BrightFX Capital Limited

RISK MANAGEMENT DISCLOSURES

YEAR ENDED 31 DECEMBER 2018

Under Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and Directives DI144-2014-14 and DI144-2014-15 of the Cyprus Securities & Exchange Commission

Contents

1 Scope of Application

The Management of BrightFX Capital Limited (hereinafter the "Company"), in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the "Regulation") and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (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.

The Company obtained its license with number 342/17, to act as a Cyprus Investment Firm, on 13 November 2017.

The Company offers the following investment and ancillary services:

Investment Services
Reception and transmission of orders in relation to one or more financial instruments
Execution of orders on behalf of clients
Dealing on own account

Ancillary Services
Safekeeping and administration of financial instruments, including custodianship and related services
Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
Foreign exchange services where these are connected to the provision of investment services

The information provided in this report is based on procedures followed by the Management to identify and manage risks for the year ended 31 December 2018 and on reports submitted to CySEC for the year under review.

The Company is making the disclosures on an individual (solo) basis.

2 Governance – Board and Committees

Board of Directors

The responsibility for the overall risk management and assessment, lies with the Board of Directors ("Board") of the Company. The Board needs to identify, assess, monitor and control each type of risk on a continuous basis. As at 31 December 2018, the Board consisted of three Executive and four Non-Executive Directors, however Mr. Antreas Kapsos, one of the Executive Directors, resigned on 14 January 2019.

The responsibilities of the Board of Directors in relation to risk management may be summarized as follows:

- Assessing and managing the Risks;
- Monitoring the performance and improving the effectiveness of risk management procedures
- Monitor and control the Risk Manager in the performance of his duties and the effectiveness of the Risk Management Department;
- Addressing control failures and suggesting remedial action;
- Approve Client and counterparty limits;
- Approve policy description concerning information systems and monitor the information systems in place;
- Appoint the responsible security user/super user for the provision of access rights to the various database and monitor the security measures in place;
- Establish policy regarding the amount of information provided to Clients about the nature and risks of Financial Instruments according to the Client classification;
- Maintain systematic supplier cooperation with the information services' end-users in all phases of development, operation and evaluation of the information applications of the Company's system;
- Monitor the policies in relation to the Dealing on Own Account Department; and
- Supervise the Disaster Recovery Plan.

Board - Recruitment and Diversity Policy

Board members must be of sufficiently good repute and have the skills, knowledge and expertise for performing their assigned responsibilities. Therefore, the Company obtains relevant constituents, recommendations and/or certificates proving the integrity, morals, credibility and ethos, as well as the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them, while selecting the members of the Board. It shall also be noted that prior to the appointment of any member of the Board, the Company communicates its intention to the CySEC by sending all relevant details and documentation, and such appointment only becomes effective if CySEC does not oppose to it.

Board Committees

The Company maintains a 'Senior Management - "4-Eyes"' structure, which is responsible to ensure that the Company complies with its obligations under the applicable legislation, to assess and periodically review the effectiveness of the policies, arrangements and procedures put in place and to take appropriate measures to address any deficiencies.

In addition, the Board has established an Investment Committee which as at 31st December 2018 consisted of two executive directors, while after the resignation of the one director in January 2019, its members consisted of one executive director, the Head of Dealing on Own Account Department and the Head of Reception, Transmission & Execution Department.

The Investment Committee is structured with the aim to establish and approve the Company's investment objectives and corporate policies on investing, and to align them with the Company's overall strategy and risk appetite. The Committee is also involved in approving the target market assessment and for monitoring the effectiveness of the implementation of the product governance procedures and practices established by the Company. The Committee is also involved in the establishment of the Trading Book policies and the respective practices, and more specifically in setting the exposure thresholds and the relevant hedging techniques and practices. Finally, the Committee is establishing the best practices to be followed by the Brokerage and Dealing on Own Account Departments, and it also sets expectations for returns and volatility.

Risk Management Function

Risk management is a continuous and developing process which runs throughout the Company's strategy and the implementation of that strategy. It addresses methodically all the risks surrounding the Company's activities - past, present and in particular, future.

The Company, considering the current nature, scale and complexity of its operations, follows a policy that establishes and applies processes and mechanisms that are appropriate and effective in monitoring the various activities.

The policy aims to promptly identify, measure, manage, report and monitor risks that affect the achievement of strategic, operational and financial objectives. It includes adjusting the risk profile in line with the Company's stated risk tolerance to respond to new threats and opportunities in order to minimize risks and optimize returns.

