



Your Social Investment Network

eToro (Europe) Ltd

**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 2017



Table of Contents

1. INTRODUCTION 4

 1.1 Corporate Information 4

 1.2 Pillar III Regulatory Framework 4

2. GOVERNANCE ARRANGEMENTS 5

 2.1 Recruitment Policy 5

 2.2 Training 6

 2.3 Diversity Policy 6

 2.4 Other Directorships 6

3. RISK MANAGEMENT OBJECTIVES AND POLICIES 7

 3.1 Risk Management Framework and Governance 7

 3.2 Credit Risk 9

 3.3 Counterparty Credit Risk 10

 3.4 Operational Risk 11

 3.5 Market Risk 12

 3.6 Funding Liquidity Risk 14

 3.7 Regulatory Risk 14

 3.8 Business Risk 15

 3.9 Group Risk 16

 3.10 Reputation Risk 16

 3.11 Political Risk 16

 3.12 Risk Management Declaration 17

4. OWN FUNDS 18

5. COMPLIANCE WITH MINIMUM CAPITAL REQUIREMENTS 21

 5.1 Credit Risk 21

 5.2 Counterparty Credit Risk 21

 5.3 Market Risk 22

 5.4 Operational Risk 24

6. EXPOSURE TO CREDIT RISK 25

 6.1 Past due and Impaired Receivables 25

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

| | |
|---|----|
| 6.2 Total and average amount of exposures..... | 25 |
| 6.3 Breakdown of exposures by geographical areas and exposure classes..... | 26 |
| 6.4 Net exposures by residual maturity and exposure classes | 26 |
| 6.5 Total amount of exposure before and after credit risk mitigation | 27 |
| 7 USE OF EXTERNAL CREDIT ASSESSMENT INSTITUTIONS (ECAIS) AND EXPERT CREDIT AGENCIES (ECAIS) | 27 |
| 8 LEVERAGE RATIO | 29 |
| 8.1 Background..... | 29 |
| 8.2 Leverage Ratio Definition | 29 |
| 8.3 Processes used to manage the risk of excessive leverage | 29 |
| 8.4 Leverage ratio..... | 30 |
| 9 REMUNERATION POLICY AND PRACTICES..... | 32 |
| 9.1 Remuneration System | 32 |
| 9.2 Performance Appraisal and link between Pay and Performance | 33 |
| 9.3 Aggregate Quantitative Information | 33 |
| APPENDIX I: GLOSSARY..... | 34 |

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.eto.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



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, and it is an authorized Cyprus Investment Firm, regulated by the Cyprus Securities and Exchange Commission (hereinafter, the “CySEC”).

The Company holds a license as a Cyprus investment firm (“CIF”) from the CySEC (CIF 109/10 dated 14 January 2010). The CIF license permits the Company to provide investment and ancillary services. In particular, the principal activity of the Company during the year was the provision of online retail trading services (e.g. contracts for differences (“CFD”) in foreign exchange, commodities, digital currencies, indices, stocks and exchange traded funds).

The CIF License was further amended in June 2017. The Company commenced offering clients the ability to buy the underlying crypto currencies, to non-leveraged buy transactions in crypto currencies for unregulated assets. All other crypto currency transactions are CFDs, which with all other CFDs, are regulated products.

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

Information are presented in thousands of US Dollars (“US\$”) unless otherwise indicated.

1.2 Pillar III Regulatory Framework

1.2.1 Basis of Disclosures

The Report has been prepared in accordance with Part Eight of Regulation (EU) No 575/2013, known as the Capital Requirements Regulation (“CRR”) on prudential requirements for credit institutions and investment firms for the year ended 31 December 2017. 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 discretions 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.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

These Disclosures present the evaluation and management of the various risks faced by the Company during the year ended 31 December 2017. As part of these disclosures, the Company also presents information on its capital structure and regulatory capital requirements.

The Company makes the disclosures on an individual basis.

1.2.2 Frequency of Disclosures and Means of Verification

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

The Disclosures were approved by the Board of Directors (the “Board”), 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.

2. GOVERNANCE ARRANGEMENTS

2.1 Recruitment Policy

The Company has a Nomination and Remuneration Committee, which consists of three Non-Executive Directors. The objective of the Nomination and Remuneration Committee 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:

- (a) morality and reliability (character) of the person
- (b) academic qualifications
- (c) professional experience
- (d) possession of certificates of professional competence, where applicable.
- (e) 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:

- (a) Good repute
- (b) Skills, knowledge and expertise
- (c) Relevant academic title or degree or professional qualification and relevant experience.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



2.2 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. The Board is updated on a regular basis on changes to CySEC regulations.

During the year all of the company employees completed training designed by reputable providers, in accordance with the CySEC training requirements.

2.3 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 Company is reviewing the implementation of the diversity policy for the selection of members of the management body, the objectives and any relevant targets, as well as the extent to which these objectives and targets have been achieved during the year.

