



Your Social Investment Network

**Disclosures in accordance with Capital Requirements Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (the “Disclosures”) as at 31 December 2020**



## Table of Contents

<b>1. INTRODUCTION</b> .....	<b>5</b>
1.1. Corporate Information .....	5
1.2. Pillar III Regulatory Framework .....	5
1.2.1. Basis of Disclosures .....	5
1.2.2. Frequency, Means and Verification of Disclosures .....	6
1.3. Operating Environment and Covid-19 .....	6
<b>2. RISK MANAGEMENT, OBJECTIVES AND POLICIES</b> .....	<b>6</b>
2.1 Risk Management Framework and Governance .....	7
2.2 Risk Governance and Board Committees .....	7
2.2.1 The Board of Directors .....	7
2.2.2 Risk Management Committee .....	8
2.2.3 Nomination and Remuneration committee .....	9
2.2.4 Investment Committee .....	9
2.3 Risk Governance and Lines of Defense .....	9
2.3.1 First Line of Defense .....	9
2.3.2 Second Line of Defense .....	10
2.3.3 Third Line of Defense .....	11
2.4 Governance Arrangements .....	11
2.4.1 Number of Directorships .....	11
2.4.2 Recruitment Policy .....	12
2.4.3 Training .....	12
2.4.4 Diversity Policy .....	12
2.4.5 Reporting and Information Flow .....	13
2.5 Risks and Mitigating Controls .....	13
2.5.1 Credit Risk .....	13
2.5.2 Counterparty Credit Risk .....	14
2.5.3 Operational Risk .....	14
2.5.3.1 Online fraud risk .....	14
2.5.3.2 Information Technology Risk .....	15
2.5.4 Market Risk .....	16
2.5.4.1 Foreign Exchange Risk .....	17
2.5.4.2 Commodity Risk .....	17
2.5.4.3 Equity Risk .....	17
2.5.4.4 Cryptocurrency Risk .....	17
2.5.4.5 Interest Rate Risk .....	17
2.5.4.6 Funding Liquidity Risk .....	17



2.5.5	Regulatory Risk	18
2.5.5.1	Money Laundering and Terrorist Financing Risk	18
2.5.5.2	Regulatory Compliance Risk	18
2.5.5.3	Business Risk	18
2.5.6	Group Risk	19
2.5.7	Reputation Risk	19
2.6	Board Declaration	19
3.	SCOPE OF APPLICATION	20
4.	OWN FUNDS	23
5.	CAPITAL REQUIREMENTS	26
6.	MACROPRUDENTIAL SUPERVISORY MEASURES & CAPITAL BUFFERS	27
7.	CREDIT RISK AND CREDIT RISK MANAGEMENT	29
7.1	Past due and Impaired Exposures	29
7.2	Total and average net exposures by exposure class	29
7.3	Net exposures by geographical areas and exposure classes	30
7.4	Net exposures by residual maturity and exposure classes	31
7.5	Net exposures by counterparty type and exposure classes	31
7.6	Credit quality of exposures by exposure class and instrument	32
7.7	Credit quality of exposures by counterparty types	33
7.8	Credit quality of exposures by geography	33
7.9	Credit risk exposure and CRM effects	34
7.10	Analysis of CCR exposure by approach	35
7.11	CVA capital charge	35
7.12	Impact of netting and collateral held on exposure values	36
8.	USE OF EXTERNAL CREDIT ASSESSMENT INSTITUTIONS AND CREDIT AGENCIES	37
9.	LEVERAGE RATIO	38
9.1	Leverage Ratio Definition	38



9.2	Management of Excessive Leverage.....	38
9.3	Leverage Ratio .....	38
10.	REMUNERATION POLICY AND PRACTICES .....	41
10.1	Remuneration System & Policy .....	41
10.2	Remuneration Committee .....	41
10.3	Fixed and Variable Remuneration .....	41
10.4	Performance Appraisal .....	42
10.5	Aggregate Quantitative Information .....	43
11.	APPENDICES .....	44
11.1.	APPENDIX I: CAPITAL INSTRUMENTS MAIN FEATURES .....	44
11.2.	APPENDIX II: REFERENCES TO CAPITAL REQUIREMENTS REGULATION (“CRR”) .....	46
11.3.	APPENDIX III: SPECIFIC REFERENCES TO EBA GUIDELINES PUBLISHED ON 14 DECEMBER 2016 – V2 AMENDED ON 9 JUNE 2017 .....	50
11.4.	APPENDIX IV: GLOSSARY .....	51



## **1. INTRODUCTION**

### **1.1. Corporate Information**

Etoro (Europe) Limited (the "Company") was incorporated in Cyprus on 26 May 2007 as a private limited liability Company under the Cyprus Companies Law, Cap.113. The Company is an authorized Cyprus Investment Firm ("CIF"), regulated by the Cyprus Securities and Exchange Commission ("CySEC").

The Company holds a license as a CIF from CySEC (CIF 109/10 dated 14 January 2010). The CIF license permits the Company to provide the investment services of reception and transmission of orders, in relation to one or more financial instruments, execution of orders on behalf of clients, dealing on own account, portfolio management and investment advice. The Company is also licensed to provide the ancillary service of safekeeping and administration of financial instruments, including custodianship and related services. The assets covered are stocks, exchange traded funds ("ETF") as well as contracts for difference ("CFD") on foreign exchange, commodities, indices, stocks and exchange traded funds. The Company deals with its clients as principal counterparty. The CIF license was amended in June 2017 and the Company commenced offering clients the ability to open positions in crypto currencies. The Company offers both crypto-currency coins and crypto-currency CFDs.

For further details on the license information of the Company refer to <http://www.cysec.gov.cy/en-GB/entities/investment-firms/cypriot/37683/>.

### **1.2. Pillar III Regulatory Framework**

#### **1.2.1. Basis of Disclosures**

The Disclosures have been prepared in accordance with the following:

- Part Eight of Regulation (EU) No 575/2013, known as the Capital Requirements Regulation on prudential requirements for credit institutions and investment firms ("CRR");
- Regulation (EU) 2015/1555 in relation to the compliance of institutions with the requirement for a countercyclical capital buffer;
- Regulation 1423/2013 with regard to disclosure of own funds requirements;
- Commission Implementing Regulation 2016/200 laying down Implementing Technical Standards ("ITS") regarding disclosure of the leverage ratio for institutions, and;
- European Banking Authority's ("EBA") Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11, version 2) issued in December 2016.

The CRR and the European Union's Capital Requirements Directive 2013/36/EU, collectively known as "CRD IV", are transposed and implemented into local legislation through the Directive DI144-2014-14 for the prudential supervision of Investment Firms and Directive DI144-2014-15 on the discretion of the Cyprus



Securities and Exchange Commission arising from Regulation (EU) No 575/2013, issued by CySEC and entered into force on 19 December 2014.

These Disclosures present the evaluation and management of the various risks faced by the Company during the year ended 31 December 2020. As part of these disclosures, the Company presents amongst other, information on its capital structure, regulatory capital requirements, leverage and means of managing excessive leverage.

The Company makes the disclosures on a solo basis. Information in the Disclosures is presented in thousands of US Dollars ("US\$"), unless otherwise indicated.

### **1.2.2. Frequency, Means and Verification of Disclosures**

The Disclosures were approved by the Board of Directors (the "Board" or "BoD"), approving the adequacy of risk management arrangements of the Company and providing assurance that the risk management systems in place are adequate with regards to the Company's profile and strategy.

These Disclosures are prepared in accordance with the Company's formal Pillar 3 policy, the key elements of which are described subsequently in this Report. The Pillar 3 policy of the Company is prepared in accordance with Article 431 of the CRR and sets out the internal controls and procedures for the disclosure of the information laid down in these Disclosures.

The Company publishes the Pillar III disclosures on an annual basis on its website and can be found at: <https://www.etoro.com/en/customer-service/regulation-license/>.

### **1.3. Operating Environment and Covid-19**

The rapid development of COVID-19 outbreak resulted in the world entering in a period of unprecedented health care crisis, causing significant disruption to business and economic activity. It is an emerging risk that the Company is monitoring closely and assesses the range of possible impacts and will continue to respond to the situation as it evolves. The Management of the Company has considered the unique circumstances that could have a material impact on the business operations and the risk exposures of the Company and has concluded that COVID-19 did not negatively affect the Group in terms of operations, liquidity and profitability. The Management has already taken the necessary measures to ensure that the Company's activity will continue as normal and be able to meet the needs of its customers. The Company will continue to monitor the situation closely and assess additional measures. If significant events do materially affect the operations of Company, the directors are confident that the company can take actions to limit exposures and liabilities

## **2. RISK MANAGEMENT, OBJECTIVES AND POLICIES**

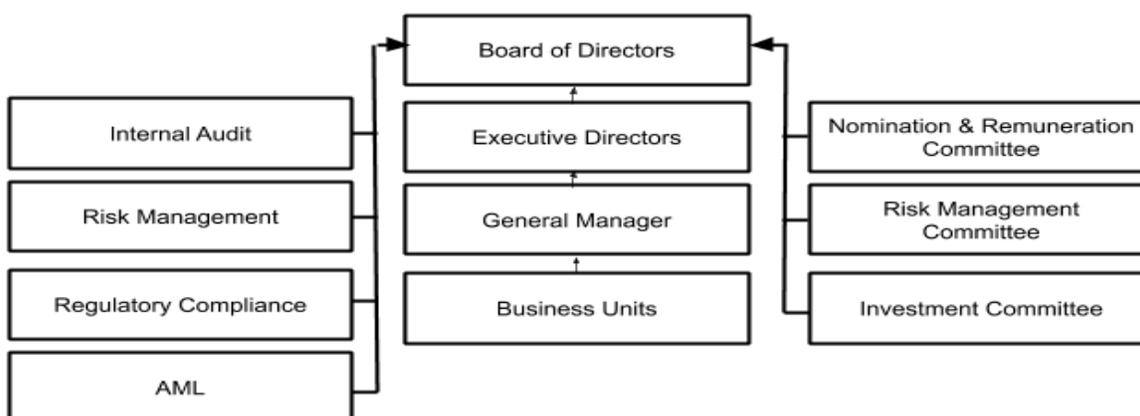


## 2.1 Risk Management Framework and Governance

Managing risk effectively in a multifaceted organization, operating in a continuously changing risk environment, requires a strong risk management function (“RMF”). To this end, the Company has established an effective risk oversight structure and the necessary internal organizational controls to ensure that the Company identifies and manages its risks adequately, establishes the necessary policies and procedures, sets and monitors relevant limits and complies with the relevant legislation. In this respect, the Board and Senior Management of the Company are satisfied that the Risk Management framework is appropriate given the risk profile of the Company and its strategy.

The management and BoD recognize that risk is embedded in all activities of the Company. Hence the Company supports the implementation of a risk management framework, as described in the following section. In this respect, the Company has established relevant Risk Appetite and Risk Assessment procedures. The BoD and the Management accept a required level of risk to achieve the required level of return, considering the risk identification assessment procedures performed.

The Risk Management structure of the Company is depicted in the following diagram:



## 2.2 Risk Governance and Board Committees

The purpose of the Company’s committees, described in detail below, is to assist the BoD in identifying and managing the risks faced by the Company. Even if the Board deems necessary to provide these committees with the power to act upon the identified risks, so as to ensure effective, efficient and timely management of those risks, the ultimate responsibility does not lie to the committee itself. Ultimately, the responsibility of risk management lies with the Board.

