually review the established dealing on own account policy and to use the recommendations of the Head of the Dealing on Own Account Department. Such a review shall also be carried out whenever a material change occurs.

2.7 Risk Management

Risk is inherent to the Company's business and activities. The Company's ability to identify, monitor and manage each type of risk to which it is exposed is an important factor in its financial stability and performance and to the achievement of its strategic objectives.

To ensure effective risk management, the Company has adopted the Three Lines of Defence model, with clearly defined roles and responsibilities.



Source: Chartered Institute of Internal Auditors

First Line of Defence: Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organizational risk appetite and are fully compliant with Company's policies and where appropriate defined thresholds. First Line of Defence acts as an early warning mechanism for identifying (or remedying) risks or failures.

Second Line of Defence: The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company's risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. The Risk Management Function will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them. Integral to the mission of Second Line of Defence is identifying risk areas, detecting situations/activities, in need of monitoring and developing policies to formalize risk assessment, mitigation and monitoring.

Third Line of Defence: Comprises by the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of design and operational effectiveness of the systems of internal controls. Internal Audit undertakes on-site inspections/visits to ensure that the responsibilities of each Function are discharged properly (i.e. soundly, honestly and professionally) as well as reviews the Company's relevant policies and procedures. Internal Audit works closely with the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.

2.7.1 Risk Management Framework and Policy

Managing risk effectively in a continuously changing risk environment, requires a strong risk management culture. As a result, the Company has established an effective risk oversight structure and the necessary internal organizational controls to ensure that the Company undertakes the following:

- The adequate risk identification and management
- The establishment of the necessary policies and procedures
- The setting and monitoring of the relevant limits and
- Compliance with the applicable legislation

The Board meets on a regular basis, and receives updates on risk and regulatory capital matters from management. The Board reviews regularly (at least annually) written reports concerning compliance, risk management and internal audit policies, procedures and work as well as the Company's risk management policies and procedures as implemented by Management.

As part of its business activities, the Company faces a variety of risks, the most significant of which are described further below. The Company holds regulatory capital against three all- encompassing main types of risk: credit risk, market risk and operational risk.

The Risk Management Manual forms part of the Company's internal control and corporate governance arrangements. It explains the Company's underlying procedures with respect to risk management and documents the roles and responsibilities of the Risk & Compliance Committee, the Risk Manager and other key parties. It also outlines key aspects of the risk management process and identifies the main reporting procedures. In addition, it describes the process followed by the Risk Management Committee in order to evaluate the effectiveness of the Company's internal control procedures.

Processes and mechanisms are in place to manage the risks, with special consideration to risks arising from the operations of the Dealing Room and the Own Account Trading departments in the process of the receipt and transmission of client orders, execution of clients' orders and trading on the Company's behalf.

2.7.2 Risk Appetite Statement

Risk Appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the Board and management confidence to avoid risks that are not in line with the strategic objectives.

The Company has established a robust Risk Appetite Framework. The Board expresses the Risk Appetite through a number of key measures which define the level of risk acceptable across three categories:

Table 5: Risk Appetite Areas

Risk Area	Risk Types
Financial	Credit Risk Market Risk Liquidity Risk
Reputational	Conduct Risk Customer Risk Regulatory Risk External reputational Risk
Operational & People	The risk associated with the failure of key processes or systems and the risks of not having the right quality and quantity of people to operate those processes

The Risk Appetite framework has been designed to create links to the strategic long term plan, capital planning and the Company's risk management framework. The Board approves the Company's corporate strategy, business plans, budget, long term plan and ICAAP. The Company employs mitigation techniques defined within the Company's policies, to ensure risks are managed within Risk Appetite.

2.7.3 Risk Culture

Risk culture is a critical element in the Company's risk management framework and procedures. Management considers risk awareness and risk culture within the Company as an important part of the effective risk management process. Ethical behavior is a key component of the strong risk culture and its importance is also continuously emphasized by the management.

The Company is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to take accountability for them.

The Company embraces a culture where each of the business areas is encouraged to take risk– based decisions, while knowing when to escalate or seek advice.

2.8 Risk Management Function

The Company operates a dedicated Risk Management function under which the Risk Manager is responsible for implementing the Risk Management Manual, as this is set by the Board of Directors and the Risk Management & Product Governance Committee and ensuring that this is properly followed under the supervision and control of the said Committee.

The Risk Management function is tasked with the following duties and responsibilities:

- Implementing policies on risk management and internal control.
- Identifying and evaluating the fundamental risks faced by the Company for consideration by

the Risk & Compliance Committee.
- Providing adequate information in a timely manner to the Risk Management & Product Governance Committee on the status of risks and controls.
- Providing reports to the Risk Management & Product Governance Committee and the Managing Director/General Manager, with details of the Company's total exposure across all instruments. These reports include information about clients' positions and the positions opened by the Company as part of its hedging activity.
- Undertaking reviews on the effectiveness of the system of internal control and providing a report to the Risk Management & Product Governance Committee.
- Provide training to relevant employees.

2.9 Compliance Function

The Board ensures regulatory compliance through a comprehensive and pro-active compliance strategy. To this end, the Board appoints a Compliance Officer in order to establish, implement and maintain adequate and effective policies and procedures, as well as appropriate systems and controls designed to detect any risk of failure by the Company to comply with its obligations. Further to this, the Compliance Officer is responsible to put in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively. The Compliance Officer reports to the Board of the Company.