The Board of Directors has appointed a Risk Manager, who is an independent senior manager, and is distinctly responsible for monitoring the risk exposure of the Company and ensuring that all the different types of risks taken by the Company are in compliance with the Law and the obligations of the Company under the Law, that all the necessary procedures relating to risk management are in place, and that all risks exceeding the predetermined thresholds are reported to the management and addressed.

More specifically, the Risk Manager is responsible for:

- Implementing the regulatory provisions that relate to risk management issues;

- Educating and training the personnel of the Company on risk-related issues;
- Examining the financial results of the Company;
- Analyzing the market and its trends (from a risk management perspective), as applicable
- Evaluating how the introduction of any potential new services or activities by the Company could affect the risk management of the Company, and providing such requests to the Senior Management or the Board, as requested;
- Examining the capital adequacy and the exposures of the Company;
- Drafting written reports to the Senior Management and to the Board including recommendations, indicating in particular whether the appropriate remedial measures have been undertaken in the event of any deficiencies, at least annually;
- Calculating, setting, reviewing, updating and monitoring Client and counterparty limits, as applicable;
- Monitoring the performance and overall actions of the Dealing on Own Account Department, on a continuous basis;
- Managing the overall risks faced by the Company, with a particular focus on the Client side risks where fraud, dispute, Client identification & due diligence and funding/deposit risks are handled and monitored accordingly in coordination with the AMLCO and the Back Office Department, as applicable;
- Maintaining a record of all the Clients and counterparties risks and limits;
- Recommending, providing and supervising policy description concerning information systems (including backup systems that can restore smooth operation in case of failure);
- Engage in and fulfil his ICAAP-related duties and responsibilities as these shall be detailed in the ICAAP Manual of the Company; and
- Raising concerns and warnings where appropriate, where specific risk developments affect or may affect the Company.

Considering the Company's operational level during the year, the Board of Directors resolved that under the proportionality principal there is no immediate need for establishing a Risk Management Committee, where the Board of Directors were in a position to fully cover the managerial and decision taking needs of the Company in regards to risk and risk management techniques.

The Board is prepared to discuss and approve for implementation any mitigation measures and improved practices on any potential and/or identified risks or on deficiencies identified and escalated to them. The Risk Officer reports to the Board of Directors on any risks that the Company is facing or on any other material risk issues, as appropriate, immediately after those are identified.

Number of directorships held by members of the Board

The table below provides information on the number of directorships each member of the management body of the Company holds at the same time in other entities, including the directorship held within the Company, as at the time of preparation of this Report. 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.

Furthermore, executive or non-executive directorships held within the same group, are considered as a single directorship.

It shall be noted that, based on its internal assessment, the Company does not consider itself to be significant in terms of its size, internal organization and the nature, scope and complexity of its activities.

3 Information flow on risk to the management body

The information flow on risk to the management body is achieved, inter alia, through:

- The reports of the Risk Manager, the Compliance Officer & Money Laundering Compliance Officer and the Internal Auditor which are prepared at least annually and indicate, in particular, any risks identified and any remedial measures taken;
- The audited financial statements provided on an annual basis by the Company's External Auditors;
- The Suitability Report on the adequacy of the measures taken for the safeguarding of clients' assets, provided annually by the External Auditors; and
- The Company's Internal Capital Adequacy Assessment Process Report (ICAAP), which is a process embedded at the core of the Company's operations, and discusses the Company's overall Risk Management system, Governance Framework, Internal Control system, the definition of its financial budget and corporate strategy, and the alignment with the Company's available capital and risks faced.

In regards to ICAAP, this has not been finalized, and the Company is still in its finalization stage which has been postponed as a result of the increased reporting and procedures redrafting requirements resulting from the introduction of MiFID II last year.

4 Board Declaration on adequacy of risk management arrangements

The Board declares that it assumes ultimate responsibility for establishing the risk management framework of the Company and for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. The Board confirms that these are designed to manage rather than eliminate the risks of not achieving business objectives, and as such offer reasonable but not absolute assurance against fraud, material misstatement, poor performance and loss.

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

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 organisational risk appetite and are fully compliant with the 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 the Company's 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 formalise 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 both the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.

The Board of Directors considers that the Company has in place adequate systems and controls relative to the Company's risk profile and business strategy and an appropriate array of assurance mechanisms, adequately resourced and skilled, to minimize the risk of loss.