2.4 Other 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. During 2017, the six directors of the Company held the following directorships:

- 2 directors held 1 directorship.
- 2 directors held 2 directorships.
- 2 director held 5 directorships.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



3. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to Credit and Counterparty Credit Risk, Operational Risk (including online fraud risk, information and technology risk), Market Risk (including open positions risk, foreign exchange risk and interest rate risk), Liquidity risk, Regulatory Risk (including compliance risk, money laundering and terrorist financing risk), Business Risk, Group Risk, Reputation Risk and Political Risk. The analysis of these risks are included in this Section of the Report, describing:

- each type of risk;
- the measures and policies taken by the Company to manage these risks and;
- the standing of the Company with respect to each risk, as applicable.

3.1 Risk Management Framework and Governance

Managing risk effectively in a multifaceted organisation, operating in a continuously changing risk environment, requires a strong risk management culture. To this end, the Company has established an effective risk oversight structure and the necessary internal organisational 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 principal responsibilities of the Board, the Senior Management, the Internal Audit Function and the Risk Management Committee on the Risk Management function of the Company are as follows:

- The Board of Directors: The Board reviews and discusses, during its meetings, the written reports prepared by the Risk Manager and identifies the risks faced by the Company. The Board sets the risk appetite (through limits) and approves the risk policy of the Company. Risk is considered as part of the strategy of the company and new products/ strategic initiatives are analyzed for the risks they bear.
- Senior Management: The Company's Senior Management, prior to the board, reviews the written reports prepared by the Risk Manager, applies the decisions of the Board with respect to risk management and monitors whether all the Company's risk management procedures are followed.
- Internal Audit Function: The Internal Auditor of the Company evaluates the adequacy and effectiveness of the Company's internal control systems, policies and procedures with respect to risk management.
- Risk Management Committee: The Risk Management Committee ensures efficient management of the Company's risks in the provision of the investment and ancillary services

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

to clients, as well as the risks underlying the operations of the Company. Furthermore, the Risk Management Committee is responsible for the following the monitoring of the adequacy and effectiveness of the risk management policies and procedures in place, the level of compliance with the policies and procedures adopted by the Company, the level of compliance of the Company with the relevant laws, the adequacy and effectiveness of measures taken to address any deficiencies with respect to the Company’s policies and procedures in place and the identification of any potential failures by the Company’s relevant persons to comply with those policies and procedures.

The Risk Manager ensures that all the different types of risks taken by the Company are in compliance with the obligations stemming from the relevant laws, and that all necessary procedures, relating to risk management are in place. Moreover, the Risk Manager is responsible for making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies identified.

During 2017, the Risk Committee has met 12 times.

CRD IV Framework

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 the 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, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company. 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.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



The Company held an internal risk assessment exercise in May 2017 in respect to the year ended 31 December 2016, 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.

Stress Testing Framework

As part of its risk assessment and measurement process, the Company has performed a number of 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. The Company has used the Static Balance Sheet assumption in performing the stress tests. The results of these stress tests scenarios are included in the Pillar II capital requirement.

The policies of the Company for managing, hedging and mitigating risks are described below along with the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

3.2 Credit Risk

Credit risk is the risk that the Company may suffer losses, as a result of customers and/or counterparties defaulting on their contractual obligations, reducing the amount of future cash inflows from financial assets on hand at the balance sheet date.

In order to limit credit risk, the Company hold its cash balances with highly rated financial institutions and also has policies in accordance with the relevant legislation. The Company also reviews and examines on quarterly basis the credit ratings of the financial institutions and limits its assets according to the risk rate of the institutions. The probability of material credit loss due to a default of these credit institutions is quite low, based on the relevant calculations in the Company's capital requirements. However, in case such a default occurs, the impact on the company is considered to be material.

Further to the above the Company has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty, in accordance with the requirements of the CySEC Directive DI144-2007-06.

The Company uses the Standardized Approach to Credit Requirements for the calculation of its credit risk.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.eto.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



3.3 Counterparty Credit Risk

Counterparty credit risk (“CCR”) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. This may be specific 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, with no securities against these balances. The firm has several brokers and Crypto currency exchanges who act as the liquidity providers (LPs) while others are kept as a redundancy.

There is also counterparty risk on some type of Clients (which is more diversified risk). Customers may have negative balances which the Company can't recover, as this amount could be significant if there is a major market movement or gap when liquidity disappears.

In order to mitigate CCR, the Company performs due diligence and risk checks before engaging with counterparties and ongoing control through diversification, close monitoring and setting counterparty balances and margins limits to each counterparty. To mitigate CCR arising from the customers, the Company sets mandatory stop loss limits and has in place daily margin call process that is being performed by back office department.

Counterparty credit risk also arises from failure to monitor customers or counterparties and failure to make an adequate assessment of the correlation between the financial condition of the customer and the price changes and liquidity of the market for the financial instrument. The Company identifies this risk arising mainly from liquidity providers and customers. In order to mitigate this, the company performs the due diligence and credit checks on its' counterparties at least on an annual basis and updates its' records accordingly. The Finance Controller reviews and approves the results and (when required) updates the exposures to the counterparty accordingly.