The Compliance Officer is independent and has the necessary authority, resources, expertise and access to all relevant information.

The major objectives of the Compliance officer are:
- liaising with all relevant business and support areas within the Company
- monitoring and assessing the level of compliance risk that the Company faces, taking into account the investment and ancillary services provided, as well as the scope of financial instruments traded and distributed.
- monitoring the adequacy and effectiveness of the measures and procedures of the Company
- advising and assisting the relevant persons responsible for carrying out the investment services to be in compliance with the Law.

2.10 Anti-Money Laundering Compliance Function

The Board retains a person to the position of the Company's Anti-Money Laundering Compliance Officer (hereinafter the "AMLCO") to whom the Company's employees report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The AMLCO belongs to the higher hierarchical levels/layers of the Company so as to command the necessary authority.

The AMLCO leads the Company's Anti-Money Laundering Compliance procedures and processes and report to the Senior Management and the Board of the Company.

Scope and objectives of the AMLCO:
- The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income.
- To decrease the probability of appearance among the Customers of the Company of any persons/organizations engaged in illegal activity and/or related with such persons/organizations.
- To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing.

- To ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities.

2.11 Internal Audit Function

The role of the Internal Audit function is the provision of ongoing review and evaluation of the operations and activities of the Company in all respects, as well as the provision of recommendations and advice to ensure that the Company operates at the highest standards and in accordance with best practices while remaining in line with the applicable legal and regulatory framework. The Internal Auditor is an independent and autonomous function with direct reporting line to the Board of Directors.

The Internal Auditor is responsible for applying the Internal Control System (hereinafter, the “ICS”), which confirms the accuracy of the reported data and information. Furthermore, the role of the Internal Auditor is the programming, on an at least annual basis (as applicable), of checks on the degree of application of the required ICS.

The Internal Auditor has clear access to the Company’s personnel and books. Likewise, the Company’s employees have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided. The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions shall be taken. The Board ensures all issues are dealt with and prioritized according to the Board’s assessment.

The key responsibilities of the Internal Audit function include:

- Providing an objective and independent appraisal of all Company activities (financial, operational and others).
- Giving assurance to the Board on all control arrangements, including management and corporate governance.
- Assisting the Board by evaluating and reporting the effectiveness of the controls for which the Board is responsible and issuing recommendations and suggestions.
- Keeping records and books with regards to the internal audit work performed.
- Establishing, implementing and maintaining an audit plan to examine and evaluate the adequacy and effectiveness of the Company’s systems, internal control mechanisms and arrangements.
- Submitting the Annual Internal Auditor’s report to the Board of Directors over the activities performed by the Internal Auditors.

2.12 Risk Management Strategies and Capital Management

The Company deploys several risk management strategies in order to control its risks, which include maximum overall exposure levels and value at risk indicators. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the regulatory environment. The Capital Management framework of Exness is designed to manage its capital needs on a permanent basis. The Company has in place internal guidance in order to ensure that capital adequacy ratio remains well above the regulatory minimum.

The primary objective of the Company’s capital management is to ensure that it maintains a strong credit standing and healthy capital ratios in order to support its business and maximize shareholder value.

The CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8% for Pillar I risks, plus additional capital buffers as applicable, while it may also impose additional capital requirements for risks not covered by Pillar I.

2.13 Internal Capital Adequacy Assessment Process Report

The Risk Management function has developed the ICAAP Report to reflect: (a) the Guidelines GD-IF-02 for the ICAAP issued by CySEC on 12 July 2012; (b) the ICAAP methodology applied by the Company, and (c) the ICAAP review, assessment and calculation for the reviewed period. Additionally, the ICAAP Report is covering the Company's business background, financial performance and governance arrangements pertaining to Risk Management, and places emphasis on the impact of regulatory developments on business performance, compliance and reputational risks.

The objective of the ICAAP Report is to document the assessment and quantification of Exness' required capital, how Exness mitigates and controls risks and how much current and future capital is required.

In addition, the ICAAP Report aims to capture the Company's capital management process and methodologies as stipulated in accordance with the abovementioned CySEC Guidelines. These Guidelines address the distinct components and framework for the implementation of the ICAAP, which is a key part of risk management, providing guidelines on how the provisions in terms of the ICAAP should be interpreted and applied in practice. The Guidelines further prescribe how a Cyprus Investment Firm should develop an integrated and firm-wide risk culture, based on a full understanding of the risks it faces and how they are managed, taking into account its risk tolerance/appetite.

The ICAAP Report is the document submitted to the CySEC, upon the latter's request, explaining how Exness has implemented and embedded the ICAAP process within its business, describing its risk profile and the extent of risk appetite that Exness is prepared to accept, as well as the capital that it considers as adequate to be held against all the risks that it is exposed to. The Company has developed stress testing modules, using the scenario-based approach, in order to quantify the financial impact by risk type on the projected financial position of the Company over the following 3 years. The selected scenarios take into account the projected forecasts of the macroeconomic, business and regulatory environment of the CFD sector.

The submission of the ICAAP Report to CySEC serves as the basis for reviewing the ICAAP under the Supervisory Review and Evaluation Process ("SREP"). The CySEC, under the SREP, shall review the arrangements, strategies, processes and mechanisms implemented by the Company to comply with the Directives and the CRR/CRDIV.

Given an evolving regulatory regime for the CFD sector the Company has prepared an ICAAP report for the financial year 2017 and is currently in the process of updating its ICAAP report based on 2018 financial results and associated forecasts.