### 2.2.1 The Board of Directors



Risk management is embedded in the Company's strategy and decision-making process. The Board comprehends and abides the multidimensional nature of risk. The BoD's responsibility against risk management is to set the risk appetite and ensure that the risk management framework is appropriate and effective.

The BoD ensures, on an ongoing basis, that the risk management framework in place monitors the process of identifying, evaluating, managing and reporting the risks faced. The BoD reviews and challenges the systems and controls in place. Policies and procedures relating to risk management are presented and approved by the BoD as the ultimate risk responsibility is borne by the BoD. The Internal Capital Adequacy Assessment Process (ICAAP) is examined by the Board and has a direct effect on the decision making of the BoD.

### **2.2.2 Risk Management Committee**

The Risk Management Committee ("RMC") advises the BoD on the Company's overall risk appetite and strategy and assists the BoD in overseeing the implementation of that strategy by Senior Management (SM). It is the BoD that retains the overall responsibility of risk management.

The RMC collaborates with other committees, whose activities have an impact on the risk strategy of the Company, and regularly communicates with the internal control functions, such as the Risk Management function ("RMF"). The scope of the RMC covers the following:

- Advice and support of the BoD and SM in its supervisory function, regarding the monitoring of the Company's overall actual and future risk appetite and strategy, by taking into account all types of risks, to effectively ensure these risks are in line with the Company's business strategy, objectives, corporate culture and values;
- Assist the BoD and SM in its supervisory function by overseeing the implementation of the Company's risk strategy and by establishing the corresponding risk limits;
- Overseeing the implementation of the strategies in regard to the capital and liquidity management and other relevant risks, in order to assess their adequacy against the approved risk appetite, limits and overall strategy.
- Provide the management body with recommendations on necessary adjustments to the risk strategy resulting from, inter alia, changes in the business model of the Company, market developments or recommendations made by the RM function;
- Provide advice on the appointment of external consultants, that the supervisory function may decide to engage for advice or support;
- Review various possible scenarios, including among other scenarios in stressed conditions, and assess how the Company's risk profile would respond in such, external and internal, events;
- Oversee the alignment of all material financial products and services offered to clients with the Company's business model and risk strategy. Assess the risks associated with the offered financial products and services and consider the alignment between the prices assigned to and the profits gained from those products and services;



- Assess the recommendations of internal or external auditors and follow up on the appropriate implementation of measures taken.
- Examine whether incentives provided by the remuneration policies and practices take into consideration of the Company's risk, capital and liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the remuneration committee.

During 2020, the committee met 4 times.

### **2.2.3 Nomination and Remuneration committee**

The Company has a designated Nomination and Remuneration Committee with main objective to ensure that all organizational units of the Company are staffed by competent and skilled people. Further information on the Nomination and Remuneration Committee is included in Section 2.4.2, 10.2 and 10.4. of the Disclosures.

### **2.2.4 Investment Committee**

The Company has an established Investment Committee with main objective the strengthening of the internal control system and reinforcement of a sound and robust corporate governance framework. The Investment Committee is formed to ensure the practice of a proper investment policy and the monitoring of the provision of adequate investment services to clients. The scope of the Investment Committee covers the following:

- Advise and assist the BoD in relation to the portfolios offered to clients.
- Review and approve the existing investment offerings of the Company.
- Communicate adjustments in the investment offering if deemed needed. The portfolios are evaluated in terms of their performance, invested amount and the number of clients invested in each portfolio.

## **2.3 Risk Governance and Lines of Defense**

### **2.3.1 First Line of Defense**

#### **Senior Management**

The Company's SM has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks within their domains. Upon emergence of new threats, it is the responsibility of the senior management to inform the other lines of defense as well as the BoD.

The risk and control activity per Business Unit of the Company is described in the table below as follows:



Business Units	Risk and Control Activity
<b>Account Management &amp; Operations</b>	Responsible for on-boarding and maintaining client accounts.
<b>Trading Desk</b>	Responsible for managing and monitoring all actions relating to client executions and exposures.
<b>Finance</b>	Responsible for monitoring and reporting on the adequacy of capital and liquidity, large exposures, leverage ratios, asset encumbrance and client money.
<b>Information Technology</b>	Responsible for managing the defense from external attacks and smooth operation of systems.

### 2.3.2 Second Line of Defense

#### **Risk Management Function**

The Company has an established Risk Management Function (RMF) which has adequate authority, stature and resources to introduce appropriate and effective risk management policies covering the Company's management framework. The RMF is independent of the business lines whose risks are controlled, even though there is sufficient interaction to enable monitoring and collaboration. It is the responsibility of RMF to ensure that effective risk management processes are in place, by being involved in all material risk management decisions. The RMF provides relevant independent information, analyses and judgement per type of risk, and guides risk related decisions and proposals made by the rest of the Company.

The scope of the RMF covers the identification, quantification, management, reporting and monitoring of risks. All risks are identified and analyzed both on a qualitative and quantitative perspective. In addition, the monitoring of risks from business units is also monitored and suggestions are provided on how to enhance it further. The RMF assess the robustness, sustainability and applicability of the risk strategy and appetite. Furthermore, risk appetite is monitored in terms of appropriate translation into risk limits and metrics. It is within the scope of the RMF to raise flags when SM is not acting in line with the Company's risk appetite. The function, if deemed necessary, recommends enhancements to the risk management framework and corrective measures to remedy potential breaches of risk policies, procedures and limits.

#### **Compliance Function**

The Company has established a Compliance Function (CF) to tackle compliance related risks. The CF is independent of the business lines whose risks are controlled, even though there is sufficient interaction with the business units to enable monitoring and collaboration. The function has implemented a well-documented compliance policy, which has been communicated to all the Company's staff. The compliance function has established a process which regularly assess changes in the applicable laws and regulations. In addition, the scope includes the guidance of the management body on measures to be taken to ensure compliance with applicable laws, rules, regulations and standards, and assessment of possible impacts from changes in the legal or regulatory environment on the Company's activities and compliance framework.

#### **Anti-Money Laundering Function**



Anti-Money Laundering Function (AMLF) of the Company is a designated unit that manages and monitors the controls applied to clients' account profiles and transactions and has the responsibility for the application of the practices, measures, procedures and controls related to the prevention of money laundering, terrorist financing and adherence of sanctions restrictive requirements. Furthermore, AMLF is responsible for applying appropriate monitoring mechanisms for anti-money laundering (AML) compliance, examining and evaluating cases according to determined risk-based approach, developing AML program and raising awareness of staff through AML trainings across the Company and ensure appropriate reporting of AML issues to BOD in timely manner. AMLF's internal controls include those policies, procedures, and processes designed to mitigate the risks of money laundering and support compliance with AML regulations in accordance with relevant jurisdiction. AMLF is aiming to deter, detect and protect the Company and all its stakeholders by implementing appropriate monitoring measures and an AML program.

### **2.3.3 Third Line of Defense**

#### **Internal Audit Function**

The Internal Audit Function (IAF) in the Company is independent, has sufficient authority, stature and resources. The IAF is following a risk-based approach to review and provide objective assurance of the compliance of all activities and units of the Company. The IAF is not involved in the design, selection, establishing and implementation of control policies, procedures and risk limits. However, it should be noted that the SM requests feedback and suggestions when it deems necessary. The scope of the function dictates the assessment of the governance framework and whether the current policies and procedures are adequate and compliant with the regulatory framework. In addition, the alignment of the relevant policies and procedures with the risk appetite and the strategy dictated from the BoD should also be evaluated. The extent of the correct implementation of procedures as well as the adequacy, applicability and effectiveness of the controls introduced are evaluated by the IAF. The function does not only monitor the business units of the Company but also the Compliance, Anti-Money Laundering and Risk Management functions.

## **2.4 Governance Arrangements**

### **2.4.1 Number of Directorships**

According to Article 435(2a) of the CRR, companies shall disclose, at least on an annual basis, the number of directorships held by the members of the management body. In accordance with Section 9 of the Investment Services and Activities and Regulated Markets Law of 2017 (the "Investment Services Law") the number of directorships which may be held by a member of the board of directors of a CIF, shall not hold more than one of the following combinations of directorships at the same time:

- (a) one executive directorship with two non-executive directorships;
- (b) four non-executive directorships.



Executive or non-executive directorships held within the same group shall count as a single directorship, as per the provisions of the Investment Services Law. During 2020, the 6 directors of the Company held the following directorships, in compliance with the provisions of the Investment Services Law:

#### **Pending confirmation**

- **2 directors held 1 directorship**
- **2 directors held 2 directorships**
- **2 directors held 3 directorships**

All the Company's Directors have been approved by CySEC.

#### **2.4.2 Recruitment Policy**

The Company has a designated Nomination and Remuneration Committee and its objective is to ensure that all organizational units of the Company are staffed by competent and skilled people. During the executive hiring process, the following hiring criteria are taken into consideration: the morality and reliability (character) of the relevant person, the academic qualifications, the professional experience, possession of certificates of professional competence, where applicable and his/her potential to contribute to the business development of the Company.

In accordance with the requirements set by the Guidelines GD-IF-01 ("Guidelines for compliance with the authorization and operating conditions of CIF – Persons employed by CIF"), key persons employed by a CIF, including individuals employed in managerial or other key control positions, must meet the following criteria: good repute, skills, knowledge and expertise and a relevant academic title or degree or professional qualification and relevant experience.

#### **2.4.3 Training**

During the year, the Company's employees and directors, including the Risk Manager, attended courses on the applicable compliance legislation and its relevant procedures. In addition, the Risk Manager has attended, relevant with its function, workshops. The Board is updated on a regular basis on changes to CySEC regulations. During the year all the Company's employees completed training designed by reputable providers, in accordance with the CySEC training requirements.

#### **2.4.4 Diversity Policy**

The Company recognizes the benefits of having a Board that promotes diversity in its members. For the Company a diverse Board would effectively consist of Directors with a balanced set of different skills, experiences, background, race and gender. The Investment Services Law (Article 10 (2) (b) (ii)) requires institutions to set a target for the representation of the underrepresented gender in the BoD and the preparation of a policy on how to increase the number of the underrepresented gender in the BoD to achieve this target. The target, policy and their implementation shall be made public. At the date of this Report, the BoD has set the above required policy and aspires towards Board composition in which the



underrepresented gender comprises of at least one-third of the independent directors, even though no female member is currently appointed to the BoD.

#### 2.4.5 Reporting and Information Flow

The following table presents the Company's description of the information flow on risk to the management body.