5 Board Risk Statement

Throughout 2018 the Company followed a risk philosophy, aiming to maintain medium risk until the Company updates it business strategy, where the need of strategy update has been triggered by an external regulatory event, and more specifically by the introduction of the ESMA Product Intervention Measures on CFDs which came in force on 1 August 2018. As a result of the Board's decision to temporally cease the advertisement and marketing of the Company's Brand, the Company maintained low client levels and respectively low trading book exposures throughout the year and high capital adequacy levels.

The Board expresses, establishes and monitors the Company's Risk Appetite through a number of key measures which define the level of risk acceptable across three categories:

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 and long term plan. The Company employs hedging and mitigation techniques defined within the Company's policies, to ensure risks are managed in line with the Risk Appetite.

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 and long term plan. The Company employs hedging and mitigation techniques defined within the Company's policies, to ensure risks are managed in line with the Risk Appetite.

6 Capital Management

The adequacy of the Company's capital is monitored by reference to the provisions of the Regulation and the Directives 144-2014-14 & 144-2014-15 of the CySEC (the "Directives").

The Basel III consists of three pillars:
- Pillar I - Minimum capital requirements;
- Pillar II - Internal Capital Adequacy and Supervisory Review Process; and
- Pillar III - Market discipline.

Pillar I – Minimum Capital Requirements

The Company has adopted the Standardised approach for Credit and Market risk and the Basic Indicator approach for Operational risk.

According to the Standardised approach for Credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, according to their characteristics and asset classes to which they belong.

The Standardised approach for the capital requirement for Market risk nets the long and short market risk positions in each instrument according to predefined methods to determine the capital requirement.

For Operational risk, the Basic Indicator approach calculates the average, on a three year basis, of net income to be used in the Risk Weighted Assets calculation.

Pillar II – The Internal Capital Adequacy and Supervisory Review Processes

The Company is in the process of preparing its ICAAP, for which it has decided that the Minimum Capital Requirement Approach is the most appropriate approach to be used. As its name indicates, the Internal Capital Adequacy Assessment Process is an internal tool, which allows the Company to assess its position and hold the internal capital that it considers appropriate (if any) in order to cover all the risks it is facing or to which it could be exposed in the future thereby having the ability to support its current and future activities.

The ICAAP falls under the scope of Pillar II which is described as a set of relationships between the CySEC and the investment firm, the objective of which are to enhance the link between a CIF's risk profile, its risk management and risk mitigation systems, and its capital.

Pillar II establishes a process of prudential interaction that complements and strengthens Pillar I, by promoting an active dialogue between the CySEC (which performs the SREP in order to review the investment firm's ICAAP) and the investment firm such that, any inadequacies or weaknesses of the internal control framework and also other important risks, the fulfilment of which may entail threats for the firm, are identified and managed effectively with the enforcement of additional controls and mitigating measures.

The ICAAP is an important part of the process through which the Company's Board:
- Is informed of the ongoing assessment of the Company's risks;
- Sets mitigation measures and controls for those risks; and
- Identifies and measures current and future capital needs having considered the above.

The ICAAP is clearly owned and approved by the Company's Board of Directors. The Company considers the ICAAP as a key element of its day to day governance process and its strategic management initiatives.

Moreover, the ICAAP Report is a document submitted to the Board and to CySEC, upon request by the latter.

Pillar III – Market Discipline

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 Own Funds.

According to the CySEC Directive DI144-2014-14, the risk management disclosures should be included either in the financial statements of the investment firms if these are published, or on their websites. In addition, these disclosures must be verified by the external auditors of the investment firm. The investment firm is responsible to submit its external auditors' verification report to CySEC within five months from the end of each financial year.

The Company has included its risk management disclosures on its website. Verification of these disclosures has been made by the external auditors so as to be submitted as appropriate to CySEC.

Own Funds and Capital Adequacy Ratio

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of its activities.

The CySEC requires each investment firm to maintain a minimum ratio of Own Funds to Risk Weighted Assets ("RWAs") of 8% for Pillar I risks, plus the relevant capital buffers, as applicable. In addition, the CySEC may impose additional capital requirements for risks not covered by Pillar I. For 2018, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus the applicable buffers, being a capital conservation buffer of 1,875%, according to the relevant transitional implementation provisions, and the institution-specific Countercyclical Capital Buffer ("CCyB") of 0,081%, resulting to an overall minimum of 9,956%.