2.14 Information Flow on Risk Management to the Board of Directors

Risk information flows up to the Board directly from the business departments and control functions. The Board ensures that it receives on a frequent basis, at least annually written reports regarding Internal Audit, Compliance, Money Laundering and Terrorist Financing and Risk Management issues and approves the Company's ICAAP report as shown below:

- Through the Annual Report of the Risk Manager or other reports and/or communication of risks to the Management and the Board by the Risk Manager in case of emergency and/or

once a material risk emerges.
- Through the ICAAP Report.
- Through decisions of the Risk and Product Governance Committee Committee which are communicated to the Board.
- Through presentation of the Annual Financial Statements by the external auditors and the CFO.
- Through the Annual Compliance, Anti Money Laundering and Internal Audit reports and other reports and/or communication performed throughout the year once risks and/or deficiencies are identified.
- Through updates to the Management and the Board by the Heads of the Departments.
- Through the Suitability Report by the external auditors.

Table 6: Information Flow On Risk To Management Body

	Report Name	Owner of Report	Recipient	Frequency
1	Risk Management Report	Risk Manager	CySEC, Board	Annual
2	ICAAP Report	Risk Manager	CySEC (upon request), Board	Annual or more frequent upon management request
3	Compliance Report	Compliance Officer	CySEC, Board	Annual
4	Internal Audit Report	Internal Auditor	CySEC, Board	Annual or more frequent upon management request
5	Anti-money laundering report	Anti-money laundering Compliance Officer	CySEC, Board	Annual
6	Investment Committee decisions	Risk Manager	Board	Upon request
7	Audited Financial Statements	External Auditor	CySEC, Board	Annual

2.15 Declaration of Management Body

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These controls are designed to manage rather than eliminate the risks of not achieving business objectives and, to the extent possible, prevent fraud, material misstatements and loss.

The Board, taking into consideration the Company's profile and strategy, considers that it has in place adequate controls, and an appropriate selection of mechanisms, and adequately skilled people to avoid or minimize loss.

2.16 Board Risk Statement

The risk strategy of the Company is to ensure substantial growth in combination with a moderate risk profile through the establishment of an effective risk management framework. The Board assesses the risk that the Company is willing to take through a number of key measures which define the level of acceptable risk across three main categories, taking into consideration the Company's size, services offered and complexity of operations:

1. Financial: Credit, market, interest rate risk and funding liquidity risks
2. Reputational: Money laundering and terrorist financing risk, compliance risk, regulatory risk and reputational risk
3. Operational: The risk associated with the failure of key processes or systems and the risk of not having the right quality and quantity of people to operate those processes and systems, including information and technology risk.

3 Own Funds

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

The Company throughout the year under review managed its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities. During the 12-month accounting period to 31 December 2018 the Company complied fully with all capital requirements and operated well within the regulatory requirements.

3.1 Tier 1 & Tier 2 Regulatory Capital

As at 31 December 2018, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus a capital conservation buffer of 1,875% as per the transitional application provisions for buffers, resulting to an overall minimum requirement of 9,875%. The Company's actual capital adequacy ratio for the year ended 31 December 2018 stood at 14.85%, which is above the aforementioned minimum requirement. The Own Funds (capital base) of the Company as at 31 December 2018 comprised solely of Common Equity Tier 1 Capital ("CET1"). The composition of the Company's capital base is shown in the table below.

Table 7: Composition of the Capital Base

Capital Base	**2018 (€ '000)**
Eligible Own Funds	
Share capital and Premium	6,073
Retained Earnings	1,143
Income from current year	219
Common Equity Tier 1 Before Deductions	**7,435**
Deductions	
Intangible Assets	(4)
Additional deductions of CET1 Capital due to Article 3 CRR (Investor Compensation Fund)	(59)
Total Deductions	**(63)**
Common Equity Tier 1 Capital After Deductions	**7,373**
Capital Requirements	
Credit risk	3,977
Credit Valuation Adjustment ("CVA") Risk	0
Market Risk	41,014
Operational Risk	4,648
Additional capital requirements for the large exposure excess in the Trading Book	0
Total Capital Requirements	49,638
Capital Adequacy Ratio	**14.85%**

3.2 Main Features of CET 1, Additional Tier 1, and Tier 2 Instruments

In order to meet the requirements for disclosure of the main features of these instruments, the company discloses the capital instruments' main features as outlined below:

Table 8: Main Features of Capital Instruments

Capital Instruments Main Feature	CET1
Issuer	Exness (Cy) Ltd
Regulatory Treatment	
Eligible at Solo/(sub-)consolidated/solo	Solo
Instrument type	Common Equity
Amount recognized in regulatory capital	€6,073k
Nominal amount of instrument	€6,073k
Issue Price	Various
Accounting classification	Shareholders' Equity
Original date of issuance	€25k Incorporation Date €1,200k 16/10/2012 €200k 13/09/2013 €400k 05/02/2014 €926k 18/09/2014 €1,322.4k 09/06/2016 €2m 18/04/2017
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	No
Coupons / dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	N/A

Own Funds consist only with CET1 capital resources. No Additional Tier 1 or Tier 2 Capital available.