Report Name	Report Description	Owner	Recipient	Frequency
Compliance Report	Annual Compliance Review	Compliance Officer	<ul style="list-style-type: none"> <li>BoD</li> <li>CySEC</li> </ul>	Annual
Internal Audit Report	Annual Internal Audit Review	Internal Auditor	<ul style="list-style-type: none"> <li>BoD</li> <li>CySEC</li> </ul>	Annual
Risk Management Report	Annual Risk Management Report	Risk Manager	<ul style="list-style-type: none"> <li>BoD</li> <li>CySEC</li> </ul>	Annual
Pillar III Report	Disclosure regarding the risk management, capital structure, capital adequacy and risk exposures of the firm	Risk Manager & Financial Controller	<ul style="list-style-type: none"> <li>BoD,</li> <li>CySEC</li> <li>Public</li> </ul>	Annual
Financial Statements	Audited financial statements of the Firm	Financial Controller	<ul style="list-style-type: none"> <li>BoD</li> <li>CySEC</li> </ul>	Annual
ICAAP Report	Assessment of the level of capital that adequately supports all relevant current and future risks of our business	Risk Manager & Financial Controller	<ul style="list-style-type: none"> <li>BoD</li> <li>CySEC (upon request)</li> </ul>	Annual
Capital Adequacy Report	Capital requirement calculation	Financial Controller	<ul style="list-style-type: none"> <li>Senior Management</li> <li>CySEC</li> </ul>	Quarterly

## 2.5 Risks and Mitigating Controls

### 2.5.1 Credit Risk

Credit risk is the risk that the Company may suffer losses, because of customers and/or counterparties defaulting on their contractual obligations. To limit credit risk, the Company performs due diligence prior conducting business with potential counterparties. Due diligence is also conducted on an ongoing basis, according to the due diligence policy. The Company also reviews and examines periodically the credit ratings as well as the Credit Default Swap ("CDS") spreads when available of the financial institutions and limits its assets according to the perceived risk of the institutions. Further to the above, the Company diversifies the credit risk and limits the amount of credit exposure according to the perceived credit quality.



## **2.5.2 Counterparty Credit Risk**

Counterparty credit risk (CCR) is the risk that a counterparty to a transaction could default before the final settlement of the transaction's cash flows. This may be a risk to the company, due to the holding of large amounts with counterparties, which might default and result in loss of some/ all of the balances. In order to mitigate CCR the Company performs due diligence and risk checks, as described in the previous section. There is also counterparty risk stemming from clients, which is relatively a more diversified risk. Customers may experience negative balances which the Company cannot recover.

The mandatory stop loss implementation in response to ESMA requirements has assisted in the mitigation of counterparty credit risk stemming from client negative balances. To mitigate further the counterparty credit risk arising from the customers, the Company has in place a margin call process.

The Company uses the Mark-To-Market methodology, measuring of the fair value based on quoted prices in active markets or observable inputs, to calculate its Counterparty Credit Risk.

## **2.5.3 Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behavior and systems or from external events. The following list presents some event types, included in operational risk, with some examples for each category:

- Internal Fraud: misappropriation of assets, embezzlement, bribery.
- External Fraud: theft of information, hacking damage, third-party theft and forgery.
- Employment Practices and Workplace Safety: discrimination, workers compensation, employee health and safety.
- Business Disruption & Systems Failures: utility disruptions, software failures, hardware failures.
- Execution, Delivery, & Process Management: data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets.

For the calculation of operational risk in relation to the capital adequacy returns, the Company uses the Basic Indicator Approach ("BIA"). Under the BIA, the own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator. The three-year average is calculated based on the last three twelve-monthly observations at the end of the financial year. Based on the relevant calculations in the Company's capital requirements, the figure calculated shows that the Company's minimum capital requirement due to operational risk as at 31 December 2020 was \$ 5,576 (31 December 2019 : \$2,793 thousands) (refer to Section 5 of the Disclosures).

### **2.5.3.1 Online fraud risk**



Online fraud could occur when clients illegally use credit cards or other online payment methods of others to fund their accounts with the Company. This risk exposes the Company to monetary loss and to potential implications with the credit cards' issuers.

To prevent and identify online fraud, the Company has developed risk identification tool to identify fraudulent transactions. To this end, the Company employs the Risk Rule Engine an automated alert and flagging system, as well as a semi-automated scoring system, whereby each deposit is scored according to internal fraud triggers. All flagged accounts are reviewed daily by dedicated risk analysts.

Following an alert by the Company's Risk Rule Engine, the Company investigates the relevant account(s) to establish whether the transaction(s) in question are indeed fraudulent. In case the Company concludes that fraud activity has been performed, the Company then refunds the funds to the original mean of payment.

In addition, credit card issuers have adopted credit card security guidelines as part of their ongoing efforts to prevent identity theft and credit card fraud. The Company continues to work with credit card issuers to ensure that its services, including customer account maintenance, comply with these rules. There can be no assurance, however, that the Company's services are fully protected from unauthorized access or hacking. When there is unauthorized access to credit card data that results in financial loss, there is the potential that the Company could experience reputational damage and parties could seek damages from the Company.

### **2.5.3.2 Information Technology Risk**

Information Technology (IT) risk could occur because of inadequate information technology and processing. Given the company's high reliance on IT systems and procedures, this security & systems failure risk (before mitigation factors) is deemed to be a high risk by the company. However, efficient controls are in place to reduce the risk.

Monitoring abilities with automatic escalation, including integration to advanced alerting system, that is consolidating all alerts to one center place, policies have been implemented. Regarding improved backup procedures, these now include 3 levels of backup full site replication of trading systems, replication of core systems to all sites, software maintenance, full redundancy in all site connections to the internet, by the use of multiple internet connections via multiple internet providers, hardware maintenance, improved security policies and training, use of the internet, anti-virus procedures and monitoring systems.

The Company understands that there are new attack vectors that are directed towards internal employees, therefore security awareness is in the highest importance. All employees are being educated to mitigate, detect and alert on such scenarios, and detection systems were added in order to be able to detect a potential infection. Once such infection was detected, it can be contained and problems can be mitigated. The Company pays attention to its data retention. To this end, the Company conducts frequent backups with respect to all the Company's IT systems for all types of data and information and stores these backups at multiple safe remote locations outside the Company's head offices and in different countries.



## 2.5.4 Market Risk

Market risk is the potential for loss resulting from unfavorable market movements, which would potentially affect the Company's profitability. The below risks are partially mitigated by hedging exposures exceeding the risk appetite of the firm. Limits per market risks are suggested by the trading department and approved by the Risk Management Committee or the BoD.

Market risk arises mainly from the following, all of which are summarized below and detailed subsequently in this section:

- Foreign exchange risk
- Commodity risk
- Equity risk
- Cryptocurrency risk
- Interest rate risk

For the calculation of the minimum capital requirement calculated under the Standardized Approach in accordance with Title IV: Own funds requirements for Market Risk of the CRR are exclusively related to, foreign exchange risk, commodity risk, equity risk and traded debt securities.

The table below presents the capital requirements, by risk category:

31 December 2020 (\$000)	RWAs	Capital requirements
<b>Outright products</b>		
Interest rate risk (general and specific)	15.527	1.242
Equity risk (general and specific)	194.788	15.584
Foreign Exchange Risk	76.788	6.143
Commodity Risk	30.941	2.475
<b>Options</b>		
Simplified Approach	-	-
Delta-plus method	-	-
Scenario Approach	-	-
Securitization (specific risk)	-	-
<b>Total</b>	<b>318.055</b>	<b>25.444</b>

*Table 1: Market risk under the standardized approach (EU MR1) - 2020*

31 December 2019 (\$000)	RWAs	Capital requirements
<b>Outright products</b>		
Interest rate risk (general and specific)	810	65
Equity risk (general and specific)	137.897	11.032
Foreign Exchange Risk	65.379	5.230
Commodity Risk	85.695	6.855
<b>Options</b>		
Simplified Approach	-	-
Delta-plus method	-	-
Scenario Approach	-	-
Securitization (specific risk)	-	-
<b>Total</b>	<b>289.781</b>	<b>23.182</b>



**Table 2: Market risk under the standardized approach (EU MR1) - 2019**

#### **2.5.4.1 Foreign Exchange Risk**

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of loss to a particular currency pair as well as through the utilization of sensitivity analysis (e.g. Value at Risk).

#### **2.5.4.2 Commodity Risk**

Commodity Risk arises from the positions of the Company in derivative contracts for which the underlying instruments are commodities. Commodity risk refers to the uncertainties of future market values, caused by the fluctuations in the prices of commodities.

#### **2.5.4.3 Equity Risk**

Equity risk is the risk that the price of one's equity investments will depreciate due to factors relating to the equity's issuer or to a broad equity market movement.

#### **2.5.4.4 Cryptocurrency Risk**

Cryptocurrency risk is the risk that the price of one's cryptocurrency investments will depreciate due to factors relating to the issuer or to a broad cryptocurrency market movement. eToro (EU) acts as agent for the execution of such assets thus there is no market risk emerging from client exposures rather than own positions.

#### **2.5.4.5 Interest Rate Risk**

Interest rate risk is the risk that the value of financial instruments (including currencies) will fluctuate due to changes in the market interest rates. The Company's income and operating cash flows are substantially independent from changes in market interest rates since the Company is not exposed directly to any interest rate bearing instruments, other than cash at bank which attract interest at normal commercial rates.

#### **2.5.4.6 Funding Liquidity Risk**

Liquidity risk may emerge in the form of insufficient liquid assets to meet liabilities as they fall due. The risk may materialize due to a mass exodus of clients resulting in large number of withdrawals, account closures and decrease in trading volumes. Another source of liquidity risk is liquidity providers increasing their margin requirements, during periods of high market volatility, requiring additional funds. Inability of matching the margin requirements, will result into closure of open positions and inability to hedge effectively.



During the year, the Company had sufficient liquid assets to meet its liabilities. In addition, liquidity is monitored on a continuous basis to ensure that potential droughts of liquidity will be proactively identified.

## **2.5.5 Regulatory Risk**

### **2.5.5.1 Money Laundering and Terrorist Financing Risk**

Money laundering is the process of taking the proceeds of criminal activity and making them appear legal. Terrorist financing involves using the funds obtained from various businesses, including non-profit organizations or unregistered money services businesses, to fund terrorist activities. As an internet-based financial services provider, the Company is continuously exposed to the risk that a customer's trading account may be used as a mean to launder money and/or finance terrorism. The Company has established policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks.

### **2.5.5.2 Regulatory Compliance Risk**

Compliance risk is the current and prospective risk arising from violations of, or non-conformance with, laws, bylaws, regulations, prescribed practices. This risk exposes the Company fines, civil money penalties & payment of damages. Compliance risk can lead to diminished reputation, reduced company value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts.

The Company has in place a Compliance Monitoring Program ("CMP") which embeds various monitoring techniques. Upon the performance of those monitoring techniques, the Compliance Officer assesses the risk level of the finding and provides recommendations on the areas that need improvement. The recommendations are first submitted to the management of the respective departments and once feedback on this recommendation is received, these are then submitted to the Board for review.

Compliance risk is mitigated due to the supervision applied by the Compliance Officers, as well as the monitoring controls and systems applied by the Company.

### **2.5.5.3 Business Risk**

Business Risk is the risk stemming from underperformance of economic results, failure to increase or retain market share, meet business goals due to lack of business direction, planning and leadership that may cause inadequate profits or result in losses to the Company. Business risk is influenced by volume of trades, high costs, competition, and overall economic climate and government regulations. The Company is exposed to Business Risk mainly due to a potential decrease in the number of active investors and volume they trade that may lead to a reduction in the Company's profits. Another business risk is the introduction of new products which on the one hand, can create opportunities, whereas on the other hand can result in negative returns on the investment. Additionally, the company acknowledges that business risks could be triggered by numerous factors which may also be correlated with both regulatory and cross border risks as well as reputational risks.



Policies and procedures are in place to mitigate the business risks, including the regular monitoring of Company's Budgets (considering the overall economic conditions) and continuous support upon additional capital requirement by the parent company. In addition, every introduction of a new product is subjected to a detailed risk analysis and approval by the Risk Committee and Board.