The Company identifies this risk arising mainly from choice of liquidity providers or other large counterparties. All financial decisions are made in line with the company Internal Operating Manual, internal policies and the signatory rights. All financial transactions require the approval of at least two signatories.

Credit Valuation Adjustment Risk

Credit Valuation adjustment (“CVA”) is the risk of loss caused by changes in the credit spread to a counterparty due to changes in its credit quality (also referred to as market value of counterparty credit risk). Institutions should hold additional own funds due to credit valuation adjustment risk arising from OTC derivatives.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



An Institution shall calculate the capital requirements for CVA risk for all OTC derivative instruments in respect of all of its business activities, other than credit derivatives recognized to reduce risk-weighted exposure amounts for credit risk (mitigation factors).

3.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behavior and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The following list presents some event types, included in operational risk, with some examples for each category:

- Internal Fraud: misappropriation of assets, intentional mismarking of positions, 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.
- Clients, Products, & Business Practice: market manipulation, antitrust, improper trade, product defects, fiduciary breaches, account churning.
- 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.
- Procedures in place for Safeguarding Cryptocurrency Assets and continuously monitor effectiveness of the controls.

3.4.1 Online Fraud Risk

Online fraud could occur when Clients illegally use the credit cards or other online payment methods of others in order 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 robust risk management technology 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 a dedicated Risk Analyst.

Following an alert/flag by the Company's Risk Rule Engine Alerting and Flagging System, the Company investigates the relevant account(s) to establish whether the transaction(s) in question are indeed



fraudulent. In case the Company establishes that fraud activity has been performed, the Company then refunds the funds to the original mean of payment (i.e. to the real payment account holder).

In addition, Credit card issuers have adopted credit card security guidelines as part of their on-going 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 assurances, 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.

3.4.2 Information Technology Risk

Information Technology (hereinafter, "IT") risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's IT. 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 reducing the risk to medium.

Specifically, 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 internet, by use of multiple internet connections via multiple internet providers (ISPs), 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 problem can be mitigated.

The Company pays particular 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. All data is stored for at least 5 years.

3.5 Market Risk

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



Market risk is the potential for loss resulting from unfavorable market movements, which would potentially affect the Company's profitability. Market risk arises mainly from the following, all of which are summarized below:

- Foreign exchange risk
- Commodity risk
- Equity risk in trading book
- Interest rate risk

All of the risks indicated below, are monitored by the Risk Manager with the assistance of the finance function personnel.

3.5.1 Foreign Exchange Risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Furthermore, foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency other than the Company's functional currency.

In the ordinary course of business, the Company is exposed to foreign exchange risk, which is monitored through various control mechanisms. 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).

The capital requirement for Foreign Exchange risk is calculated using the Standardized Approach.

3.5.2 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 and of the size of the future income, caused by the fluctuation in the prices of commodities. The capital requirement for Commodity risk is calculated using the Simplified Approach.

3.5.3 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. The Company uses the Standardized Approach to calculate its capital requirement against equity risk.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



3.5.4 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 due to the fact that the Company is not exposed directly to any interest rate bearing instruments, other than cash at bank which attract interest at normal commercial rates. Given that current interest rates are low, interest rate risk is currently an insignificant risk to the Company.

3.6 Funding Liquidity Risk

Liquidity risk is the risk that arises when there are no sufficient liquid assets to meet liabilities as the fall due. There is a risk that liquidity providers may increase their margin requirements, especially during periods of high market volatility, requiring additional liquidity. During the year, the Company had sufficient liquid assets to meet its liabilities, and monitors its liquidity requirements on a regular basis.

3.7 Regulatory Risk

3.7.1 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 extensive policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks.

3.7.2 Compliance Risk

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

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.eto.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



The Compliance Monitoring Program (“CMP”) of the Company covers on the following business departments and their various functions: Operations, Dealing, Compliance, Finance, MIMO/Customer Service, IT, Marketing and Financial Promotions. It employs various monitoring techniques. Upon the performance of those monitoring techniques, the Compliance Officer assesses the risk level of the finding and provides the recommendations on the areas that need improvements. The recommendations are first submitted to the management of the respective departments and once feedback on these recommendation is received, these are then submitted to the Board for review.

Compliance risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as the monitoring controls and systems applied by the Company

3.8 Business Risk

Business Risk is the risk that may cause inadequate profits or result in losses to the Company. However, this risk is mitigated because, the inter-company agreements between the Company and its parent leave a risk-based level of profitability within the company, even if losses are incurred. The company has quantified the financial impact of this risk in the stress test results per its ICAAP process.

Business risk is influenced by numerous factors, including 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 political risks as well as reputational risks.

The Company acknowledges that Business Risk is very critical and therefore monitors it very closely. 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.

Despite the fact that the Company belongs in a high competitive Investment firm’s environment, the firm's unique platform that offers social networking to its client, gives the Company the step ahead in the market from other IF’s.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



3.9 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 is being generated or by risks which may affect the financial position of the whole group (e.g, reputational contagion).