The Own Funds/capital base of the Company as at 31 December 2018 comprised solely of Common Equity Tier 1 (CET1) items and is presented in the table below:

Own Funds and Minimum Capital Requirements	**31 Dec 2018 €000**
CET1 Capital	
Share capital	2
Share premium	904
Retained Earnings	(54)
Audited profit/(loss) for the period	(364)
Non-refundable shareholder contribution	323
Total CET1 Capital before deductions	**811**
Deductions from CET1 Capital	
Contribution to the Investors Compensation Fund	(60)
Total CET1 Capital after deductions	**751**
Additional Tier 1 Capital	-
Tier 2 Capital	-
Total Own Funds	**751**
Minimum Capital Requirements	
Credit risk	66
CVA Risk	-
Market Foreign Exchange Risk	-
Market Equity Risk	2
Market Commodity Risk	-
Market Interest Rate Risk in the Trading Book	-
Operational Risk	16
Additional capital requirements for the large exposure excess in the Trading Book	-
Total Minimum Capital Requirements	**84**
Capital Adequacy Ratio	**71,58%**

Balance Sheet Reconciliation

Balance Sheet Description, as per audited Financial Statements	**31 Dec 2018**
	€000
Share Capital	2
Share premium	904
Retained Earnings	(54)
Audited profit/(loss) for the period	(364)
Non-refundable shareholder contribution	323
Total Equity as per audited Financial Statements	**811**
(Less: Contribution to the Investors Compensation Fund)	(60)
Total Own Funds	**751**

Own Funds under the Transitional and Fully-Phased in definition

31 Dec 2018	Transitional Definition €'000	Fully - phased in Definition €'000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	906	906
Retained earnings	(418)	(418)
Funds for general banking risk	323	323
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**811**	**811**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	**811**	**811**
Contribution to the Investors Compensation Fund	(60)	(60)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(60)**	**(60)**
Common Equity Tier 1 (CET1) capital	**751**	**751**
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	**751**	**751**
Tier 2 (T2) capital	-	-
Total capital (TC = T1 + T2)	**751**	**751**
Total Risk Weighted Assets	**1.049**	**1.049**
Capital ratios and buffers		
Common Equity Tier 1 ratio	71,58%	71,58%
Tier 1 ratio	71,58%	71,58%
Total Capital ratio	**71,58%**	**71,58%**

Definitions:
The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total RWAs for covering Pillar I risks.

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total RWAs for covering Pillar I risks.

The Total Capital ratio is the Own Funds of the Company expressed as a percentage of the total RWAs for covering Pillar I risks.

Geographical Distribution of credit exposures relevant for the calculation of the Countercyclical Capital Buffer

Countries	General Credit Exposures		Trading Book Exposure		Own Funds Requirements			Own Funds Requirements Weights	Countercyclical Buffer Rate
	SA	IRB	SA	IRB	General	Trading	Total		
	€'000							%	%
Cyprus	780	-	-	-	4	-	4	41	0,00
UK	-	-	37	-	-	3	3	32	0,50
Germany	-	-	28	-	-	2	2	25	0,00
Spain	-	-	2	-	-	0	0	2	0,00
Total	**780**	**-**	**67**	**-**	**4**	**5**	**9**	**100**	

Amount of institution-specific countercyclical capital buffer	**Amount €'000**
Total Risk Exposure Amount	1.049
Institution-specific countercyclical buffer rate	0,081%
Institution-specific countercyclical buffer requirement	0,85

7 Credit Risk

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date.

The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

Furthermore, in order to manage its Credit Risk, the Company:

- Makes use of the European banking system for safekeeping of funds, always ensures that the banks it cooperates with are credible, and the accounts are spread across different banks for diversification of the risks;
- Reviews a list of acceptable counterparties based on current ratings and outlook, taking into account analysis of fundamentals and market indicators;
- Assesses all payment processors where clients' cards are processed and ensures that the majority is licensed;
- Holds all client funds in segregated accounts, separated from company funds;
- Cooperates with institutions with robust balance sheet and capital base; and
- Monitors and reviews the performance of its counterparties regularly against a number of internally developed qualitative and quantitative criteria.