#### **2.5.6 Group Risk**

Group risk could occur as adverse impact due to relationships (financial or non-financial) of the Company with other entities in the group. The company is reliant on certain services from other entities of the Group including the parent company. Lastly the reputation of the group overall, as well as the members of the group are highly correlated with the reputation of eToro (EU). Management ensures independence between entities to minimize impact of any regulatory or reputational events in other group operations.

In the event of group structure change (i.e. new companies added to the Group) the Board, the Risk Committee and the Risk Manager consider and analyze the risks under such a structure in relation to regulatory, reputational, credit and operational risk.

#### **2.5.7 Reputation Risk**

Reputation risk is the risk that an adverse perception of the image of the Company by its clients, counterparties, shareholders, investors or regulators may impact earnings and capital. Reputation risk could be triggered by the loss of one or more of the Company's key directors, poor client service, fraud or theft, client claims, legal action, regulatory fines and from negative publicity relating to the Company's operations whether such fact is true or false. The Company has policies and procedures in place when dealing with possible client complaints to provide the best possible assistance and service under such circumstances.

### **2.6 Board Declaration**

The Board has the ultimate responsibility for the risk management processes and practices in place. The Board evaluates that the Company's risk management strategies and policies are effective and adequately monitoring, managing and mitigating the Company's risks. The Board considers that the Company has established effective risk management arrangements considering the profile and strategy of the Company.



### 3. SCOPE OF APPLICATION

Etoro (EU) calculates its capital requirements and capital ratios on an individual (solo) basis, in accordance to the CRR and does not currently apply consolidation for either accounting or prudential purposes. The Company does not have subsidiaries, nor it is a subsidiary of an EU parent company. The Company's Financial Statements are prepared in accordance with the International Financial Reporting Standards ("IFRS"), the figures of which differ from the ones reported in these Disclosures which are prepared in accordance with the CRR.

The table below presents the differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories. The Company is not subject to either accounting or regulatory consolidation, therefore the carrying values included in the table below are solely arising from the different treatment for regulatory capital calculation purposes compared to the audited financial statements.

It should be noted that "Financial instruments held with Counterparties" & "Derivative financial instruments" are under the scope of both the CCR Framework, due to the credit risk emanating from derivative transactions, as well as under the scope of Market Risk Framework due to the positions value fluctuations stemming from changes in the underlying assets price.

31 December 2020	Carrying values under scope of regulatory consolidation	Carrying values of items			
		Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
<b>Assets</b>					
Property and equipment	1.110	<b>1.110</b>	-	-	-
Right of use asset	669	<b>669</b>	-	-	-
Inventory	21.411	21.411	-	-	-
Receivables (current)	65.143	65.143	-	-	-
Cash and Cash Equivalent	36.823	36.857	-	-	-
Financial Instruments held with Counterparties	56.243	59.013	59.013		59.013
Derivative financial instruments	68.691	67.148	67.148		67.148
<b>Total assets</b>	<b>250.090</b>	<b>250.351</b>	<b>126.161</b>		<b>126.161</b>
<b>Liabilities</b>					
Lease liabilities	323	-	-	-	-
Payables and other accruals	77.208	-	-	-	-
<b>Total liabilities</b>	<b>77.531</b>	-	-	-	-

**Table 3: Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (EU LI1) - 2020**



31 December 2019	Carrying values under scope of regulatory consolidation	Carrying values of items			
		Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
<b>Assets</b>					
Property and equipment	747	747	-	-	-
Right of use asset	719	719	-	-	-
Restricted Cash	192	192	-	-	-
Receivables (non-current)	360	360	-	-	-
Inventory	44.230	44.230	-	-	-
Receivables (current)	27.702	27.342	-	-	361
Cash and Cash Equivalent	74.288	73.211	-	-	1.079
Financial Instruments held with Counterparties	21.449	21.135	21.135	21.135	-
Derivative financial instruments	35.763	32.554	32.554	32.554	-
<b>Total assets</b>	<b>205.450</b>	<b>200.490</b>	<b>53.689</b>	<b>53.689</b>	<b>1.439</b>
<b>Liabilities</b>					
Lease liabilities	874	-	-	-	-
Payables and other accruals	47.146	-	-	-	-
<b>Total liabilities</b>	<b>48.019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Table 4: Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (EU LI1) - 2019**

The table below, provides information on the main sources of differences, which are shown in the previous table above, between regulatory exposure amounts and carrying values in financial statements.

31 December 2020	Total	Items subject to:				
		Credit risk framework	CCR framework	Securitization framework	Market risk framework	
1	Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	250,090	250,351	126,161	-	126,161
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	77,531	-	-	-	-
3	<b>Total net amount under the regulatory scope of consolidation</b>	<b>172,558</b>	<b>250,351</b>	<b>126,161</b>	<b>-</b>	<b>126,161</b>
4	Off-balance-sheet amounts	14,466	14,466	-	-	-
5	Differences in valuations	1,231	-	-	-	-
9(a)	Items not subject to capital requirements or subject to deduction from capital	(970)	-	-	-	-
9(b)	Liabilities not under RWA scope	77,531	-	-	-	-



10	Exposure amounts considered for regulatory purposes	264,816	264,816	126,161	-	126,161
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**Table 5: Main sources of differences between regulatory exposure amounts and carrying values in financial statements(EU LI2) - 2020**

31 December 2019		Total	Items subject to:			
			Credit risk framework	CCR framework	Securitization framework	Market risk framework
1	Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	205,450	200,490	53,689	-	53,689
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	48,019	-	-	-	-
3	<b>Total net amount under the regulatory scope of consolidation</b>	<b>157,431</b>	<b>200,490</b>	<b>53,689</b>	<b>-</b>	<b>53,689</b>
4	Off-balance-sheet amounts	6,975	6,975	-	-	-
5	Differences in valuations	(3,521)	-	-	-	-
9(a)	Items not subject to capital requirements or subject to deduction from capital	(1,439)	-	-	-	-
9(b)	Liabilities not under RWA scope	48,019	-	-	-	-
10	Exposure amounts considered for regulatory purposes	207,465	207,465	53,689	-	53,689

**Table 6: Main sources of differences between regulatory exposure amounts and carrying values in financial statements(EU LI2)**



#### 4. OWN FUNDS

Capital Management Risk is the risk that the Company will not comply with capital adequacy requirements or may not be able to continue as a going concern. The primary objective of the Company with respect to capital management is to ensure that the Company complies with the imposed capital requirements of Section 67 of the Law with respect to its own funds and that the Company maintains strong capital ratios to support its business, to maximize shareholders' value and to optimize its debt and equity balance. In this respect, the Company must have own funds which are always more than its minimum capital requirements. CySEC and the CRR require every CIF to maintain a minimum ratio of capital to risk weighted assets ("RWAs") of 8% plus capital buffers. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total RWA.

During 2020 and 2019, the Company has been operating under CRD IV (Basel III Framework) Legislation. From 1 January 2016, as per DI144-2014-14 of the CySEC for the prudential supervision of investment firms (the 'Directive'), CIFs are required to maintain capital buffers in addition to the own funds requirements imposed by Article 92 of the CRR. CySEC may impose additional capital requirements for risks which are not covered by Pillar I of Basel III. The Company reported to CySEC its capital adequacy on a quarterly basis during 2020 and 2019. The Senior Management as well as the Risk Manager monitor such reporting and have policies and procedures in place to assist in meeting 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. The Company manages its capital structure and makes adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

The Central Bank of Cyprus ("CBC"), acting as the designated macroprudential authority of Cyprus, has set the following macroprudential capital buffers:

- Capital Conservation Buffer (the 'CCB')
- Institution-specific Countercyclical Capital Buffer (the 'CCyB')
- Other systemically important institutions buffer (the 'O-SII buffer').

The capital buffers mentioned above, apply to all CIFs which are authorized to provide the investment services of dealing on own account and/or underwriting of financial instruments and/or placing of financial instruments on firm commitment basis, with ultimate objective to conserve the CIF's capital. When a CIF breaches the buffer, automatic safeguards kick in and limit the amount of dividend and bonus payments a CIF can make. The larger the breach of the buffer, the stricter the limits become.

The Company has met its capital requirement as of 31 December 2020 and 2019, taking into consideration the above legislation. The principal forms of Tier 1 capital include:

- Share capital and share premium:
  - Share capital comprises of fully paid ordinary shares, of nominal value of €1 per share.
  - Share premium arises from the issue of ordinary shares at a value above the nominal value.



- On 16 January 2018 and 6 March 2018, the Company issued 1 Ordinary share at each date, of €1, at a premium of €4.905.968 and €2.424.743, respectively.
- Retained earnings and other reserves, and;
- Perpetual Capital Note: Issued on 1 October 2018, by the Company to eToro Group Ltd. It is perpetual and has no fixed or final redemption date. eToro Group Ltd does not have the right to call for the Note redemption. The Company is entitled, at its sole discretion, following the five-year anniversary of the Note ("First Call Date"), to call for the payment (in one or more installments) of the Note by providing a 7-day prior written notice. Notwithstanding the above, the Note may be called by the Company before the First Call Date and subject to the obtainment of any required regulatory approval.

There was no Tier 2 capital as of 31 December 2020 and 2019.

A detailed description of the main features of Common Equity Tier 1 and Additional Tier 1 instrument issued by the Company are presented in Appendix I of these Disclosures.

This following table has been prepared using the format set out in Annex IV of the 'Commission Implementing Regulation (EU) No 1423/2013', which lays down implementing technical standards on the disclosure of own funds requirements for institutions according to the CRR.

In accordance with CRR Article 437(a) and Implementing Regulation 1424/2013, the following table provides a reconciliation between the balance sheet presented in the audited Financial Statements and the balance sheet prepared for prudential purposes. The Company's own funds as at 31 December 2020 were \$171,577 (2019: \$155,982K).

Own Funds Disclosure Template (USD 000)	At 31 December 2020	At 31 December 2019
<b>Common Equity Tier 1 (CET1) Capital: Instruments and Reserves</b>		
Capital Instruments and the related share premium	20,782	20,782
<i>Of which: Share Capital</i>	4	4
<i>Of which: Share premium</i>	20,778	20,778
Retained Earnings	70,786	55,920
Other Reserves	990	729
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>92,558</b>	<b>77,431</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>		
Investor Compensation Fund	(970)	(1,439)
Adjustments to CET1 due to prudential filters	(11)	(10)
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(981)</b>	<b>(1,449)</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>91,577</b>	<b>75,982</b>
<b>Additional Tier 1 (AT1) Capital: Instruments</b>		
Perpetual Capital Note	80,000	80,000
<b>Additional Tier 1 (AT1) capital</b>	<b>80,000</b>	80,000



<b>Tier 1 Capital (T1=CET1 + AT1)</b>	<b>171,577</b>	<b>155,982</b>
<b>Tier 2 (T2) Capital</b>		-
<b>Total capital (TC=T1+T2)</b>	<b>171,577</b>	<b>155,982</b>
<b>Risk Weighted Assets</b>		
Credit Risk (including CVA)	171,007	115,689
Market Risk	318,055	289,781
Operational Risk	69,704	34,913
<b>Total Risk Weighted Assets</b>	<b>558.765</b>	<b>440,383</b>
<b>Capital Ratios and buffers</b>		
Common Equity Tier 1 (CET1) (as a % of total risk exposure)	16.39%	17.25%
Tier 1 (as a % of total risk exposure)	30.71%	35.42%
Total Capital (as a % of total risk exposure)	30.71%	35.42%
Institution specific buffer requirement (CET1 requirement in accordance with Art. 92 plus the combined Buffer Requirement):		
Of which: Capital Conservation Buffer (CCB)	2.50%	2.50%
Of which: Other Systemically Important Institution (O-SII) buffer	0.50%	0.50%
Of which: Countercyclical buffer	-	-
Of which: Systemic risk buffer	-	-
<b>Common Equity Tier 1 available to meet buffers</b>	<b>27,71%</b>	<b>32.42%</b>

**Table 7: Own Funds Disclosure Template**



## 5. CAPITAL REQUIREMENTS

In accordance with the CRD IV framework the following are the three pillars in respect to capital:

- **Pillar 1** requires the Company to establish minimum capital requirements.
- **Pillar 2** requires the Company to assess whether its Pillar 1 capital is adequate to meet risk exposures and to calculate the amount of capital that should be held against those exposures. This process forms the basis of the Internal Capital Adequacy Assessment Process (“ICAAP”), required by CySEC.
- **Pillar 3** requires the Company to publicly disclose specific information about the underlying risk management controls and capital position.