3.3 Balance Sheet Reconciliation

Institutions shall disclose a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items, filters, deductions and the balance sheet in the audited financial statements of the institution as follows:

Table 9: Balance Sheet Reconciliation

31 December 2018	€ 000
Equity	
Share capital	40
Share premium	6,033
Retained earnings	1,362
Total Equity as per the Audited Financial Statements	**7,435**
Regulatory Deductions	
Intangible Assets (net of related tax liability)	(4)
Additional deductions of CET1 Capital due to Article 3 of the CRR	(59)
Total Regulatory Deductions	**(63)**
Total Own funds as per the CoRep Forms	**7,373**

3.4 Own Funds Under Transitional and Fully-Phased Definition

Table 10: Own Funds Under

31 December 2018	Transitional Definition	Fully Phased-in Definition
	€ 000	€ 000
Common Equity Tier 1 Capital: Instruments and Reserves		
Capital instruments and the related share premium accounts	6,073	6,073
Retained earnings	1,362	1,362
Accumulated other comprehensive income*	-	-
Common EquityTier 1 (CET1) capital before regulatory adjustments	7,435	7,435
Common Equity Tier 1 (CET1) capital: regulatory adjustments	-	-
Intangible Assets (net of related tax liability)	(59)	(59)
Additional deductions of CET1 Capital due to Article 3 of the CRR (*)	(4)	(4)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	65	65
Common Equity Tier 1 (CET1) capital	**7,373**	**7,373**
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	**7,373**	**7,373**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**7,373**	**7,373**
Total Risk Weighted Assets	**49,638**	**49,638**
Capital Ratios		
Common Equity Tier 1	14.85%	14.85%
Tier 1	14.85%	14.85%
Total Capital Ratio + Buffers	14.58%	14.58%

** and other reserves, to include unrealized gains and losses under applicable accounting standards*

4 Internal Capital

The purpose of capital is to provide sufficient resources to absorb unexpected losses over and above the ones that are expected in the normal course of business. The Company aims to maintain a total capital adequacy ratio which will ensure there is sufficient capital to support the Company during stressed conditions.

The Company follows the Standardized Approach for the measurement of its Pillar I capital requirements for Credit and Market Risk, and the Basic Indicator Approach for Operational Risk. The Capital Requirement and Risk Weighted Assets ("RWAs") calculated for each category of risk as at 31 December 2018 are shown in the table below.

4.1 Assessing Internal Capital Adequacy

The Company has established an ICAAP, documented it in a Manual and produced in this regard the ICAAP Report, as per the Guidelines GD-IF-02 (Circular C026) & GD-IF-03 (Circular C027). Upon CySEC's request the ICAAP Report shall be submitted to CySEC.

The Company operates a fully integrated ICAAP process throughout the year that rolls into the final ICAAP assessment. The Company also performs monthly key risk assessments supported by periodic stress testing. The ICAAP process considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against them both currently and in the future.

The ICAAP Report describes how the Company implemented and embedded its ICAAP within its business. The ICAAP also describes the Company's Risk Management framework e.g. the Company's risk profile and the extent of risk appetite, the risk management limits if any, as well as the adequate capital to be held against all the risks (including risks other than the Pillar I risks) faced by the Company.

The Company has adopted the Pillar I plus approach whereby it determines the minimum capital required under Pillar I methodology and subsequently incorporates in that methodology the risks that are either not covered or are partially covered by Pillar I. Initially an assessment is made on the general financial position of the Company both from its financial statements and its Capital Adequacy Returns. In order to validate the adequacy of the credit, market and operational risk requirements under the Pillar I calculations, the ICAAP proceeds with the following individual tests:

- The adequacy of the credit, market and operational risk requirements is assessed with reference to all relevant balance sheet items in order to ascertain if there are additional risks that are not covered by Pillar I.
- Other risks connected with the balance sheet, such as liquidity risk and concentration risk, are reviewed in order to establish whether there should be an additional requirement that might not be covered under Pillar I.
- The overall capital adequacy is tested by adding together the resulting requirement of the identified risks.
- The absolute impact of combinations of scenarios, including a severe market downturn, is considered in relation to the financial forecasts of the business to assess the potential impact on the capital base over a three year period (forward-looking).
- A comprehensive risk assessment is carried out for all risks, categorizing them under a risk profile by attributing the anticipated impact and likelihood of occurrence.

Finally, additional measures are set for the mitigation of the identified risks as well as capital allocation.

5 Credit Risk Management

Credit risk relates to the risk of a Company's counterparty defaulting and the Company not being able to recover assets / amounts due to it. The Company's key counterparties are its retail clients, institutional clients and hedging counterparties as well as other financial institutions with which the Company holds its assets and proprietary funds, such as banks. The Company offers a real-time mark-to-market leveraged trading facility where clients are required to deposit collateral (margin) against positions. Any profits and losses generated by the client are credited and debited automatically to their account.

The Company uses a forward looking approach to assess whether there is objective evidence that a financial asset or group of financial assets that needs to be impaired as per the guidance provided by the International Financial Reporting Standard 9 (IFRS 9).

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment utilizing the simplified method as prescribed by IFRS 9. For those trading receivables that are 90 days or more past due, in non-accrual status, the Company classifies them as "in default", thus a lifetime Expected Credit Loss (ECL) will be used. A financial asset is past due if a counterparty has failed to make a payment when contractually due.

Liquidation Process - This is the process of closing a client's open position if the total equity is not sufficient to cover a predefined percentage of required margin for the portfolio held. The Company's Leverage Policy clarifies the Company's approach to liquidation management, detailing the fully automated liquidation process. This Policy and the practice applied ensure a consistent and timely approach to the processing of liquidation orders and ultimately aim to minimize client credit risk exposure. Pre-emptive processes are also in place where clients' free equity (defined as the total of clients' equity less total margin requirements) becomes negative. At this point, the clients are requested to deposit additional funds and are restricted from increasing their positions.