Exposure to Credit risk

The following table represents the Company's Credit risk exposure (before and after Credit Risk Mitigation - CRM), RWAs and minimum capital requirements as at 31 December 2018, broken down by asset class:

31 Dec 2018	Exposure amount (before and after CRM)	Average Exposure	RWAs	Capital Requirements
Asset Class	**€000**	**€000**	**€000**	**€000**
Institutions	732	787	732	58
Corporates	62	70	62	5
Other Items	32	35	32	3
Total	**826**	**892**	**826**	**66**

The table below illustrates the geographic distribution of the Company's original exposures:

31 Dec 2018	Cyprus	United Kingdom	Germany	Spain	Total
Asset Class	**€000**	**€000**	**€000**	**€000**	**€000**
Institutions	732	-	-	-	732
Corporates	16	16	28	2	62
Other Items	32	-	-	-	32
Total	**780**	**16**	**28**	**2**	**826**

The table below provides a breakdown of the original exposures by residual maturity and asset class:

31 Dec 2018	Up to 3 months	More than 3 months	Total
Asset Class	**€000**	**€000**	**€000**
Institutions	730	2	732
Corporates	57	5	62
Other Items	-	32	32
Total	**787**	**39**	**826**

The following table illustrates the original exposures by industry sector and asset class:

31 Dec 2018	Financial / Banking sector	Other	Total
Asset Class	**€000**	**€000**	**€000**
Institutions	732	-	732
Corporates	51	11	62
Other Items	-	32	32
Total	**783**	**43**	**826**

Use of External Credit Assessments Institutions' ("ECAI") Credit Assessments for the determination of Risk Weights

The Company uses external credit ratings from Moody's for determining the risk weight of exposures belonging to all relevant asset classes.

Exposures to rated institutions are risk weighted based on the credit assessment of the institution itself and the residual maturity of the exposure as per Article 120 of the Regulation. Exposures to unrated institutions are assigned a risk weight according to the Credit Quality Step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned, as specified in Article 121 of the Regulation. Preferential treatments are also applied for short term exposures to institutions, as per Articles 119 and 121 of the Regulation.

Exposures to unrated corporate clients are risk weighted with 100% or 150% based on the country of incorporation of the counterparty.

The Other Items category includes property, plant and equipment and cash in hand. A risk weight of 100% was applied to Other Items, with the exception of cash at hand, for which a 0% risk weight factor was assigned.

The Company has used the credit step mapping table below to map the credit assessment to Credit Quality Steps:

Credit Quality Step	Moody’s
1	Aaa to Aa3
2	A1 to A3
3	Baa1 to Baa3
4	Ba1 to Ba3
5	B1 to B3
6	Caa1 and below

Exposures before and after Credit Risk Mitigation by Credit Quality Step:

31 Dec 2018	Exposure amount before Credit Risk Mitigation	Exposure amount after Credit Risk Mitigation
Credit Quality Step	**€000**	**€000**
5	731	731
Unrated	58	58
Not Applicable	37	37
Total	**826**	**826**

Counterparty Credit Risk

Counterparty Credit Risk is the risk that the counterparty to a derivative transaction could default or deteriorate in creditworthiness before the final settlement of a transaction, or project.

The Company is exposed to Counterparty Credit Risk from its open positions in financial instruments. The Counterparty Credit Risk exposure in derivatives is calculated using the “Mark-To-Market Method” as the sum of the current replacement cost and potential future credit exposure.

The minimum capital requirement calculated for the Company's open derivative positions as at 31 December 2018 was €4 thousand, as shown in the table below:

31 Dec 2018	Positive Fair Value	Nominal Value	Exposure Amount before CRM	Exposure Amount after CRM	Risk Weighted Assets	Capital Requirements
Type of exposure	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
FX Derivatives	23	23	23	23	23	2
Equity Derivatives	21	25	23	23	23	2
Total	**44**	**48**	**46**	**46**	**46**	**4**

Policies with respect to wrong-way risk

Wrong-way risk occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty, i.e. changes in market rates have an adverse impact on the probability of default of a counterparty. The Company considers that as at 31 December 2018, its exposure to wrong-way risk was insignificant.

Impairment on financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to:
- Financial assets measured at amortised cost;
- Debt investments measured at Fair Value through Other Comprehensive Income;
- Contract assets;
- Lease receivables; and
- Loan commitments and financial guarantee contracts issues.

The new impairment model does not apply to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:
- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when:

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

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

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

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

8 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of Market risk management is to manage and control Market risk exposures within acceptable parameters, while optimising the return.

Equity Risk

Equity risk is the risk of loss resulting from fluctuations in the price of stocks or changes that relate to the issuer of a share or the stock market in general. As at 31 December 2018 the Company's capital requirements due to Market Equity Risk were €2 thousand.