The Supervisory Review Process (“SREP”) provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I. Pillar II connects the regulatory capital requirements to the Company’s ICAAP and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms 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. The Company has an ICAAP process for calculating its capital requirements under Pillar 2. The Company held an internal risk assessment exercise in 2020, which was approved by the Board. Within its ICAAP the Company performed sensitivity analyses and stress testing scenarios, considering all material risks. The ICAAP is reviewed and updated annually.

As part of its risk assessment and measurement process, the Company has performed several stress tests to evaluate the impact of extreme events on its financial position, performance and capital adequacy. All the stress tests performed are forward-looking and relate to the projected period. Credit and market events are just some of the themes used to stress the financial health of the Company. The following table presents a risk weighted assets breakdown per type of risk and capital requirements as at 31 December 2020 and 30 September 2020.

	RWAs		Minimum capital requirements 31-Dec-20
	31-Dec-20	30-Sep-20	
<b>Credit risk (excluding CCR)</b>	<b>148,056</b>	<b>177,603</b>	<b>11,844</b>
Of which the standardized approach	148,056	177,603	11,844
<b>CCR</b>	<b>14,126</b>	<b>9,556</b>	<b>1,130</b>
Of which mark-to-market	14,126	9,556	1,130
Of which CVA	8,825	4,500	706
<b>Market risk</b>	<b>318,055</b>	<b>306,393</b>	<b>25,444</b>
Of which the standardized approach	318,055	306,393	5,576
<b>Operational risk</b>	<b>69,704</b>	<b>34,913</b>	<b>5,576</b>
Of which basic indicator approach	69,704	34,913	5,573
<b>Total</b>	<b>558,765</b>	<b>532,965</b>	<b>44,701</b>

**Table 8: Overview of RWAs (EU OV1) -2020**



The following table presents a risk weighted assets breakdown per type of risk and capital requirements as at 31 December 2019 and 30 September 2019.

	RWAs		Minimum capital requirements 31-Dec-19
	31-Dec 2019	30-Sep-19	
<b>Credit risk (excluding CCR)</b>	<b>103,335</b>	<b>126,827</b>	<b>8,267</b>
Of which the standardized approach	103,335	126,827	8,267
<b>CCR</b>	<b>8,079</b>	<b>4,990</b>	<b>646</b>
Of which mark-to-market	8,079	4,990	646
Of which CVA	4,275	2,350	342
<b>Market risk</b>	<b>289,781</b>	<b>141,582</b>	<b>23,182</b>
Of which the standardized approach	289,781	141,582	23,182
<b>Operational risk</b>	<b>34,913</b>	<b>26,543</b>	<b>2,793</b>
Of which basic indicator approach	34,913	26,543	2,793
<b>Total</b>	<b>440,383</b>	<b>315,309</b>	<b>35,231</b>

**Table 9: Overview of RWAs (EU OV1) - 2019**

## 6. MACROPRUDENTIAL SUPERVISORY MEASURES & CAPITAL BUFFERS

At 31 December 2020 and 2019, the Company held the applicable buffers as calculated in accordance with Article 130 of the Capital Requirements Directive ("CRD"). The following disclosures have been prepared in accordance with the Regulation (EU) 2015/1555 in relation to the compliance of institutions with the requirement for a countercyclical capital buffer, and in particular table 1 and table 2 of Annex I of the aforesaid regulation.

The geographical distribution of the Company's credit exposures relevant for the calculation of the Counter-Cyclical Buffer ("CCB") was as follows as of 31 December 2020:

Geographical distribution of credit exposures relevant to the calculation of CCyB													
	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements - of which:				Own funds Requirement weights	CCB rate	
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	General credit exposures	Trading book exposures	Securitisation exposures	Total			
Europe	256,361	-	-	-	-	-	-	-	-	-	-	0%	0%
China	-	-	-	-	-	-	-	-	-	-	-	0%	0%
Russian Federation	23	-	-	-	-	-	-	-	-	-	-	0%	0%
Other	234,085	-	-	-	-	-	-	-	-	-	-	0%	0%
<b>Total</b>	<b>490,739</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0%</b>	<b>0%</b>

**Table 10: Geographical distribution of credit exposures relevant to the calculation of CCyB - 2020**



The amount of the Company's specific countercyclical buffer is disclosed in the following table as of 31 December 2020:

<b>Amount of institution specific Countercyclical Capital Buffer (CCyB) (2020)</b>	
Total risk exposure amount	490,739
Institution specific countercyclical buffer rate	0.00%
Institution specific countercyclical buffer requirement	-

**Table 11: Amount of institution specific Countercyclical Capital Buffer (CCyB) (2020)**

The geographical distribution of the Company's credit exposures relevant for the calculation of the Counter-Cyclical Buffer ("CCB") was as follows as of 31 December 2019:

<b>Geographical distribution of credit exposures relevant to the calculation of CCyB</b>												
	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements - of which:				Own funds Requirement weights	CCB rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	General credit exposures	Trading book exposures	Securitisation exposures	Total		
Europe	146,412	-	-	-	-	-	-	-	-	-	0%	0%
China	2,015	-	-	-	-	-	-	-	-	-	0%	0%
Russian Federation	1,003	-	-	-	-	-	-	-	-	-	0%	0%
Other	190,795	-	-	-	-	-	-	-	-	-	0%	0%
<b>Total</b>	<b>340,225</b>	-	-	-	-	-	-	-	-	-	<b>0%</b>	<b>0%</b>

**Table 12: Geographical distribution of credit exposures relevant to the calculation of CCyB - 2019**

The amount of the Company's specific countercyclical buffer is disclosed in the following table as of 31 December 2019:

<b>Amount of institution specific Countercyclical Capital Buffer (CCyB) (2019)</b>	
Total risk exposure amount	340,225
Institution specific countercyclical buffer rate	0.00%
Institution specific countercyclical buffer requirement	-

**Table 13: Amount of institution specific Countercyclical Capital Buffer (CCyB) (2019)**

## 7. CREDIT RISK AND CREDIT RISK MANAGEMENT

### 7.1 Past due and Impaired Exposures

The Company assesses on a forward-looking basis the expected credit loss (“ECL”) for financial assets measured at amortized cost. The Company measures ECL and recognizes credit loss allowance at each reporting date. The measurement of ECL reflects (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions. The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. Financial assets measured at amortized cost are presented in the statement of financial position net of allowance for ECL.

All financial assets that are subject to impairment under IFRS 9, the Company applies the general approach – a three stage mode for impairment, based on changes in credit quality since initial recognition of the financial assets, except for trade receivables recognized for which the simplified approach is applied. A financial asset that is not credit-impaired on initial recognition is classified as Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 Months ECL”). If the Company identified a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

The following section provide an analysis of past due and impaired exposures post-value adjustments (before and after applying credit risk mitigation and credit conversion factors (“CCF”)) and provisions for impairment.

### 7.2 Total and average net exposures by exposure class

The table below presents the net exposures as at 31 December 2020 and 2019 as well as the average net exposures over 2020 and 2019, broken down by exposure class. Exposure is defined as an asset or an off-balance-sheet item that gives rise to a credit risk exposure according to the CRR framework. For on-balance sheet items, the net value of exposures is the gross carrying amount of exposure less allowances/impairments and for off-balance sheet items, the net value is the gross carrying amount of exposure less provisions.

Exposure Class	Net value of exposures as at 31 December 2020	Average net exposures over the year 2020
Institutions	174,338	222,969
Corporates	50,089	21,196
Retail	140,667	98,064
Other exposures	71,400	73,290
<b>Total standardized approach</b>	<b>436,494</b>	<b>415,518</b>



<b>Total</b>	<b>436,494</b>	<b>415,518</b>
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**Table 14: Total and average net amount of exposures (EU CRB-B) – 2020**

<b>Exposure Class</b>	<b>Net value of exposures as at 31 December 2019</b>	<b>Average net exposures over the year 2019</b>
Institutions	145,468	135,034
Corporates	6,802	14,457
Retail	62,438	59,101
Other exposures	59,841	86,924
<b>Total standardized approach</b>	<b>274,549</b>	<b>295,516</b>
<b>Total</b>	<b>274,549</b>	<b>295,516</b>

**Table 15: Total and average net amount of exposures (EU CRB-B) – 2019**

### 7.3 Net exposures by geographical areas and exposure classes

The table below shows the geographic distribution of the exposures, broken down in significant areas by material exposure classes that are relevant to the Company, as at 31 December 2020 and 2019. The net value of exposures relates to amounts post value adjustments but before the application of CCFs. The geographical area in which the exposure class is classified is driven by the country of residence/incorporation of the counterparty.

<b>31 December 2020</b>	<b>Net values</b>				
	<b>EU Countries</b>	<b>USA</b>	<b>Australia</b>	<b>Other</b>	<b>Total</b>
Institutions	119,435	54,244	659	-	<b>174,338</b>
Corporates	-	-	-	50,089	<b>50,089</b>
Retail	82,080	-	-	58,587	<b>140,667</b>
Other exposures	9,703	-	-	61,697	<b>71,400</b>
<b>Total standardized approach</b>	<b>211,218</b>	<b>54,244</b>	<b>659</b>	<b>170,373</b>	<b>436,494</b>
<b>Total</b>	<b>211,218</b>	<b>54,244</b>	<b>659</b>	<b>170,373</b>	<b>436,494</b>

**Table 16: Geographical breakdown of exposures (EU CRB-C) – 2020**

<b>31 December 2019</b>	<b>Net values</b>				
	<b>EU Countries</b>	<b>USA</b>	<b>Australia</b>	<b>Other</b>	<b>Total</b>
Institutions	61,836	32,322	51,310	-	<b>145,468</b>
Corporates	-	-	-	6,802	<b>6,802</b>
Retail	32,042	-	-	30,396	<b>62,438</b>
Other exposures	3,974	-	-	55,867	<b>59,841</b>
<b>Total standardized approach</b>	<b>97,853</b>	<b>32,322</b>	<b>51,310</b>	<b>93,065</b>	<b>274,549</b>
<b>Total</b>	<b>97,853</b>	<b>32,322</b>	<b>51,310</b>	<b>93,065</b>	<b>274,549</b>

**Table 17: Geographical breakdown of exposures (EU CRB-C) - 2019**



#### 7.4 Net exposures by residual maturity and exposure classes

The table below shows the net exposures by residual maturity and exposure classes as at 31 December 2020 and 2019. The net exposures relate to amounts post value adjustments but before the application of CCFs.