Position Limits - Position limits can be implemented both at an instrument and at a client level. The instrument level enables the Company to control the total exposure the Company takes on in a single instrument. At a client level this ensures that the client can only reach a pre-defined size of overall portfolio.

5.1 Credit Risk – Risk Weighted Assets

The following table represents the Company's RWAs and minimum capital requirement as at 31 December 2018, broken down by asset class.

Table 11: RWA and capital requirement by asset class

Asset Classes	Risk-Weighted Assets (€ '000)	Minimum Capital Requirement (€'000)
Institutions	1,168	93
Corporates	1,715	137
Retail	98	8
Other Items	995	80
Total	**3,977**	**318**

5.1.1 Analysis of Average Exposures and Total Amount of Exposures After Accounting Offsets

The following table provides information on the average exposures of the Company as at 31 December 2018 broken down by asset class, as well as on the total amount of exposures after accounting offsets.

Table 12: Average exposures and total amount of exposures after accounting offsets

Asset Classes	Original Exposure Amount* (€ '000)	Average Exposure (€'000)
Institutions	5,225	523
Corporates	2,211	553
Retail	157	157
Other Items	3,451	690
Total	**11,044**	**1,922**

**Net of specific provisions*

5.1.2 Credit Risk – Risk Weighted Assets by Geographical Distribution of the Exposure Classes

The Company shall disclose the geographical distribution of the exposures, broken down in significant areas by material exposures classes. The geographical distribution of the exposure classes of the Company are as follows:

Table 13: Geographic Distribution of Exposures by ISO ALPHA-2 Country Code

Exposures per Asset Class per Country of incorporation of Counterparty	CY	UK	VC	EE	AE	Other	Total
	(€ '000)						
Institutions	255	4,964	-	3	-	4	**5,225**
Corporates	76	-	2,135	-	-	-	**2,211**
Retail	-	-	-	157	-	-	**157**
Other Items	3,451	-	-	-	-	-	**3,451**
Total	**3,782**	**4,964**	**2,135**	**160**	**-**	**4**	**11,044**

5.1.3 Credit Risk – Distribution of Exposures by Industry

The Company shall disclose the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate as follows:
The following table presents the distribution of the Company's exposures by industry segment.

Table 14: Distribution of Exposures by Industry

Asset Classes	**Financial Services (€ '000)**	**Private Individuals (€ '000)**	**Other (€ '000)**	**Total (€ '000)**
Institutions	5,225	-	-	**5,225**
Corporates	2,135	-	76	**2,211**
Retail	-	157	-	**157**
Other Items	3,068	211	172	**3,451**
Total	**10,428**	**368**	**248**	**11,044**

5.1.4 Residual Maturity Broken Down by Exposure Classes

The Company shall disclose the residual maturity breakdown of all the exposures, broken down by exposure classes, as follows:

The following table provides information on the residual maturity of the Company's credit risk exposures.

Table 15: Residual Maturity of Credit Risk Exposures, Broken Down by Asset Class

Asset Classes	Up to 3 months (€ '000)	More than 3 months (€ '000)	Total (€ '000)
Institutions	5,182	43	**5,225**
Corporates	2,211	-	**2,211**
Retail	157	-	**157**
Other Items	3,451	-	**3,451**
Total	**11,001**	**43**	**11,044**

5.1.5 Use of External Credit Assessments for the Determination of Risk Weights

For the purposes of applying the Standardized Approach, the nominated External Credit Assessment Institutions ("ECAIs"), are Fitch Ratings, Standard and Poor's Rating Services and Moody's Investor Service. The Company has decided to use the ratings of all three ECAIs. As at 31 December 2018, the Company used credit assessments to determine the risk weight for its exposures to institutions, except in the cases where the preferential treatments applied, as set out by the CRR. Furthermore, all corporate counterparties of the Company were unrated, hence in accordance with Article 122(2) of the CRR, the credit assessment of the corporate's central government was used to derive the relevant exposure's risk weight. The Company has used the credit step mapping table below to map the credit assessment to credit quality steps.

Table 16: Mapping of ECAI Credit Assessments to Credit Quality Steps

Credit Quality Step ("CQS")	Fitch	Moody's	S&Ps
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

Exposures to corporate clients were risk weighted by 100% risk factor since they were all unrated and were incorporated in countries with no credit rating or with credit assessment up to credit quality step 5. The Company has used the Credit Quality Step mapping table below to map the credit assessments to Credit Quality Steps.