Commodity Risk

Commodity risk arises from open positions of the Company in commodities and precious metals except gold. As at 31 December 2018 the Company was not exposed to Commodity Risk.

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. This risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's reporting currency (i.e. the Euro).

As at 31 December 2018, the Company was not subject to any capital requirements for Market Foreign exchange risk since its assets and liabilities denominated in other currencies were minimal and did not exceed the threshold of the 2% of its Own Funds in accordance with Article 351 of the Regulation.

Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors interest rate fluctuations on a continuous basis and acts accordingly. At the reporting date the Company did not have significant interest-bearing financial instruments triggering Interest rate risk.

Liquidity Risk

Liquidity risk 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 has procedures with the object of minimizing such losses, such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

In order to manage its Liquidity risk the Company has established procedures that enable it to monitor on a daily basis its cash flows, open positions exposures, daily trading limits and to ensure that it has sufficient cash to meet any operational expenses that arise.

The Dealing on Own Account Department has the responsibility to monitor the total exposure of the Company's Trading Book positions and to secure that the pre-defined position limits (instrument structuring), duration limits (bucketing), sensitivity limits and stop-loss limits are adhered to at all times, where in the cases in which the set limits are reached, the Dealing on Own Account Department has the necessary autonomy to take measures aiming to keep the Company's exposure within the predefined limits, by opening new or managing the existing hedging positions of the Company within the pre-defined position limits.

Furthermore, the Accounting function of the Company is monitoring on a daily basis the Company's credit limits (counterparty exposure) and Trading Book exposure, to secure that the capital adequacy requirements are considered at all times and that the Clients' account balances are kept at all times sufficiently funded, where the Clients' account balances exceed the Clients' equity. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

9 Operational Risk

Operational risk is the risk that derives from the deficiencies relating to the Company's information technology and control systems as well as the risk of human error and natural disasters.

The Company's exposure to Operational risk is limited to the extent of its current scale and complexity. The Company has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report Operational risk. Overall planning, coordination and monitoring are centralized, however, most operational risks are managed within the departments in which they arise. In addition to its overall framework, in order to mitigate Operational risks, the Company has specific processes and systems in place to focus continuously on high priority operational matters such as information security, managing business continuity and combating fraud.

The Company calculates its Operational risk using the Basic Indicator approach, based on which it has calculated a minimum capital requirement of €16 thousand.

The table below shows the Company's exposure to Operational Risk as at 31 December 2018:

31 Dec 2018	**Year 1**	**Year 2**	**Year 3**	**Average**
	€000	**€000**	**€000**	**€000**
Total Net Income from Activities	107	18	198	**108**
Minimum Capital Requirement (15% of Average Net Income)	**16**			

10 Other Risks

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 arising from exposures to each counterparty, including central counterparties, groups of connected counterparties and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of Credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures such as a single collateral issuer, must be addressed and controlled including by means of written policies and procedures.

Reputation Risk

The Company is exposed to Reputational risk which arises from an act or omission by the Company or any of its employees which could result in damage to the reputation or loss of trust among its stakeholders. This may result in a reduction of its clientele, reduction in revenue and legal cases against the Company.

In order to manage the Reputational risk the Company is creating a positive culture of strict compliance with laws and regulations, and ensures that it is responsive to market changes. Moreover, the creation of a strong control environment and superior quality, time, cost and innovation performance in the marketplace over time contribute significantly to a sustainable reputation.

Strategic Risk

Strategic risk could occur from poor strategic business decisions which are taken and implemented by the Company. A strategy is a long-term plan of action designed to allow the Company to achieve its goals and aspirations. Strategic risk can arise from inadequate assessment or improper implementation of the Company's plans/strategy and unexpected changes to assumptions underlying these plans/strategy.

The Company assesses the implications of strategic decisions on risk-based return measures and risk-based capital in order to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

Business Risk

Business risk arises due to probable losses that may be incurred by the Company during unfavorable market conditions, thus having a current and/or future possible impact on earnings or capital from adverse business decisions and/or lack of responses to industry changes by the Company.

Compliance & Legal Risk

Compliance & Legal risk is the current and prospective risk arising from violations of, or non-conformance with, laws, bylaws, regulations, prescribed practices, internal policies and procedures, or ethical standards. This risk exposes the Company to, among others, financial loss, fines, civil money penalties, payment of damages and the voiding of contracts. Compliance & Legal risk is intertwined with Reputation risk since non-compliance may harm the Company's reputation and as such reduce the Company's value, restrict business opportunities and result in an inability to enforce contracts.