31 December 2020	Net exposure value		
	On demand	<= 1 year	Total
Institutions	168,177	6,161	<b>174,338</b>
Corporates	50,089	-	<b>50,089</b>
Retail	140,667		<b>140,667</b>
Other exposures	51,748	19,652	<b>71,400</b>
<b>Total standardized approach</b>	<b>410,681</b>	<b>25,813</b>	<b>436,494</b>
<b>Total</b>	<b>410,681</b>	<b>25,813</b>	<b>436,494</b>

Table 18: Maturity of exposures (EU CRB-E) – 2020

31 December 2019	Net exposure value		
	On demand	<= 1 year	Total
Institutions	135,456	10,012	<b>145,468</b>
Corporates	6,802	-	<b>6,802</b>
Retail	62,438	-	<b>62,438</b>
Other exposures	55,312	4,530	<b>59,841</b>
<b>Total standardized approach</b>	<b>260,008</b>	<b>14,542</b>	<b>274,549</b>
<b>Total</b>	<b>260,008</b>	<b>14,542</b>	<b>274,549</b>

Table 19: Maturity of exposures (EU CRB-E) - 2019

#### 7.5 Net exposures by counterparty type and exposure classes

The table below shows the net exposures by counterparty type and exposure classes as at 31 December 2020. The net exposures relate to amounts post value adjustments but before the application of CCFs.

31 December 2020	Financial Services Sector	Non-Financial Services Sector	Total
Institutions	174,338	-	<b>174,338</b>
Corporates		50,089	<b>50,089</b>
Retail		140,667	<b>140,667</b>
Other exposures		71,400	<b>71,400</b>
<b>Total standardized approach</b>	<b>174,338</b>	<b>262,156</b>	<b>436,494</b>
<b>Total</b>	<b>174,338</b>	<b>262,156</b>	<b>436,494</b>

Table 20: Concentration of exposures by counterparty type (EU CRB-D) - 2020



The table below shows the net exposures by counterparty type and exposure classes as at 31 December 2019. The net exposures relate to amounts post value adjustments but before the application of CCFs.

31 December 2019	Financial Services Sector	Non-Financial Services Sector	Total
Institutions	145,468	-	<b>145,468</b>
Corporates	-	6,802	<b>6,802</b>
Retail	-	62,438	<b>62,438</b>
Other exposures	-	59,841	<b>59,841</b>
<b>Total standardized approach</b>	<b>145,468</b>	<b>129,082</b>	<b>274,549</b>
<b>Total</b>	<b>145,468</b>	<b>129,082</b>	<b>274,549</b>

Table 21: Concentration of exposures by counterparty type (EU CRB-D) - 2019

## 7.6 Credit quality of exposures by exposure class and instrument

The table below provides a comprehensive view of the credit quality of the Company's on-balance-sheet and off-balance-sheet exposures, broken down by exposure class, as at 31 December 2020.

31 December 2020	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Institutions	-	174,338	-	-	-	-	174,338
Corporates	-	50,089	-	-	-	-	50,089
Retail	-	140,667	-	-	-	-	140,667
Other exposures	-	71,400	-	-	-	-	71,400
<b>Total standardized approach</b>	-	<b>436,494</b>	-	-	-	-	<b>436,494</b>
<b>Total</b>	-	<b>436,494</b>	-	-	-	-	<b>436,494</b>

Table 22: Credit quality of exposures by exposure class and instrument (EU CR1-A) – 2020

The table below provides a comprehensive view of the credit quality of the Company's on-balance-sheet and off-balance-sheet exposures, broken down by exposure class, as at 31 December 2019.

31 December 2019	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Institutions	-	145,468	-	-	-	-	<b>145,468</b>
Corporates	-	6,802	-	-	-	-	<b>6,802</b>
Retail	-	62,438	-	-	-	-	<b>62,438</b>
Other exposures	-	59,841	-	-	-	-	<b>59,841</b>



<b>Total standardized approach</b>	-	<b>274,549</b>	-	-	-	<b>274,549</b>
<b>Total</b>	-	<b>274,549</b>	-	-	-	<b>274,549</b>

**Table 23: Credit quality of exposures by exposure class and instrument (EU CR1-A) - 2019**

## 7.7 Credit quality of exposures by counterparty types

The table below provides a comprehensive view of the credit quality of the Company's on-balance-sheet and off-balance-sheet exposures, broken down by exposure class, as at 31 December 2020.

31 December 2020	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
Financial Sector	-	174,338	-	-	-	-	174,338
Non-Financial Sector	-	262,156	-	-	-	-	262,156
<b>Total</b>	-	<b>436,494</b>	-	-	-	-	<b>436,494</b>

**Table 24: Credit quality of exposures by counterparty types (EU CR1-B) - 2020**

The table below provides a comprehensive view of the credit quality of an institution's on-balance-sheet and off-balance-sheet exposures, broken down by counterparty type, as at 31 December 2019.

31 December 2019	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
Financial Sector	-	145,468	-	-	-	-	<b>145,468</b>
Non-Financial Sector	-	129,082	-	-	-	-	<b>129,082</b>
<b>Total</b>	-	<b>274,549</b>	-	-	-	-	<b>274,549</b>

**Table 25: Credit quality of exposures by counterparty type (EU CR1-B) - 2019**

## 7.8 Credit quality of exposures by geography

The table below provides a comprehensive view of the credit quality of the Company's on-balance-sheet and off-balance-sheet exposures by geography, as at 31 December 2020.

31 December 2020	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
EU Countries	-	211,218	-	-	-	-	211,218
USA	-	659	-	-	-	-	659
Australia	-	54,244	-	-	-	-	54,244
Other countries	-	170,373	-	-	-	-	170,373
<b>Total</b>	-	<b>436,494</b>	-	-	-	-	<b>436,494</b>

**Table 26: Credit quality of exposures by geography (EU CR1-C) - 2020**



The table below provides a comprehensive view of the credit quality of the Company's on-balance-sheet and off-balance-sheet exposures by geography, as at 31 December 2019.

31 December 2019	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
EU Countries	-	97,853	-	-	-	-	97,853
USA	-	32,322	-	-	-	-	32,322
Australia	-	51,310	-	-	-	-	51,310
Other countries	-	93,065	-	-	-	-	93,065
<b>Total</b>	-	<b>274,549</b>	-	-	-	-	<b>274,549</b>

Table 27: Credit quality of exposures by geography (EU CR1-C) - 2019

## 7.9 Credit risk exposure and CRM effects

The table below illustrates a credit risk breakdown pre and post Credit Risk Mitigation and Credit Conversion Factor per exposure class as well as the risk weighted assets per exposure as at 31 December 2020. The term 'before CCF and CRM' means the original gross exposures before the application of credit conversion factor and before the application of risk mitigation techniques.

31 December 2020	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Institutions	125,028	-	125,028	-	28,714	23%
Corporates	22,016	1,000	22,016	1,000	22,016	100%
Retail	31,907	13,466	31,907	13,466	23,930	75%
Other items	71,400	-	71,400	-	71,376	100%
<b>Total</b>	<b>250,351</b>	<b>14,466</b>	<b>250,351</b>	<b>14,466</b>	<b>146,036</b>	<b>58%</b>

Table 28: Standardized approach – Credit risk exposure and CRM effects (EU CR4) - 2020

The table below illustrates a credit risk breakdown pre and post Credit Risk Mitigation and Credit Conversion Factor per exposure class as well as the risk weighted assets per exposure as at 31 December 2019.

31 December 2019	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Institutions	117,966	-	117,966	-	24,135	20%
Corporates	5,802	1,000	5,802	1,000	5,802	100%
Retail	16,880	5,975	16,880	5,975	12,660	75%
Other items	59,841	-	59,841	-	59,841	100%
<b>Total</b>	<b>200,490</b>	<b>6,975</b>	<b>200,490</b>	<b>6,975</b>	<b>102,439</b>	<b>51%</b>

Table 29: Standardized approach – Credit risk exposure and CRM effects (EU CR4) - 2019



## 7.10 Analysis of CCR exposure by approach

The below table provides a comprehensive view of the methods used to calculate CCR regulatory requirements and the main parameters used within each method for the year ending 31 December 2020. The table includes regulatory exposures, RWAs and parameters used for RWA calculations for all exposures subject to the CCR framework.

31 December 2020	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark-to-market		436,494	319,811			319,811	162,182
<b>Total</b>							<b>162,182</b>

*Table 30: Analysis of CCR exposure by approach (EU CCR1) - 2020*

The below table provides a comprehensive view of the methods used to calculate CCR regulatory requirements and the main parameters used within each method for the year ending 31 December 2019.

31 December 2019	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark-to-market		274,549	238,777			238,777	111,414
<b>Total</b>							<b>111,414</b>

*Table 31: Analysis of CCR exposure by approach (EU CCR1) - 2019*

## 7.11 CVA capital charge

The below table provides a breakdown in terms of standardized and advanced approaches for the CVA regulatory calculations as at 31 December 2020.

31 December 2020	Exposure value	RWAs
All portfolios subject to the standardized method	44,583	8,825
Based on the original exposure method	-	-
<b>Total subject to the CVA capital charge</b>	<b>44,583</b>	<b>8,825</b>

*Table 32: CVA capital charge (EU CCR2) - 2020*

The below table provides a breakdown in terms of standardized and advanced approaches for the CVA regulatory calculations as at 31 December 2019

31 December 2019	Exposure value	RWAs
All portfolios subject to the standardized method	18,337	4,275
Based on the original exposure method	-	-
<b>Total subject to the CVA capital charge</b>	<b>18,337</b>	<b>4,275</b>

*Table 33: CVA capital charge (EU CCR2) - 2019*



## 7.12 Impact of netting and collateral held on exposure values

The table below provides an overview of the impact of netting and collateral held on exposures for which the exposure value is measured as per Part Three, Title II, Chapter 6 of the CRR for the year 2020 and 2019.

31 December 2020		Gross positive fair value or net carrying	Netting benefits	Netted current credit	Collateral held	Net credit exposure
1	Derivatives	225,921	(54,244)	171,677	(116,683)	54,995
2	SFTs	-	-	-	-	-
3	Cross-product netting	-	-	-	-	-
4	<b>Total</b>	<b>225,921</b>	<b>(54,244)</b>	<b>171,677</b>	<b>(116,683)</b>	<b>54,995</b>

**Table 34: Impact of netting and collateral held on exposure values (EU CCR5-A) - 2020**

31 December 2019		Gross positive fair value or net carrying	Netting benefits	Netted current credit	Collateral held	Net credit exposure
1	Derivatives	132,760	65,675	67,085	35,772	31,312
2	SFTs	-	-	-	-	-
3	Cross-product netting	-	-	-	-	-
4	<b>Total</b>	<b>132,760</b>	<b>65,675</b>	<b>67,085</b>	<b>35,772</b>	<b>31,312</b>

**Table 35: Impact of netting and collateral held on exposure values (EU CCR5-A) - 2019**



## 8. USE OF EXTERNAL CREDIT ASSESSMENT INSTITUTIONS AND CREDIT AGENCIES

The Company obtains information on credit ratings of counterparties from the agencies listed below. The credit agencies are used with the order of indicated below:

- Moody's Investor Services
- Standard & Poor's Rating Services
- Fitch Ratings

The Company applies the mapping of each credit assessment of the eligible ECAs into the Credit Quality Steps ("CQS") as it is prescribed by the CRR. The Company applies credit assessments of ECAs for all exposure classes including Institutions, Corporates and Other Items, as described below.