Table 17: ECAI Association with Each Credit Quality Step

<table>
<tr><th rowspan="3">Credit Quality Step</th><th rowspan="3">Moody's Rating</th><th rowspan="3">Corporate</th><th colspan="3">Institutions</th><th rowspan="3">Sovereign</th></tr>
<tr><th rowspan="2">Sovereign method</th><th colspan="2">Credit Assessment method</th></tr>
<tr><th>Maturity > 3 months</th><th>Maturity 3 months or less</th></tr>
<tr><td>1</td><td>Aaa to Aa3</td><td>20%</td><td>20%</td><td>20%</td><td>20%</td><td>0%</td></tr>
<tr><td>2</td><td>A1 to A3</td><td>50%</td><td>50%</td><td>50%</td><td>20%</td><td>20%</td></tr>
<tr><td>3</td><td>Baa1 to Baa3</td><td>100%</td><td>100%</td><td>50%</td><td>20%</td><td>50%</td></tr>
<tr><td>4</td><td>Ba1 to Ba3</td><td>100%</td><td>100%</td><td>100%</td><td>50%</td><td>100%</td></tr>
<tr><td>5</td><td>B1 to B3</td><td>150%</td><td>100%</td><td>100%</td><td>50%</td><td>100%</td></tr>
<tr><td>6</td><td>Caa1 and below</td><td>150%</td><td>150%</td><td>150%</td><td>150%</td><td>150%</td></tr>
</table>

5.1.6 Exposure Before and After Credit Risk Mitigation

The exposure before and after Credit Risk Mitigation ("CRM") associated with each credit quality step as at the year-end was as follows:

Table 18: Breakdown of credit risk exposures by CQS

Credit Quality Step	Exposure values before credit risk mitigation (€ '000)	RWA per QS (€ '000)
CQS 1	4,622	924
CQS 4	211	106
CQS 6	43	65
Unrated	6,167	2,882
Total	**11,044**	**3,935**

5.1.7 Counterparty Credit Risk

Counterparty Credit Risk ("CCR") may be defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, repurchase agreements and long settlement transactions. The company takes margin cash deposits as funded credit protection (collateral) for derivatives and uses the Financial Collateral Comprehensive Method for calculation of the funded credit protection. The Company is not exposed to Counterparty Credit Risk.

Wrong-Way Risk Exposures

Wrong way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty, i.e. changes in market rates (interest rates, FX or other rates which are the main underlying factors of the Company's derivatives transactions) have an adverse impact on the probability of default of a counterparty. This risk is not currently measured as it is not anticipated to be significant given the existence of cash collateral/margin for almost all derivative transactions, which significantly reduce Counterparty Credit Risk.

Credit Risk Adjustments

The Company applies the past due and impaired exposures definition as per IFRS and CRR/CRDIV. There were no past due or impaired exposures as at the reference date.

Impairment of Assets
Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As at 31 December 2018 the Company had not recognized any impairment losses on trade receivables.

Credit Valuation Adjustment ("CVA") Risk
CVA risk is the risk of loss caused by changes in the credit spread of a counterparty due to changes in its credit quality. CVA is an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty which reflects the current market value of the credit risk of the counterparty to the institution. The Company has adopted the Standardized Approach for the calculation of its CVA risk.

5.2 Market Risk Management

Market risk is defined as the risk that the Company's income or the value of its holdings of financial instruments will change due to a change in market risk factors. The four standard market risk factors are market prices, non-trading book interest rates, non-trading book foreign exchange rates, and commodity prices.

Exposure to market risk at any point in time depends primarily on short term market conditions and the levels of retail and institutional client activity. The Company implements market position limits for operational efficiency and does not take proprietary positions based on an expectation of market movements. As a result, not all net client exposures are hedged, and the Company may have a substantial net position in any of the financial markets in which it offers products. The Company aims to set market position limits and actions that reflect its risk appetite, for each financial instrument or markets in which the Company's retail and institutional clients can trade.

The Company has implemented a real-time market position monitoring system. This enables the Company to continually monitor its market exposure against these limits so that relevant action is initiated. This can include the initiation of appropriate hedging strategies or limit locks, without any more exposure being accepted.

The following table discloses the Company's market, foreign exchange, and commodities risk as 31 December 2018:

Table 19: Market Risk Exposure

Market Risk	**31/12/2018**
Risk Weighted Assets	**€ '000**
Traded Debt Instruments	-
Equity	-
Foreign Exchange	40,996
Commodities	18
Total Market Risk Exposure	**41,014**
Total Market Risk Requirements	**3,281**

5.3 Operational Risk Management

The Company is primarily exposed to operational risks regarding potential system / trading platform failures or delays, inadequate or failed internal processes, people, systems or external events as well as other risks such as fraud, legal, physical and environmental risks. The Company is partially dependent on third parties, including its own Group, for the key technological systems, infrastructure suppliers, data providers and data sources.

The Company's operations are highly dependent on technology and advanced information systems. The Company's ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of its business. This dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that where possible multiple providers and data routes are utilized. To remain competitive, the Company continues to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

The Company has business continuity procedures and policies in place which are designed to allow the Company to continue trading in its core markets. The Company's systems are designed to mitigate the risk of failure of any component, enabling the Company to continue to function in the event of an incident, adverse event or business disruption. Moreover, the Company has developed and implemented an operational risk portal through which any operational risk incidents are reported, evaluated and mitigated in a timely manner. Furthermore, the Company has developed a Key Risk Indicators' framework for each business and functional area, enabling it to monitor at regular intervals its performance versus key operational risk areas.

For the calculation of the capital requirements for operational risk, the Company applies the Basic Indicator Approach. The Net Income from activities for 2016, 2017, 2018 and the Capital Requirements as at 31st December 2018 is shown below:

Table 20: Operational Risk

Operational Risk (Basic Indicator Approach)	2016 (€ '000)	2017 (€ '000)	2018 (€ '000)	Total Exposure (€ '000)	31 Dec. 2018 Capital Requirements (€ '000)
Net Income from Activities	1,473	3,180	2,783	7,436	372

5.4 Liquidity Risk Management

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its financial liabilities when due, under both normal circumstances and stressed conditions.