To mitigate Group risk, the Company ensures that eToro Group Ltd (and other related entities) are well capitalized and funded. The Company's Risk Manager monitors the financial strength of the Group on a continuous basis. In addition, the Management ensures independence between entities to minimize impact of any regulatory or reputational events in other group operations. The Company has in place Inter-company agreements that allow set-off of liabilities against debts. 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.

3.10 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 poor performance, the loss of one or more of the Company's key directors, the loss of large clients, 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 in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with client complaints is considered to be low, compared to the high amount of the Company's clients, as the Company does its best to provide high quality services to its Clients and has the appropriate procedures in place. In addition, the Company's Board members and Senior Management is comprised of experienced professionals who are recognized in the industry for their integrity and ethos, and, as such, add value to the Company. Where the relatively few client complaints have been received, these have been successfully resolved.

3.11 Political Risk

Political risk is the risk that may affect the Company's business and profitability, as a result of unfavorable political changes or instability in a country, where the company has significant operations. Instability could stem from a change in government, legislation/taxation, other foreign policy makers and/or a general political problem.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

The Company considers political risk as low. However, the Company acknowledges that a political issue (such as Brexit, Euro crisis, Russia’s sanctions) may impact the Company and banks holding clients and corporate funds and therefore is monitored on a continuous basis.

3.12 Risk Management Declaration

The Board of the Company 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 adequate monitoring, management and mitigation of the Company’s risks has been established.

The Board considers that the Company has established effective risk management arrangements considering the profile and strategy of the Company.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.eto.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



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 in order 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 at all times 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 2017, the Company was 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 was further required by the Law to report on its capital adequacy on a quarterly basis during 2017.

The Senior Management as well as the Risk Manager monitor such reporting and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation (on a monthly basis) of management accounts to monitor the financial and capital position of the Company. 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:

- a) Capital Conservation Buffer (the 'CCB')¹
- b) Institution-specific Countercyclical Capital Buffer (the 'CCyB')²
- c) Other systematically important institutions buffer (the 'O-SII buffer')³

¹ For 2017 CCB consists of Common Equity Tier 1 capital ("CET1") equal to 1.25% of the total of the risk-weighted exposure amounts, calculated in accordance with Article 92(3) of CRR.

² In 2017, the CBC decided to exempt a number of small and medium-sized Cyprus investment firms from the requirement to maintain an institution-specific CCyB for 2017. The Company is exempted from maintaining a CCyB rate in 2017, which was set at 0%. The relevant list of exempted entities is indicated in the link below: <https://www.centralbank.cy/en/financial-stability/macroprudential-policy-decisions/countercyclical-capital-buffer-ccyb>

³ CBC has not designated the Company as an O-SII institution and therefore is not subject to the additional O-SII capital buffer.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



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. Form-144-14-06-9 (Calculation of own funds and capital ratio) is amended by CySEC as applicable. The abovementioned capital buffers have been taken into consideration during the ICAAP capital planning.

The Company has met its capital requirement as of 31 December 17, taking into consideration the above new legislation. The principal forms of Tier 1 capital include share capital (comprising of fully paid ordinary shares), share premium (arising on the issue of ordinary shares at a value above the nominal value), retained earnings and other reserves. There was no Tier 2 capital as of 31 December 2017.

The following table provides a reconciliation between the balance sheet presented in the audited Financial Statements and the balance sheet prepared for prudential purposes.

| Regulatory Own Funds <i>in thousands of USD</i> | At 31 December 2017 |
|---|----------------------------|
| Capital instruments eligible as CET1 Capital | |
| Share Capital | 4 |
| Share Premium | 11,778 |
| Retained Earnings | 22,415 |
| Other reserves | 348 |
| Total Equity as per audited Financial Statements | 34,545 |
| Deductions from CET1 capital | |
| Investors Compensation Fund (ICF) contributions | (211) |
| Common Equity TIER 1 capital | 34,334 |
| Tier 1 Capital | 34,334 |
| Tier 2 Capital | - |
| Total Own Funds | 34,334 |

Deductions from Own funds

The Company, in accordance with Article 36 of the CRR, deducted from CET1 capital the amount of US\$ 211 thousands, representing the Investors Compensation Fund (ICF) contributions, as per Circular C162 of the CySEC dated 10 October 2016.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

The 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 with regards to disclosure of own funds requirements for institutions according to the CRR.