**Exposures to Institutions:** As per the CRR/CRD IV, for exposures to Institutions, the Company applies the "Institution Based Approach" instead of the "Government Based Approach", for determining its capital requirements. Therefore, to determine the risk weight that applies for exposures to Institutions (corresponding Credit Quality Step ("CQS")), the Company uses the specific credit rating of the Institutions itself instead of the credit rating of the Central Bank of the jurisdiction in which the Institutions is incorporated. When the Institutions is unrated, the Company use the credit Rating of the Central Government of the Country in which the institution is incorporated. As at 31 December 2019, most of the exposures to Institutions had a residual maturity of less than 3 months. All the short-term exposures to Institutions, except of two, were rated at least A-, either because this was the credit rating of the Institution itself or the credit rating of the corresponding central bank of the jurisdiction in which the Institution is incorporated. As a result, a 20% risk weight was used for all such exposures (CQ1+CQ2).

### Exposures to Corporates:

The tables below illustrate the regulatory exposure values, under the Standardized Approach, broken down by risk weights and exposure classes, for the years ending 31 December 2020 and 2019. The values disclose exposures post conversion factor and post risk mitigation techniques. The risk weight applied for the breakdown correspond to the different credit quality steps applicable in accordance with Article 113 to Article 134 in Part Three, Title II, Chapter 2 of the CRR. Exposures for which a credit assessment by a nominated ECAI is not available and that are applied specific risk weights depending on their class, as specified in the CRR, are presented in the category "of which Unrated".

Exposure classes 31 December 2020	Risk weight					Total	Of which Unrated
	0%	20%	50%	75%	100%		
Institutions	-	112,666	12,361	-	-	125,028	-
Corporates	-	-	-	-	22,016	22,016	-
Retail	-	-	-	31,907	-	31,907	31,907
Other items	24	-	-	-	71,376	71,400	71,400
<b>Total</b>	<b>24</b>	<b>112,666</b>	<b>12,361</b>	<b>31,907</b>	<b>93,392</b>	<b>250,351</b>	<b>103,307</b>

Table 36: Standardized approach (EU CR5) – 31 December 2020



Exposure classes 31 December 2019	Risk weight					Total	Of which unrated
	0%	20%	50%	75%	100%		
Institutions	-	117,091	875	-	-	<b>117,966</b>	-
Corporates	-	-	-	-	5,802	<b>5,802</b>	-
Retail	-	-	-	16,880	-	<b>16,880</b>	16,880
Other items	5	-	-	-	59,836	<b>59,841</b>	59,841
<b>Total</b>	<b>5</b>	<b>117,091</b>	<b>875</b>	<b>16,880</b>	<b>65,638</b>	<b>200,490</b>	<b>76,721</b>

Table 37: Standardized approach (EU CR5) – 31 December 2019

## 9. LEVERAGE RATIO

### 9.1 Leverage Ratio Definition

A minimum ratio of Tier 1 capital to total assets of 3% is tested. In accordance with Article 429 of the CRR, the leverage ratio is calculated as the Company's capital measure divided by the total exposure measure and is expressed as a percentage. Leverage ratio is calculated as the simple arithmetic mean of the monthly leverage ratios over a quarter. As per the CRR, the leverage ratio is calculated using two capital measures:

- Tier 1 capital (fully phased-in definition): Tier 1 capital without considering the CRD IV derogations.
- Tier 1 capital (transitional definition): Tier 1 capital when considering the CRD IV derogations.

$$\text{Leverage Ratio} = \frac{\text{Capital Measure (Tier 1 Capital)}}{\text{Exposure Measure (Total Assets)}} \geq 3\%$$

### 9.2 Management of Excessive Leverage

The Company has policies and processes in place for the identification, management and monitoring of the risk of excessive leverage. The Financial Controller monitors the leverage ratio and reports to the Operational Risk Committee of any breaches of Capital adequacy requirements. The Company amongst other, performs testing of leverage resilience under stress conditions by running multiple stress tests under different scenarios as part of its ICAAP annual procedure.

### 9.3 Leverage Ratio

The disclosures below have been prepared using the format set out in Annex I and Annex II of the final "Implementation Technical Standards regarding disclosure of the Leverage ratio for instructions" (Commission Implementing Regulation-EU 2016/200). As at 31 December 2020, the leverage ratio of the Company was equal to 34,13% (2019: 45.66%), which is above the minimum required 3% limit.

CRR leverage ratio exposures		31-Dec-20	31-Dec-19
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	251,321	201,940
2	(Asset amounts deducted in determining Tier 1 capital)	(970)	(1,450)



<b>3</b>	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>250,351</b>	<b>200,490</b>
<b>Derivative exposures</b>			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	72,590	65,257
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	178,334	75,152
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
<b>11</b>	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>250,925</b>	<b>140,409</b>
<b>Securities financing transaction exposures</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	-	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client cleared SFT exposure)	-	-
<b>16</b>	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>-</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposures at gross notional amount	100	697
18	(Adjustments for conversion to credit equivalent amounts)	-	-



<b>19</b>	<b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>	<b>100</b>	<b>697</b>
<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off-balance sheet)</b>			
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off-balance sheet))	-	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off-balance sheet))	-	
<b>Capital and total exposures</b>			
<b>20</b>	<b>Tier 1 capital</b>	<b>171,577</b>	<b>155,982</b>
<b>21</b>	<b>Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>	<b>502,722</b>	<b>341,596</b>
<b>Leverage ratio</b>			
<b>22</b>	<b>Leverage ratio</b>	<b>34,13%</b>	<b>45.66%</b>

**Table 38: Leverage ratio common disclosure (LRCom)**

<b>CRR leverage ratio exposures</b>		<b>31-Dec-20</b>	<b>31-Dec-19</b>
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	250,351	200,490
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	-	-
EU-5	Exposures treated as sovereigns	-	-
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-	-
EU-7	Institutions	125,028	117,966
EU-8	Secured by mortgages of immovable properties	-	-
EU-9	Retail exposures	31,907	16,880
EU-10	Corporate	22,016	5,802
EU-11	Exposures in default	-	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	71,400	59,841

**Table 39: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) – LRSpl**



## **10. REMUNERATION POLICY AND PRACTICES**

### **10.1 Remuneration System & Policy**

The principles employed within the Company's Remuneration Policy shall be appropriate to its size, internal organization and the nature, the scope and the complexity of its activities whilst adhering to the provisions of the Directive DI144-2007-05 of 2012 of the CySEC for the Capital Requirements of Financial Firms which was introduced with effect from November 26, 2012.

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, consequently the Senior Management, members of the Board and the Heads of the departments (hereafter "executive management"). 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 in place are well known management and human resources tools that consider the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives. The remuneration system considers the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

### **10.2 Remuneration Committee**

The Company has an established Nomination and Remuneration committee, which is responsible for the design of the remuneration policy and the remuneration practices, which are approved by the Board of Directors. The Compliance and Internal Audit Functions monitor the implementation of the Remuneration Policy and are responsible to report any discrepancies or deficiencies to the Board of Directors. Furthermore, the Nomination and Remuneration Committee is responsible for the annual review of the senior staff remuneration and the adherence to the established policy.

### **10.3 Fixed and Variable Remuneration**

The total remuneration of staff currently consists of primarily a fixed component, and varies across the various employees' positions/roles, functional requirements, educational level, experience, accountability, and responsibility for the performance of the relevant role. The fixed component of the remuneration is stated on the employment contract and it is reviewed annually and also considers standard market practices. Furthermore, the remuneration system also includes a variable component, which includes among other sales commissions, cash bonuses, employee option plan and employee investment accounts. The company considers both quantitative and qualitative criteria for the determination of the variable component of remuneration. The determination of the fixed and variable remuneration lies with the Remuneration Committee, in regard to the remuneration of senior staff. The remuneration considers various performance metrics, such as individual performance, qualitative annual goal achievement, industry remuneration levels, general economic environment and affordability.



The Company complies with the general requirements for the ratio between fixed and variable remuneration set out in the CRR, namely that the fixed and variable elements are appropriately balanced. The fixed component represents a sufficiently high proportion of the total to allow a flexible variable remuneration policy. The ratio of the fixed to variable remuneration lies in the range of 10% - 50% and it is determined by the role, seniority and responsibilities of each individual.

#### **10.4 Performance Appraisal**

The Nomination and Remuneration committee established practices to ensure that:

- The rewards for the executive management are linked to the Company's performance;
- To provide an incentive for achieving the key business aims;
- To achieve an appropriate link between reward and performance;
- To ensure that the base salary levels are not set at artificially low levels.

In this respect, the Company implements a performance appraisal method, which is based on a set of Key Performance Indicators ("KPIs"), developed for each business unit and for the Company as a whole. The appraisal process during the recent years was performed as follows:

Objectives setting:

- At the beginning of each quarter the Company sets the objectives of each function, department and individual. These are expected to be achieved over an upcoming period of time.
- Performance checks and feedbacks:
- Managers provide support and feedback to the concerned staff during the time periods decided, during the daily activities or during formal or informal performance reviews. The aim of the performance checks and provision of feedback to staff is to assist the development of their skills and competencies.

Annual performance evaluation:

- Takes place annually, usually at the end of each year.



## 10.5 Aggregate Quantitative Information

The details of remuneration for 2020 and 2019 of all members of staff whose professional activities have a material impact on the Company's risk profile expressed in thousand EUR are as shown below:

2020 (€000)	Fixed Remuneration	Variable Remuneration	Deferred Remuneration	Total	Total number of staff
<b>Executive and Non-Executive Directors</b>	131	27	-	<b>158</b>	5
<b>Other Key Management Personnel</b>	949	217	-	<b>1,166</b>	28
<b>Total</b>	<b>1,080</b>	<b>244</b>	-	<b>1,324</b>	<b>33</b>

2019 (€000)	Fixed Remuneration	Variable Remuneration	Deferred Remuneration	Total	Total number of staff
<b>Executive and Non-Executive Directors</b>	128	25	-	<b>153</b>	5
<b>Other Key Management Personnel</b>	813	162	-	<b>974</b>	18
<b>Total</b>	<b>941</b>	<b>187</b>	-	<b>1,127</b>	<b>23</b>

**Table 40: Aggregate Quantitative Information on Remuneration**

During 2019 and 2020, variable remuneration consisted solely of cash bonus. There were no new sign-on or severance payments awarded and paid out during the financial year 2019 and 2020. None of the members of staff whose professional activities have a material impact on the Company's risk profile have been remunerated with more than EUR 1 million during 2020 or 2019.