Positions can be closed at any time by clients and can also be closed by the Company, in accordance with the Company's margining rules. If after closing a position a client is in surplus, then the amount owing is immediately repayable on the client's demand by the Company. When client positions are closed, corresponding positions relating to the hedged position are closed with hedging counterparties / brokers. Accordingly, the Company releases cash margin, which is repaid by the hedging counterparties / brokers to the Company on demand.

In accordance with the CySEC clients' money rules, the Company holds in segregated, clearly designated as clients' money bank accounts, all the funds of its clients. Therefore, the Company considers liquidity risk in relation to all clients' trading activity to be significantly low.

5.5 Regulatory Risk Management

Regulatory Risk comprises of legal or regulatory changes that may be imposed by EU regulatory and/or supervisory bodies or by the CySEC, and which may adversely affect the results and financial position of the Company. Increased regulatory scrutiny of the industry in which the Company operates could adversely affect the Company's revenue, business and profitability. Changes to the EU regulatory framework, current and proposed EU regulations and directives could restrict the Company's business. The implementation of necessary changes to comply with the increased regulatory framework could potentially result in significantly additional demand on the Company's resources.

To mitigate Regulatory and Compliance Risk, the Compliance and Risk Management functions keep abreast of regulatory developments, participate in material regulatory consultations, and aim to anticipate regulatory issues by providing advice to the Company's Board of Directors and the business on such matters on an ongoing basis. External legal advice is obtained on new regulations affecting the CFDs sector in the jurisdictions in which the Company operates. Relevant actions are then initiated by the Company to ensure comprehensive and consistent compliance at all times.

The Company manages its capital to ensure that it will be able to continue as a going concern while increasing the return to shareholders through striving to improve the Equity and Capital Adequacy Ratio. The Company's overall strategy remains unchanged from last year.

6 Leverage Ratio

Leverage ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62. The Company calculates its Leverage ratio on a quarterly basis. The minimum requirement for the purposes of the Leverage ratio is currently assessed to 3%. The Company's Leverage ratio as at the reference date is 66.76%.

Table 21: Leverage Ratio Analysis

2018	**Leverage Ratio Exposure €000**
Exposure Values	
Total Assets as per Financial Statements	8,816
Adjustments for Derivative Financial Instruments	2,291
Intangible Assets	(4)
Balances with Investors Compensation Fund	(59)
Leverage Ratio Exposures	**11,044**
Capital and regulatory adjustments	
Tier 1 capital – fully phased-in definition	7,373
LEVERAGE RATIO	**66.76%**

7 Other Risks

7.1 Concentration Risk

Concentration Risk includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc.

Concentration risk was partly addressed through diversification of counterparties, namely banking institutions.

The Company’s experience in the collection of trade receivables has never caused debts which are past due and have to be impaired. The company has a policy in place to monitor debts overdue by preparing debtors ageing reports.

7.2 Reputation Risk

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company’s key directors, the loss of large customers, poor customer service, fraud or theft, customer claims, legal action and regulatory fines.

The Company has transparent policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company provides high quality services to customers.

7.3 Strategic Risk

Strategic Risk could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company’s exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

7.4 Business Risk

Business Risk includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts are conducted with a view to minimize the Company’s exposure to business risk. These are analyzed and taken into consideration when implementing the Company’s strategy.

7.5 Capital Management Risk

Capital Risk is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company. Such procedures are explained in the Procedures Manual of the Company.

The Company is further required to report on its capital adequacy quarterly and has to maintain at all times a minimum total capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of management accounts to monitor the financial and capital position of the Company.

7.6 Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Procedures Manual. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore, the risk of non-compliance is very low.

7.7 Legal and Compliance Risk

Legal and Compliance Risk could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the Board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

7.8 IT Risk

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

7.9 Reporting Risk

The Company maintains a system in place to record any risk event incurred on a special form duly completed by personnel of each department and is submitted to the Compliance officer and Risk manager when such event occurs.

7.10 Liquidity Risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. The Company has policies and procedures with the object of minimizing such losses.

8 Remuneration Policy

The Company has established a remuneration policy, in accordance with the requirements of Law in relation to conflicts of interests and conduct of business rules, and also pursuant to the provisions of the CySEC Directive DI144-2014-14, as amended, for prudential Supervision of Investment Firms, as well as CySEC Circular 031 previously Guidelines GDIF-07, on remuneration policies and practices, the Circular C138 for Remuneration policies and practices , Circular C145 on Clarifications for Circular C138 and ESMA's Q&A – Relating to the provision of CFDs and other speculative products to retail investors under MiFID (ESMA/2016/904) published on the 1st of June 2016 (as updated on the 31st of March 2017 as ESMA 35-36-794) where these comply with specific principles in a way and to the extent that is appropriate to the Company's size, internal organization and the nature, scope and complexity of its activities.

The remuneration policy aims to provide for sufficient incentives so as for the personnel of the Company, including key persons, to achieve the business targets, to deliver an appropriate link between reward and performance whilst at the same time consisting of a comprehensive, consistent and effective risk management tool that prevents excessive risk taking and /or miss-selling practices in light of financial incentives, which could lead to compliance risks for the Company in the long-run.

The Board of the Company has overall responsibility for the implementation, monitoring and review of this Policy, while the Board is responsible for the maintenance of the Policy up to date and thus will review and update the Policy where necessary at least on an annual basis. In addition, the Management of the Company is also responsible to ensure that all persons remunerated by the Company have knowledge of and understand the remuneration policy of the Company.