The Company has in place a Compliance function that establishes, implements and maintains procedures that detect the risk of the Company failing to comply with its legislative obligations, measures to minimize its risk of compliance and to assist CySEC in effectively exercising its powers. This function operates independently, monitors and assesses the adequacy and effectiveness of the internal compliance policies and procedures and the actions taken to address any deficiencies. It also acts as an information point to the Company's employees with reference to the Company's legislative obligations.

The Company aims to minimize Legal & Compliance risk to the lowest possible level and, as such, the Company’s management has reviewed and examined in detail the Internal Auditor’s and Compliance Officer’s recommendations and shall take all necessary remedy measures/actions in order to fully comply with the regulatory framework.

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. Policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus protection. Materialization of this risk has been minimized to the lowest degree possible.

11 Remuneration policy

The Remuneration policy and practices of the Company are designed by the Senior Management with the involvement of the Compliance Officer. They are approved by the Board with the assistance and advice of the Compliance Officer. The Remuneration policy is binding for the Board. Any departure from the policy shall be recorded and reasoned in the Board's minutes.

The Remuneration policy and system and their practical operation shall be reviewed by the Board on a regular basis, at least once a year and shall be amended if necessary. The Management of the Company shall ensure that any changes to the policy are properly communicated, documented and implemented.

Components of the Remuneration Package

At the annual performance and appraisal interview, the individual employees and managers evaluate and document performance in the past year and set new goals. When evaluating the performance, qualitative rather than quantitative criteria are used. Decisions on adjustment, if any, of the employee's fixed salary or on annual performance-based pay are made on the basis of this appraisal.

The various remuneration components are combined to ensure an appropriate and balanced remuneration package.

The five remuneration components are:
- Fixed remuneration (including fixed supplements);
- Performance-based remuneration (variable salary);
- Pension schemes, where applicable;
- Other benefits in kind, where applicable; and
- Redundancy payment, where applicable.

The fixed component is determined on the basis of the role and position of the individual employee, including professional experience, responsibility, job complexity and local market conditions.

The performance-based remuneration motivates and rewards high performers who significantly contribute to sustainable results, perform according to set expectations, strengthen long-term customer relations, and generate income and shareholder value. The Company's policy is to determine the variable remuneration based on quantitative and qualitative criteria with emphasis on the qualitative criteria that encourage the employees to act in the best interest of the Clients and in compliance with the conduct of business rules.

Performance-based remuneration is based on an assessment of the Company's results and a number of Key Performance Indicators (KPIs) reflecting the Company's strategic key priorities.

For instance, the KPIs cover the following:

- Profit before tax (taking into account the deposits made by Clients, trading volume generated, number of clients on-boarded, etc.);
- Assessment of risk-adjusted return;
- Costs;
- Customer satisfaction; and
- Compliance with internal business procedures, where the level of compliance with the Company's rules and regulations is evaluated and rewarded accordingly.

The contribution of each employee towards the achievement of the Company's goals is assessed against a number of KPIs, where the Compliance Officer’s view is required on the assessment process, and more specifically on the employee's performance related to the customer satisfaction and compliance with internal policies and procedures. The assessment process regarding these two qualitative KPIs is continuous, where employees' professional behavior and performance are assessed throughout the year, including through investigation on their business call records and business correspondence. The Company will not remunerate the performance of its own staff when the activities to be remunerated are executed in a way that conflicts with the Company's duty to act in the best interests of its clients.

As an additional measure mitigating conflicts of interest, the Company will be deferring part of the variable remuneration of its employees subject to a retention condition. For this purpose a deferral schedule is maintained. The deferral schedule is defined by different components: (a) the time horizon of the deferral, (b) the proportion of the variable remuneration that is being deferred, (c) the speed at which the deferred remuneration vests (vesting point), (d) the time span from the accrual until the payment of the first deferred amount and (e) the form of the deferred variable remuneration.

Members of the Board of Directors, both Executive and Non-Executive, shall receive a fixed, monthly payment in accordance with the decision of the Annual General Meeting of the Company. The Board shall submit a proposal on the fee for the upcoming operating year, taking into account the extent of responsibilities and time commitment, the results of the Company and benchmark data on fees paid by European companies, which in size and complexity are similar to those of the Company. The Compliance Officer and the Money Laundering Compliance Officer shall receive a fixed monthly payment, where no variable remuneration shall awarded.