## 11. APPENDICES

### 11.1. Appendix I: Capital Instruments Main Features

The main features, including full terms and conditions, of the ordinary shares of the Company are listed in the table below:

<b>CAPITAL INSTRUMENTS MAIN FEATURES TEMPLATE</b>			
		<b>Common Equity Tier 1 instruments</b>	<b>Additional Tier 1 instruments</b>
1	Issuer	eToro (Europe) Limited	eToro (Europe) Limited
2	Unique identifier (ISIN)	N/A	N/A
3	Governing law(s) of the instrument	Cyprus Law	Cyprus Law
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1
6	Eligible at solo/ (sub-)consolidated/ solo & (sub-) consolidated	Solo	Solo
7	Instrument type	Ordinary Shares	Additional Tier 1
8	Amount recognised in regulatory capital (in thousands of USD\$)	US\$91,577	US\$80,000
9	Nominal amount of instrument (in thousands of USD\$)	US\$3,787	US\$80,000
9a	Issue price (in thousands of USD\$)	US\$3,789	N/A
9b	Redemption price	N/A	US\$80,000
10	Accounting classification	Shareholders' equity	Perpetual Capital Note
11	Original date of issuance	N/A	10/01/2018
12	Perpetual or dated	N/A	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	N/A	Yes
15	Original call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates	N/A	N/A
17	Fixed or floating dividend/ coupon	N/A	N/A
18	Coupon date and any related index	N/A	N/A
19	Existence of a dividend stopper	No	N/A
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	N/A
22	Noncumulative or cumulative	Non-cumulative	N/A
23	Convertible or non-convertible	Non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible info	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A



30	Write-down features	No	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	N/A
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A



## 11.2. Appendix II: References to Capital Requirements Regulation (“CRR”)

CRR ref.	High-level summary	Section
<b>Scope of disclosure requirements</b>		
431(1)	Requirement to publish Pillar III disclosures.	The Company publishes its Pillar 3 Disclosures - Section 1.2.2
431(2)	Disclosure of Own Funds Requirements for Operational Risk	Section 2.5.3
431(3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	Section 1.2.2 – The Company has a dedicated Pillar 3 Policy in place
431(4)	Explanation of ratings decisions to SMEs upon request.	Not Applicable
<b>Non-material, proprietary or confidential information</b>		
432	Non-material, proprietary or confidential information	Compliance with this provision is covered throughout the Report
<b>Frequency of disclosure</b>		
433	Frequency of disclosure - Disclosures must be published once a year at a minimum	Section 1.2.2
<b>Means of disclosures</b>		
434 (1)	Provide disclosures in an appropriate medium	Section 1.2.2- All applicable disclosures are presented within the Report
434 (2)	Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate.	Section 1.2.2 - Cross-references to accounting and other disclosures are indicated in the Report
<b>Risk management objectives and policies</b>		
435 (1) (a)	Disclosure of information on strategies and processes, organisational structure of each risk management function, reporting and measurement systems and risk mitigation / hedging policies.	Section 2
435 (1) (b)		
435 (1) (c)		
435 (1) (d)		
435 (1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements.	Section 2.6
435 (1) (f)	Concise risk statement approved by the BoD describing the Company's overall risk profile associated with the business strategy	Section 2.1
435 (2)	Information, including regular, at least annual updates, regarding governance arrangements	Section 2.4
435 (2) (a)	Number of directorships held by members of the BoD.	Section 2.4.1
435 (2) (b)	Recruitment policy of BoD members, their experience and expertise.	Section 2.4.2
435 (2) (c)	Policy on diversity of BoD members, its objectives and the extent to which these objectives and targets have been achieved	Section 2.4.4



CRR ref.	High-level summary	Section
435 (2) (d)	Disclosure of whether a separate risk committee is in place, and number of meetings in the year.	Section 2.2.2
435 (2) (e)	Description of information flow on risk to BoD.	Section 2.4.5
<b>Scope of application</b>		
436 (a)	Name of institution and scope of application	Section 1.1
436 (b)	Outline of the differences in the basis of consolidation for accounting and prudential purposes,	Section 3 - The Company is not subject to Accounting or Regulatory Consolidation
436 (c)	Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	Not Applicable
436 (d)	The aggregate amount by which the actual own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries.	Not Applicable
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities.	Not Applicable
<b>Own funds</b>		
437 (1)	Information regarding the Company's Own Funds	Section 4
437 (2)	EBA shall develop implementation standards for article above	The Company follows the Implementation standards (Section 4)
<b>Capital requirements</b>		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Section 5
438 (b)	Result of ICAAP on demand from competent authority.	Not Applicable
438 (c)	Credit Risk Capital requirement amounts per Standardised approach exposure class (8% of risk-weighted exposure).	Section 5
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class.	Not Applicable
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	Section 5
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	Section 5
<b>Exposure to counterparty credit risk (CCR)</b>		
439 (a)	Information of the methodology used to assign internal capital and credit limits for counterparty credit exposures;	Not Applicable
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	Not Applicable
439 (c)	Discussion of policies as regards wrong-way risk exposures.	Not Applicable
439 (d)	Discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating;	Not Applicable
439 (e)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposures	Section 7.12



CRR ref.	High-level summary	Section
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods as applicable.	Not Applicable
439 (g)	Notional value of credit derivative hedges and current credit exposure by types of credit exposure.	Not Applicable
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	Not Applicable
439 (i)	The estimation of alpha ("α") if the institution has received the permission of the competent authorities to estimate α.	Not Applicable
<b>Capital Buffers</b>		
440 (1) (a)	Geographical distributions of credit exposures relevant for the calculation of its countercyclical capital buffer	Section 6
440 (1) (b)	Amount of the institution specific countercyclical buffer	Section 6
440 (2)	EBA issue the Regulatory Technical Standards on countercyclical capital buffer	Section 6
<b>Indicators of global systemic importance</b>		
441	Indicators of global systemic importance	Not Applicable
<b>Credit risk adjustments</b>		
442	Information regarding the institution's exposure to credit risk and dilution risk	Section 7
<b>Unencumbered assets</b>		
443	Disclosures on unencumbered assets.	Not Applicable
<b>Use of ECAIs</b>		
444 (a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	Section 8
444 (b)	Exposure classes associated with each ECAI.	Section 8
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items in the Banking book	Not Applicable
444 (d)	Mapping of external rating to credit quality steps.	Section 8
444 (e)	Exposure values pre-credit risk mitigation and post-credit risk mitigation, by credit quality step.	Section 7.9
<b>Exposure to market risk</b>		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Section 2.5.4
<b>Operational risk</b>		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Section 2.5.3
<b>Exposure in equities in the Banking book</b>		
447	Information on exposure in equities in the Banking book, including differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used, recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value, types, nature and amounts of the relevant classes of equity exposures, cumulative realised gains and losses on sales in the	Not Applicable



CRR ref.	High-level summary	Section
	period and Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	
<b>Exposure to interest rate risk on positions in the Banking book</b>		
448 (a)	Nature of interest rate risk and key assumptions in measurement models.	Not Applicable
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	Not Applicable
<b>Exposure to securitisation positions</b>		
449	Exposure to securitisation positions	Not Applicable
<b>Remuneration disclosures</b>		
450	Remuneration policy.	Section 10
<b>Leverage</b>		
451 (1)	Leverage ratio and analysis of total exposure measure	Section 9
451 (2)	EBA shall develop implementation standards for points above.	Section 9.3 The Company follows the Implementation Standards
<b>Use of the IRB Approach to credit risk</b>		
452	Use of the IRB Approach to credit risk	Not Applicable
<b>Use of credit risk mitigation techniques</b>		
453 (a)	Policies and processes, and an indication of the extent to which the Company makes use of on-balance sheet and off- balance sheet netting.	Section 7.12
453 (b)	Policies and processes for collateral valuation and management.	Not Applicable
453 (c)	Description of types of collateral used by the Company.	Not Applicable
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	Not Applicable
453 (e)	Information about market or credit risk concentrations within the credit mitigation taken.	Not Applicable
453 (f)	For exposures under either the Standardised or the Foundation IRB approach, disclosure of the exposure covered by eligible financial collateral and other eligible collateral	Section 7.9
453 (g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	Section 7.9
<b>Use of the Advanced Measurement Approaches to operational risk</b>		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	Not Applicable
<b>Use of Internal Market Risk Models</b>		
455	Use of Internal Market Risk Models	Not Applicable



### 11.3. Appendix III: Specific References to EBA guidelines published on 14 December 2016 – v2 amended on 9 June 2017

Templates	Compliance Reference	Reference
EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	Section 3
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in Financial Statements	Section 3
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Not applicable
EU OV1	Overview of RWAs	Section 5
EU CR10	IRB (specialised lending and equities)	Not applicable
EU INS1	Non-deducted participations in insurance undertakings	Not applicable
EU CRB-B	Total and average net amount of exposures	Section 7.2
EU CRB-C	Geographical breakdown of exposures	Section 7.3
EU CRB-D	Concentration of exposures by industry or counterparty types	Section 7.5
EU CRB-E	Maturity of exposures	Section 7.4
EU CR1-A	Credit quality of exposures by exposure class and instrument	Section 7.6
EU CR1-B	Credit quality of exposures by industry of counterparty types	Section 7.7
EU CR1-C	Credit quality of exposures by geography	Section 7.8.
EU CR1-D	Ageing of past-due exposures	Not applicable
EU CR1-E	Non-performing and forborne exposures	Not applicable
EU CR2-A	Changes in the stock of general and specific risk adjustments	Not applicable
EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Not applicable
EU CR3	CRM techniques – Overview	Not applicable
EU CR4	Standardised approach – Credit risk exposure and CRM effects	Section 7.9
EU CR5	Standardised approach	Section 8
EU CR6	IRB Approach - Credit risk exposures by exposure class and PD range	Not applicable
EU CR7	IRB approach – Effect on the RWA of credit derivatives used as CRM techniques	
EU CR8	RWA flow statements of credit risk exposures under the IRB approach	
EU CR9	IRB approach- back testing of PD per exposure class	
EU CCR1	Analysis of CCR exposure by approach	Section 7.10
EU CCR2	CVA capital charge	Section 7.11
EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk	Not applicable
EU CCR 4	IRB Approach CCR Exposures by portfolio and PD scale	Not applicable
EU CCR5-A	Impact of netting and collateral held on exposure values	Section 7.12
EU CCR5-B	Composition of collateral for exposures to CCR	Not applicable
EU CCR6	Credit Derivatives exposures	Not applicable
EU CCR 7	RWA Flow statements of CCR under the IMM approach	Not applicable
EU CCR8	Exposures to CCPs	Not applicable
EU MR1	Market risk under the standardised approach	Section 2.5.4
EU MR 2 -A	Market risk under the IMA	Not applicable
EU MR 2 -B	RWA Flow statements of market risk exposures under the IMA	Not applicable
EU MR 3	IMA Values of trading portfolios	Not applicable
EU MR 44	Comparison of VaR estimates with gains/losses	Not applicable



#### 11.4. Appendix IV: Glossary

AML	Anti-Money Laundering
AMLF	Anti-Money Laundering Function
BIA	Basic Indicator Approach
BOD	Board of Directors
CBC	Central Bank of Cyprus
CCB	Capital Conservation Buffer
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CDS	Credit Default Swap
CET1	Common Equity Tier 1
CF	Compliance Function
CFD	Contact for difference
CIF	Cyprus Investment Firm
CMP	Compliance Monitoring Program
CQS	Credit Quality Steps
CRD	Capital Requirement Directive
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
CYSEC	Cyprus Securities and Exchange Commission
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
ETF	Exchange traded funds
EU	European Union
IAF	Internal Audit Function
ICAAP	Internal Capital Adequacy Assessment Process
IT	Information Technology
ITS	Implementing Technical Standards
NDF	Non-deliverable forwards
NOP	Net Open Position
O-SII	Other Systemically Important Institutions
ORC	Operations Risk Committee
OTC	Over the Counter



P&L	Profit and Loss
RMC	Risk Management Committee
RMF	Risk Management Function
RWA	Risk Weighted Assets
SA	Standardised Approach
SFT	Securities Financing Transactions
SM	Senior Management
SREP	Supervisory Review Process
TRC	Trading Risk Committee
VaR	Value at Risk