BINARY INVESTMENTS (EUROPE) LTD

The Third Pillar: Market Discipline Report

Note: This document is only applicable to European clients contracted directly with Binary Investments (Europe) Ltd. (account codes starting with “MF”). It does not apply to clients contracted with any of the other subsidiaries of the Binary Limited group of companies.

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1. INTRODUCTION

The transposition of the Basel III framework into European law was done in two parts: publication of the Capital Requirements Directive IV (“CRD IV” / “Directive 2013/36/EU”) and the Capital Requirements Regulation (“CRR” / “Regulation (EU) No. 575/2013”). Both the Directive and the Regulation are applicable since 1 January 2014.

Binary Investments (Europe) Limited (C 70156) (the “Company”), is registered in Malta, licensed and regulated by the Malta Financial Services Authority (“MFSA”) as a Category 3 Investment Services provider, under the Investment Services Act (Cap. 370, Laws of Malta).

This document is prepared in accordance with the above mentioned Directive and Regulation.

2. SCOPE OF APPLICATION

The Company is required to publicly disclose Pillar 3 Disclosures once a year at a minimum. Policies related to the following are being established by the Company and will come into force no later than 31 December 2016:

- Compliance of disclosure requirements per Part Eight of Regulation (EU) No. 575/2013;
- Diversity of the Board of Directors; and
- Recruitment of the Board of Directors.

The Company has no subsidiary and is making the disclosures on an individual basis.

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3. REPORTING LOCATION

The Company, a private limited liability Company, is incorporated and domiciled in Malta. The address of the Company's registered office is Mompalao Building, Suite 2, Tower Road, Msida MSD 1825, Malta.

The Company is a wholly-owned subsidiary of Binary Limited whose registered address is 47 Esplanade, St. Helier, Jersey, JE1 OBD, Channel Islands.

This document contains the disclosures and will be published on the website of the Company at www.binary.com.

4. CAPITAL ADEQUACY

4.1 Capital Adequacy Approach

The Company's capital management objectives are to:

- comply with the capital resources requirements required by the MFSA; and
- ensure its ability to continue as a going concern and to provide an adequate return to shareholders and benefits to other stakeholders by pricing services commensurately with the level of risk, and maintaining an optimal capital structure to reduce the cost of capital.

The Company's capital adequacy is actively managed by periodic monitoring of capital ratios.

4.2 Regulatory Capital Ratios

Regulatory capital ratios calculated using elements of own funds are disclosed as follows:

Table 2. Regulatory capital ratios

	2015 **%**
Common equity Tier 1	159.05
Tier 1 capital	159.05
Total capital	159.05

4.3 Return on Assets

Return on assets are disclosed as follows:

Table 3. Return on assets

	2015 **%**
Return on total assets	-3.41
Return on net assets	-5.61

4.4 Risk Weighted Assets

Risk weighted assets and their minimum capital requirements are as follows:

Table 4. Risk weighted assets and minimum capital requirements for credit/counterparty risk, foreign exchange risk, and operational risk

Risk Components	Risk Weighted Assets	Minimum Capital Requirements
	US$	US$
Credit/Counterparty Risk	386,346	30,908
Foreign Exchange Risk	146,915	11,753
Operational Risk	59,764	4,781
Total	593,025	47,442

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1 Risk Management Strategy

The development and implementation of the Company's strategic objectives depend on the Company's capability and risk management strategy. As such, risk management forms one of the core foundation of the Company's strategic objectives. Risk management is carried out internally using policies defined by the Board of Directors (the "Board").

The primary elements of the Company's risk management strategy are its:

- risk management processes and objectives;
- general conduct of business;
- risk statement;
- overall risk tolerance limits; and
- governance arrangement.

5.2 Risk Management Processes and Objectives

The Company has in place a risk management process, coordinated by the Head of Risk/Director, to identify the risks to which the Company is or could be exposed, and to manage those risks.