During 2018, no remuneration was payable under deferral arrangements (with vested or unvested portions), except for the sales team’s variable remuneration, for which the Company has set a one-month retention period to vest, subject to retention conditions being both quantitative and qualitative with emphasis on the quality of services offered to clients and the level of compliance with rules and regulations. After the month-end employee performance was evaluated against the qualitative and quantitative conditions set and based on the employee’s results the variable remuneration was awarded. The variable remuneration was paid in full following the expiration of the deferral period.

Furthermore, no severance or sign-on payments were made during the year, while the variable remuneration paid was in the form of cash and did not exceed 100% of the employees’ fixed remuneration component.

The remuneration of the personnel whose actions had a material impact on the risk profile of the Company during 2018, is shown in the following tables:

31 Dec 2018	Number of Beneficiaries	Fixed Remuneration	Variable Remuneration	Total Remuneration
		€000		
Senior management (incl. Directors and Heads of functions)	13	233	1	**234**
Other staff whose actions have a material impact on the risk profile of the institution	-	-	-	-
Total	**13**	**233**	**1**	**234**

31 Dec 2018	Aggregate quantitative information on remuneration
Business Area	**€**
Executive Directors, Non-Executive Directors & Control Functions	152
Sales & Dealing Desk Departments	43
Marketing, Back Office & Support Departments	39
Total	**234**

12 Leverage Ratio

An underlying cause of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the financial system. In many cases, institutions built up excessive leverage while apparently maintaining strong risk-based capital ratios. At the height of the crisis, financial markets forced the banking and financial services sector to reduce its leverage in a manner that amplified downward pressures on asset prices. This deleveraging process exacerbated the feedback loop between losses, falling bank capital and shrinking credit availability.

The Basel III framework includes a simple, transparent, non-risk based Leverage Ratio which acts as a credible supplementary measure to the risk-based capital requirements.

The 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 of 10 October 2014 amending the Regulation with regards to the Leverage Ratio. The Company calculates its Leverage Ratio at the end of each quarter.

The minimum requirement for the purposes of the Leverage Ratio is currently set to 3%. The Company's Leverage Ratio as at 31 December 2018 was 90,94%.

The table below provides a reconciliation between accounting assets and Leverage Ratio exposures:

31 Dec 2018	**Applicable Amounts**
Reconciliation between accounting assets and Leverage Ratio exposures	**€000**
Total assets as per published financial statements	840
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
Adjustments for derivative financial instruments	46
Adjustments for securities financing transactions "SFTs"	-
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
Other adjustments	(60)
Total Leverage Ratio exposure	**826**

The following table provides a breakdown of the Leverage Ratio exposure measure by exposure type:

31 Dec 2018	**Leverage Ratio exposures**
Breakdown of Leverage Ratio exposure measure by exposure type	**€000**
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	840
(Asset amounts deducted in determining Tier 1 capital)	(60)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**780**
Derivative exposures	
Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	44
Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	2
Total derivative exposures	**46**
Securities financing transaction exposures	
Total securities financing transaction exposures	**-**
Other off-balance sheet exposures	
Other off-balance sheet exposures	**-**
Capital and total exposures	
Tier 1 capital	**751**
Total Leverage Ratio exposures	**826**
Leverage Ratio	**90,94%**

The table below provides a breakdown of total on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by asset class:

31 Dec 2018	**Leverage Ratio exposures**
Breakdown of total on balance sheet exposures by asset class	**€000**
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**780**
Trading book exposures	-
Banking book exposures, of which:	780
Exposures treated as sovereigns	
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	
Institutions	*732*
Retail exposures	
Corporate	*16*
Exposures in default	
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	*32*

Description of the processes used to manage the risk of excessive leverage

The Leverage Ratio is determined and monitored on a quarterly basis based on the calculations performed for the purposes of Pillar I. Furthermore, it is the Company's intention to consider the impact on the Leverage Ratio while making relevant capital adequacy calculations under Pillar II.

Factors that had an impact on the Leverage Ratio during the period

The Leverage Ratio of the Company over the financial year 2018 ranged between 84,17% recorded in June (minimum) and 94,38% recorded in March 2018, with an average rate of 90,91%. The reason for this fluctuation is the decrease in the Company's exposure Tier 1 capital from March to June 2018.