8.1 Remuneration System

The Company's remuneration system and policy 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 and members of the Board; the said practices are established to ensure that the rewards for the "executive management" are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short- and long-term success.

The remuneration mechanisms employed are well known management and human resources tools that take into account the following factors in order to determine the remuneration of each staff member:

- Personal performance of each individual manager meeting their own targets as set out by the Board;
- The financial viability of the Company;
- The general financial situation and the state in which the Company operates;
- Each employee's personal objectives (such as personal development, compliance with the Company's systems and controls, compliance with regulatory requirements, commitment and work ethics);
- Each employee's professional conduct with Clients (such as acting in the best interest of the Client, fair treatment of Clients and inducing Client satisfaction), as applicable.

The Company's remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff. The remuneration includes all forms of benefits provided by the Company to its staff and can be Financial or non-Financial remuneration.

It is noted that the Company has taken into account its size, internal organization and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee. Decisions on these matters are taken on a Board level while the remuneration policy is periodically reviewed.

The remuneration varies for different positions/roles depending on each position’s actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for a staff member to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors. Furthermore, the employee’s personal goals and performance evaluation in relation to the objectives set up at the beginning of the period and the employee’s professional conduct with clients are taken into account in order to determine the remuneration.

The total remuneration of staff currently consisted of a fixed and a variable component. The Fixed Remuneration (FR) has the purpose of attracting and retaining capable and experienced employees. This fixed amount of remuneration includes salary, fixed pay allowance, other cash allowances, as well as other perks and benefits. The Fixed Remuneration is determined by the role and position of each employee, taking into account the experience, seniority, education, responsibility, and market conditions. On the other hand, the variable remuneration is a performance-based remuneration which motivated, and rewards staff members based on their results in relation with the targets set in the beginning of the year. This kind of remuneration is not guaranteed, and the Board has determined a maximum percentage of variable remuneration relative to the fixed remuneration in order to ensure a compliant ratio between these two kinds of remuneration. The maximum limit on variable remuneration does not exceed 100% of fixed component of the total compensation for each individual. The Company has decided that beginning 1st January 2019, only Fixed Remuneration will be offered to employees.

8.2 Performance Appraisal

The Company shall ensure that where remuneration is linked with performance, the total amount of Remuneration is based on a combination of the performance assessment of:

- the individual (quantitative as well as qualitative criteria-except those who perform their duties on Control Functions where only qualitative criteria apply-are taken into account; performance evaluation and performance rating are taken into account),
- the business unit concerned, and
- the overall results of the Company and as long as conflicts of interest are mitigated, as described in this Policy.

The Company implements a performance appraisal program, mainly to foster talent and promote healthy competition amongst personnel which is based on a set of Key Performance Indicators and Targets, developed for each department.

In general, performance appraisal is performed in order to ensure that the appraisal process is based on longer-term performance and that in the future (i.e. when applicable), the actual payment of performance-based components of Remuneration will be spread over a period which will take into account the Company’s underlying business cycle and risks.

Additionally, performance appraisal on medium and short-term is being performed as follows:

- Objectives can be set in the beginning of each year, semi-annually or quarterly (depending on the department appraisal process) defining what the Company functions, departments and individuals are expected to achieve.
- Performance checks and feedbacks: managers provide support and feedback to the concerned staff, during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.
- Performance review: the variable elements of the Remuneration depend on the performance evaluation of each employee the fulfilment of their performance related targets and the financial performance of the Company.

8.3 Remuneration of Senior Management Personnel and Directors

The remuneration of the senior management is intended to ensure that the Company will attract and retain the most qualified Executive Board members. Moreover, the remuneration of the Company's non-executive directors is fixed and it is set at a level that is market aligned and reflects the qualification and competencies required based on the Company's size and complexity, the responsibilities and the time that the non-executive directors are expected to consume in order to serve the Company.

The remuneration of the senior management personnel of the Company, including Board are shown in the following tables:

Table 22: Remuneration Analysis Split by Senior Management and Key Management Personnel

2018	**Executive Directors €**	**Senior Management & Key Personnel €**	**Non-Executive Directors €**
Fixed reward	96,457	209,474	57,333
Variable reward	25,000	17,460	0
Total	**121,457**	**226,934**	**57,333**
Fixed to Total Remuneration Ratio	**79.42%**	**92.31%**	**0.00%**
Number of beneficiaries	**1**	**4**	**3**

Companies are required to disclose the number of natural persons that are remunerated €1mln or more per financial year, in pay brackets of €1mln, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. Nevertheless, currently there are no natural persons at the Company that are remunerated €1mln or more per financial year and as such the above disclosure is not applicable to the Company.

No sign-on payments have been awarded during 2018, while no severance payments were paid during the year. Moreover, the maximum limit on variable remuneration set at 100% of fixed salary, the limit could be set at 200% upon shareholders' approval according to the Article 21 of Directive DI144-2014-14. The applicable limits are within the allowable ranges.

Furthermore, aggregate remuneration analyzed by business area is presented below:

Table 23: Aggregate remuneration analysis by business area

	Aggregate Remuneration €
Control Functions	323,437
Brokerage Department	29,997
Dealing on Own Account Department	43,523
Back Office Department	35,622
Finance and Accounting Department	73,501
Total	**506,080**

*Control functions include the Executive and Non-Executive Directors, Compliance Department, the AML Department and the Risk Manager.