| Own Funds Disclosure Template | At 31 December 2017 |
|--|------------------------------------|
| <i>in thousands of USD</i> | |
| Share Capital | 4 |
| Share Premium | 11,778 |
| Retained Earnings and other reserves | 22,763 |
| Common Equity Tier 1 (CET1) capital before regulatory adjustments | 34,545 |
| Common Equity Tier 1 (CET1) capital: regulatory adjustments | |
| Investors Compensation Fund (ICF) contributions | (211) |
| Total regulatory adjustments to Common Equity Tier 1 (CET1) | 34,334 |
| Additional Tier 1 (AT1) capital | - |
| Tier 1 Capital (T1=CET1 + AT1) | 34,334 |
| Tier 2 Capital | - |
| Total capital (TC=T1+T2) | 34,334 |
| Total Risk Weighted Assets | 203,033 |
| Capital Ratios: | |
| CET1 Capital ratio | 16,91% |
| T1 Capital ratio | 16,91% |
| Total Capital ratio | 16,91% |
| Institution specific buffer requirement (CET1 requirement in accordance with article 92 plus the combined Buffer Requirement) | |
| <i>of which:</i> | |
| Capital Conservation Buffer (CCB) | 1,25% |
| Other Systematically Important Institution (O-SII) buffer | - |
| Countercyclical buffer | - |
| Systemic risk buffer | - |
| Common Equity Tier 1 available to meet buffers | 15,66% |

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



5. COMPLIANCE WITH MINIMUM CAPITAL REQUIREMENTS

As indicated in Section 4: Own Funds of the Report, it is the primary objective of the Company to maintain strong capital ratios and the minimum capital requirements. The minimum capital requirements and the respective risk weighted exposures, calculated under CRR are as follows:

| <i>In thousands of USD\$</i> | Minimum Capital Requirements | Risk weighted exposure |
|--|-------------------------------------|-------------------------------|
| Credit Risk | 6,835 | 85,438 |
| Market Risk(incl. Position, Foreign Exchange & Commodities Risk) | 7,893 | 98,665 |
| Operational Risk | 1,179 | 14,742 |
| Credit Valuation Adjustment Risk | 335 | 4,188 |
| Total | 16,242 | 203,033 |
| Capital Adequacy Ratio (Own Funds/Total Risk Weighted Exposure) | | 16.91% |
| Minimum Capital Adequacy Ratio (including buffers) | | 9.25% |

5.1 Credit Risk

The Company uses the Standardized Approach to Credit Requirements for the calculation of its credit risk.

| <i>In thousands of USD\$</i> | Minimum Capital Requirement | Risk Weighted Exposures |
|------------------------------|------------------------------------|--------------------------------|
| Exposure Class | | |
| Institutions | 2,849 | 35,617 |
| Corporate | 412 | 5,145 |
| Other Items | 2,319 | 28,991 |
| Retail | 1,255 | 15,685 |
| Total | 6,835 | 85,438 |

5.2 Counterparty Credit Risk

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

The table below shows the results of Mark-To-Market calculations for Counterparty Credit Risk:

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

In thousands of USD

| Exposure Type | Market Value LP's | Market Value Clients | Add-on Mark to Market LP's | Add-on Mark to Market clients | PFCE % | Final Exposure LP's | Final Exposure Clients |
|---------------------------------|-------------------|----------------------|----------------------------|-------------------------------|--------|---------------------|------------------------|
| Short term FX CFDs | 163 | 13,452 | 1,339 | 9,910 | 1 | 1,502 | 23,362 |
| Short term Equity CFDs | 1,157 | 12,104 | 17,435 | 38,585 | 6 | 18,592 | 50,689 |
| Short term Debt CFDs | - | 1 | - | - | - | - | 1 |
| Short term Commodity CFDs | 313 | 2,896 | 2,917 | 15,654 | 10 | 3,230 | 18,550 |
| Short term Precious Metals CFDs | 408 | 265 | 2,122 | 3,942 | 7 | 2,530 | 4,207 |
| Short term CFDs | 2,041 | 28,719 | 23,813 | 68,090 | | 25,854 | 96,809 |

As at December 31, 2017 the risk weighted exposure to LP's and to clients (after mitigation) counterparty credit risk summed to:

| <i>In thousands of USD\$</i> | 31 December 2017 | |
|---------------------------------|---------------------|------------------------|
| | Capital Requirement | Risk Weighted Exposure |
| Credit Risk | 5,319 | 66,485 |
| LP's Counterparty Credit Risk | 410 | 5,128 |
| Client Counterparty Credit Risk | 1,106 | 13,825 |
| Total | 6,835 | 85,438 |

CVA

As at December 31, 2017 the CVA weighted risk exposure amounted to 4,188K\$, and the capital requirement (8% from risk weighted exposure) was 335K\$.

5.3 Market Risk

The table below shows the capital requirements and the respective risk weighted exposures as at 31 December 2017, for each type of market risk, as discussed in Section 3 of these Disclosures.

| <i>In thousands of USD\$</i> | 31 December 2017 | |
|------------------------------|---------------------|------------------------|
| | Capital Requirement | Risk Weighted Exposure |
| Foreign Exchange Risk | 1,210 | 15,120 |
| Commodity Risk | 3,963 | 49,542 |
| Equity Risk | 2,712 | 33,897 |
| Trade Debt instruments | 8 | 106 |
| Total | 7,893 | 98,665 |

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



Equity Risk – Trading Book

CRDIV introduced a new categorization to be used for the calculation of market risk related to equities⁴. In CRDIV, market risk result of the calculation of the overall gross position specific risk is 8% from gross position per instrument/per national market.

The market risk result of the calculation of the overall net position general risk allows offsetting of short and long positions only inside the national market where the instruments are traded.

The following table presents the breakdown of equities exposures per relevant national markets, as of December 31, 2017:

| Equity Portfolio (In thousands of USD) | Long Position | Short Positions |
|---|----------------------|------------------------|
| USA Total | 4,113 | 1,487 |
| UK Total | - | 2,422 |
| FRA Total | 1,504 | 169 |
| Other Total | 620 | 252 |
| Spain Total | - | 935 |
| Switzerland Total | - | 594 |
| Japan Total | 119 | - |
| Italy Total | - | 260 |
| Germany Total | - | 6,381 |
| Total | 6,356 | 12,500 |

The following table presents total long and short positions as of December 31, 2017 for general risk in equities in the Trading Book:

| <i>In thousands of USD\$</i> | <u>All Positions</u> | | <u>Net Position</u> | |
|---|----------------------|------------------------|----------------------|------------------------|
| | <u>Long Position</u> | <u>Short Positions</u> | <u>Long Position</u> | <u>Short Positions</u> |
| Equities in trading Book (general risk) | 478,779 | 484,923 | 6,356 | 12,500 |

⁴ The various categories are defined by the following national markets:

Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Egypt, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Liechtenstein, Luxembourg, Malta, Netherland, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK, Albania, Japan, Republic of Macedonia, Russia, Serbia, Switzerland, Turkey, Ukraine, USA, Other (rest of the world).



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

The following table presents the total positions in equities subject to capital charge and the respective own fund requirements, as of December 31, 2017, broken down by specific and general risk:

| <i>In thousands of USD\$</i> | Total position subject to capital charge | Own Funds Requirements |
|------------------------------|---|-------------------------------|
| Specific risk | 18,857 | 1,509 |
| General Risk | 15,040 | 1,203 |
| Total exposure amount | 33,897 | 2,712 |

5.4 Operational Risk

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 on the basis of 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 2017 was \$1,179 thousands, as presented in the table below.

Capital requirements for Operational risk

| <i>In thousands of USD</i> | Gross Income | | | Own fund Requirements |
|---------------------------------|---------------------|-------------|-------------|------------------------------|
| | 2015 | 2016 | 2017 | |
| Activities under the BIA | 2,933 | 6,169 | 14,485 | 1,179 |

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.eto.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



6. EXPOSURE TO CREDIT RISK

The Company's exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the statement of financial position.

6.1 Past due and Impaired Receivables

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.

A provision for impairment of trade and other current receivables is established when there's objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or delinquency in payments, are considered as indicators that the trade receivables are impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the profit and loss. When a trade or other current receivable is uncollectible it is written off against the allowance account for trade and other current receivables.

A financial asset is past due when a counterparty fails to make a payment that is contractually due. As at 31 December 2017, there are no exposures that are past due.

6.2 Total and average amount of exposures

The table below presents the total and average amount of net exposures for the year ended 31 December 2017, broken down by exposure class. The table includes exposure classes that are relevant to the Company's activities. The average net exposure corresponds to the average of the quarterly net amounts by exposure class.

Net exposures relate to amounts post value adjustments but before the application of CCF.

| <i>In thousands of USD\$</i> | | |
|------------------------------|---|-----------------------------|
| Exposure Class | Net Value of Exposure as at 31.12.2017 | Average Net value of |

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

| | | Exposure over the year |
|--------------|----------------|------------------------|
| Institutions | 177,446 | 77,411 |
| Corporate | 11,798 | 6,979 |
| Other Items | 47,167 | 19,331 |
| Retail | 82,722 | 51,450 |
| Total | 319,133 | 155,171 |

6.3 Breakdown of 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 2017. 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.

| Exposure Class | Geographic Area | | | Net Value of Exposure |
|----------------|-----------------|--------------|---------------|-----------------------|
| | EU Countries | USA | Other | |
| Institutions | 174,712 | 2,734 | - | 177,446 |
| Corporate | - | 43 | 11,755 | 11,798 |
| Other Items | 24,448 | - | 22,719 | 47,167 |
| Retail | 49,485 | - | 33,237 | 82,722 |
| Total | 248,645 | 2,777 | 67,711 | 319,133 |

6.4 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 2017. The net exposures relate to amounts post value adjustments but before the application of CCFs.

- Exposures classified with maturity of less than 3 months include all counterparties with maturity less than 3 months.
- Exposures classified with maturity of more than 3 months include Rolling Reserves and Trade and other prepayments

As at 31 December 2017, most of the Company' exposures had residual maturity of less than 3 months.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

| <i>In thousands of USD\$</i> Exposure Class | Residual Maturity <3 Months | Residual Maturity >3 Months | Net Value of Exposure |
|--|--------------------------------|--------------------------------|-----------------------|
| Institutions | 176,937 | 509 | 177,446 |
| Corporate | 11,798 | - | 11,798 |
| Other Items | 45,875 | 1,292 | 47,167 |
| Retail | 82,722 | - | 82,722 |
| Total | 317,332 | 1,801 | 319,133 |

6.5 Total amount of exposure before and after credit risk mitigation

The table below shows the exposure values as at December 31, 2017 before and after credit risk mitigation associated with each asset class:

| Exposure Class | Total Exposure Amount Pre Credit Risk Mitigation | Net Effect of Credit Risk Mitigation | Total Exposure Amount After Credit Risk Mitigation |
|----------------|--|---|---|
| Institutions | 177,446 | - | 177,446 |
| Corporate | 11,798 | (5,503) | 6,295 |
| Other Items | 47,167 | - | 47,167 |
| Retail | 82,722 | (61,808) | 20,914 |
| Total | 319,133 | (67,311) | 251,822 |

7 USE OF EXTERNAL CREDIT ASSESSMENT INSTITUTIONS (ECAIS) AND EXPERT CREDIT AGENCIES (ECAIS)

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

1. Moody’s Investor Services
2. Standard & Poor’s Rating Services
3. Fitch Ratings

The Company applies the mapping of each credit assessment of the eligible ECAIs into the Credit Quality Steps (“CQS”) as it is prescribed by the CRR.

The Company applies credit assessments of ECAIs for all exposure classes including Institutions, Corporates and Other Items, as described below.

- **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, in order 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

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

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.

For short term exposures to Institutions, with a short term credit rating, the following risk weights are applied:

- As at 31 December 2017, all exposures to Institutions had a residual maturity of less than 3 months.
- All exposures, except of two, were rated at least A- (*whether the Institution itself or the corresponding central bank of the jurisdiction in which it was Incorporated*).

As a result, a 20% risk weight was used for all such exposures (CQ1+CQ2). The same risk weight of 20% was also used for 1 exposure that although rated B1 (CQ5) - using the preferable approach since regulated in Cyprus with EUR currency allowed to apply only 20%.

- Corporates: During 2017, the exposures to Corporates were not included in “member state” nor in “equivalent 3rd country” list. As a result, a 100% risk weight was used for unrated exposures (government based approach not Applicable).
- Other Items: The Other Items exposure class includes crypto currency cold storage wallet and plant, property and equipment. As a result, a risk weight of 100% was applied to all exposures to Other Items.

The table below shows the breakdown of the Company’s exposures by CQS is provided in the table below:

| Asset Class | CQS 1 | CQS 2 | CQS 3 | CQS 4 | Total |
|---------------------|----------------|------------|--------------|---------------|----------------|
| Institutions | 151,383 | 425 | - | - | 151,808 |
| Corporate | - | - | - | 5,145 | 5,145 |
| Retail | - | - | 2,480 | - | 2,480 |
| Other Items | 22,716 | - | - | 24,448 | 47,164 |
| | 174,099 | 425 | 2,480 | 29,593 | 206,597 |

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10

8 LEVERAGE RATIO

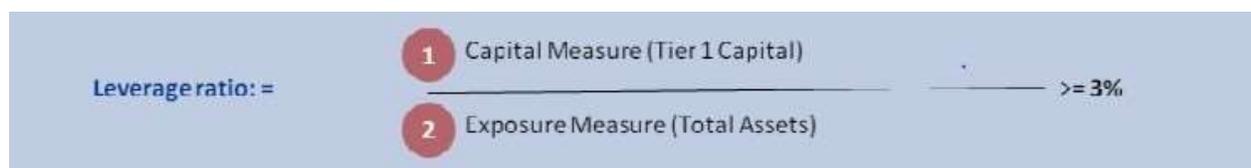
8.1 Background

An underlying feature of the financial crisis was the build-up of excessive on and off balance sheet leverage in the banking system. In many cases, institutions built up excessive leverage while maintaining strong risk-based capital ratios. At the pick of the crisis, the market forced the banking sector to reduce its leverage in a manner that amplified downward pressure on asset prices. This deleveraging process exacerbated the feedback loop between losses, falling Institutions' capital and shrinking credit availability. In this respect, the Basel III reforms introduced a non-risk based leverage ratio to act as a supplementary measure to the risk-based capital requirements.

8.2 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. The leverage ratio is calculated using two capital measures:

- Tier 1 capital: fully phased-in definition - the amount of Tier 1 capital without taking into account the derogations advised by CRD IV,
- Tier 1 capital: transitional definition - Tier 1 capital is calculated after taking into account the derogations.



8.3 Processes used to manage the risk of excessive leverage

The Company has policies and processes in place for the identification, management and monitoring of the risk of excessive leverage. The Senior Management as well as the Risk Manager monitor Leverage ratio by following the policies and procedures in place to help meet the specific regulatory requirements of Capital adequacy requirements. This is achieved through the preparation (on a monthly basis) of management accounts to monitor the financial and capital position of the Company.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



8.4 Leverage ratio

The disclosures below has been prepared using the format set out in Annex I and Annex II of the final “Implementation Technical Standards with regard to disclosure of the Leverage ratio for instructions” (Commission Implementing Regulation-EU 2016/200). As at 31 December 2017, the leverage ratio of the Company was equal to 10.42% using a fully phased-in definition of Tier 1 capital which is above the prospective 3% limit.

| Table LRCom: Leverage ratio common disclosure | | |
|--|---|------------------------------|
| | | CRR leverage ratio exposures |
| On-balance sheet exposures (excluding derivatives and SFTs) | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 206,600 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (211) |
| 3 | Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) | 206,389 |
| Derivative exposures | | |
| 4 | Replacement cost associated with <i>all</i> derivatives transactions (ie net of eligible cash variation margin) | 31,122 |
| 5 | Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method) | 91,909 |
| 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) | - |
| 11 | Total derivative exposures (sum of lines 4 to 10) | 123,031 |
| Securities financing transaction exposures | | |
| 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) | - |
| 16 | Total securities financing transaction exposures (sum of lines 12 to 15a) | |
| Other off-balance sheet exposures | | |
| 17 | Off-balance sheet exposures at gross notional amount | 115 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | |
| 19 | Other off-balance sheet exposures (sum of lines 17 to 18) | 115 |
| Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet) | | |

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Ilia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



eToro (Europe) Ltd – Pillar III Disclosures for the year 2017

| | | |
|------------------------------------|--|---------|
| 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)) | |
| Capital and total exposures | | |
| 20 | Tier 1 capital | 34,334 |
| 21 | Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 329,535 |
| Leverage ratio | | |
| 22 | Leverage ratio | 10.42% |

| Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) | | |
|---|---|-------------------------------------|
| | | CRR leverage ratio exposures |
| EU-1 | Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | 206,389 |
| EU-2 | Trading book exposures | - |
| EU-3 | Banking book exposures, of which: | 206,389 |
| EU-5 | Exposures treated as sovereigns | - |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns | - |
| EU-7 | Institutions | 151,808 |
| EU-8 | Secured by mortgages of immovable properties | - |
| EU-9 | Retail exposures | 2,480 |
| EU-10 | Corporate | 5,145 |
| EU-11 | Exposures in default | - |
| EU-12 | Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 46,956 |

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



9 REMUNERATION POLICY AND PRACTICES

The principles employed within the Company's Remuneration Policy shall be appropriate to its size, internal organisation 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.

9.1 Remuneration System

The Company has an established Nomination and Remuneration committee, which is composed of non-executives members of the board in 1.17.

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 (thereafter “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 take into account the staff’s skills, experience and performance, whilst supporting at the same time the long-term business objectives, The remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

Fixed and Variable Remuneration

The total remuneration of staff currently consists of primarily a fixed component. The remuneration varies for different positions/roles depending on each position’s actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors. In addition to the fixed remuneration component, there is also a variable remuneration component, consisting of:

- Sales commissions;
- Bonuses;
- Employee option plan and;
- Employee investment accounts,

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, and the fixed component represents a sufficiently high proportion of the total to allow a flexible variable remuneration policy.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



9.2 Performance Appraisal and link between Pay and Performance

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 2017 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.

9.3 Aggregate Quantitative Information

The details of remuneration for 2017 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:

| <i>In thousands of EUR</i> | Fixed Remuneration | Variable Remuneration | Deferred Remuneration | Total number of staff |
|---------------------------------------|---------------------------|------------------------------|------------------------------|------------------------------|
| Senior Management | 112 | 34 | 17 | 6 |
| Other Key Management Personnel | 475 | 183 | 109 | 14 |
| Total | 587 | 217 | 126 | 20 |

During 2017, variable remuneration consisted solely of cash bonus.

There were no severance payments awarded and paid out during the financial year.

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10



APPENDIX I: GLOSSARY

| | |
|-------|--|
| BIA | Basic Indicator Approach |
| CBC | Central Bank of Cyprus |
| CCB | Capital Conservation Buffer |
| CCF | Credit Conversion Factor |
| CCP | Central Counterparty |
| CCR | Counterparty Credit Risk |
| CCyB | Countercyclical Capital Buffer |
| CFD | Contact for difference |
| CET1 | Common Equity Tier 1 |
| CIF | Cyprus Investment Firm |
| CMP | Compliance Monitoring Program |
| CQS | Credit Quality Steps |
| CRR | Capital Requirements Regulation |
| CVA | Credit Valuation Adjustment |
| CYSEC | Cyprus Stock Exchange |
| ECAI | External Credit Assessment Institutions |
| EU | European Union |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IT | Information Technology |
| NDF | Non deliverable forwards |
| O-SII | Other Systematically Important Institutions |
| OTC | Over the Counter |
| RWA | Risk Weighted Assets |
| SA | Standardised Approach |
| SFT | Securities Financing Transactions |
| SREP | Supervisory Review Process |

eToro (Europe) Ltd

KIBC, (Kanika International Business Center), 7th Floor, 4 Profiti Iliia Street, Germasogia, Limassol, 4046 www.etoro.com

O: +357 25 875002 or 25 030234 F: +357 25 590525

Regulated by the Cyprus Securities and Exchange Commission under license No. 109/10