The Company is exposed to various risks which depend on the specific objectives being performed while fulfilling the Company's business. The Company's objective is to identify the risks and determine if they may be avoided, reduced, spread, transferred or prevented. Having recognised the need and the responsibility to preserve the Company's resources, the following guidelines are followed in managing the risks the Company may encounter:

- achieve and maintain a reduced cost of risk without placing the Company in a position of risk exposure that could have a significant impact on its financial security;
- evaluate and assess all risks of loss from the services it provides;
- reduce or eliminate identifiable conditions and practices which may cause loss whenever possible; and
- maintain a risk register which includes a description of each risk, risk categorization, and risk mitigation factors.

5.3 General Conduct of Business

The Company conducts its operations in a manner that avoids unnecessary excessive risks and that assumes an acceptable level of risk which is integral to the day-to-day running of the business.

The Company's Board and senior management team acts in a prudent and diligent manner to safeguard its reputation. Risks that arise due to the nature of the Company's business operations are minimised through a prudent and diligent conduct of business, and in accordance with its risk appetite and risk profile.

Risks are minimised through adherence to the Company's own internal control systems and procedures. Adherence to applicable laws, regulations, directive and guidelines issued by MFSA and European Union is overseen by the Board.

The Company adopts a positive and proactive approach to managing these risks and maintains capital levels that exceed the minimum regulatory requirements.

Furthermore, the Board and senior management team of the Company acknowledge that proper conduct of business not only safeguards against adverse reputational consequences to the Company but also helps to protect the reputation of its peers and the industry as a whole.

5.4 Board Declaration – Adequacy of Risk Management Arrangements

The Board acknowledges that the senior management team has taken reasonable steps to establish and maintain risk management policies, processes, and day-to-day application that are appropriate to the business nature of the Company.

5.5 Concise Risk Statement

The Company adopts a conservative risk appetite. The risk appetite and acceptable risk level is cascaded to the key risk components of the Company.

5.6 Governance Arrangement

5.6.1 Governance and Oversight

The Board is committed to meeting high standards of corporate governance and strives to uphold its own highest standards of corporate governance as a private limited company by monitoring the developments in corporate governance standards within the industry and the region.

The Board's roles, powers, duties and functions are established based on the following guiding principles:

- Be responsible for the Company's leadership and provision of strategic direction and oversight;
- Monitor and periodically assess the effectiveness of the Company's governance arrangements;
- Approve and oversee the development and implementation of the Company's strategic objectives, risk strategy and internal governance;
- Ensure integrity of accounting and financial reporting procedures;
- Ensure adequacy and effectiveness of risk management and internal control functions; and
- Ensure compliance with relevant rules, laws, regulations and relevant standards;

Roles and responsibilities of members of the Board:

- Maintain a sufficiently good repute and possess sufficient collective knowledge, skills, and experience;
- Consider and approve frameworks, policies, and procedures;
- Devote adequate human and financial resources to the training of employees and members of the Board;
- Assess and consider acceptable risk tolerance level;
- Determine dividend policy and amount;
- Consider and approve implementation of appropriate corporate governance arrangements;
- Monitor adequacy and effectiveness of controls and address deficiencies
- Act with honesty, integrity and independence of mind; and
- Oversee and monitor decision-making process.

5.6.2 Members of the Board of Directors

The Board is comprised of three executive directors. During the financial year ended 31 December 2015, the directors in office and their directorships:

- within Binary Limited group of companies (internal); and
- outside of Binary Limited group of companies (external).

	Members of the Board	Internal	External
1	Jean-Yves Christian Sireau	9	7
2	Joanna Frendo	4	Nil
3	Derek Swift	2	Nil

5.6.3 Recruitment Policy of Members of the Board of Directors

The draft recruitment policy of members of the Board comprise of:

- Guiding principles;
- Board composition;
- Board recruitment and selection;
- Board performance assessment; and
- Implementation responsibility.

The Board Recruitment Policy is expected to be approved no later than 31 December 2016.

5.6.4 Policy on Diversity of the Board of Directors

Board diversity and individuality is valued and encouraged to provide a broader range of competence, skills and experiences to enhance the Company’s capabilities to deliver business results and manage risks.

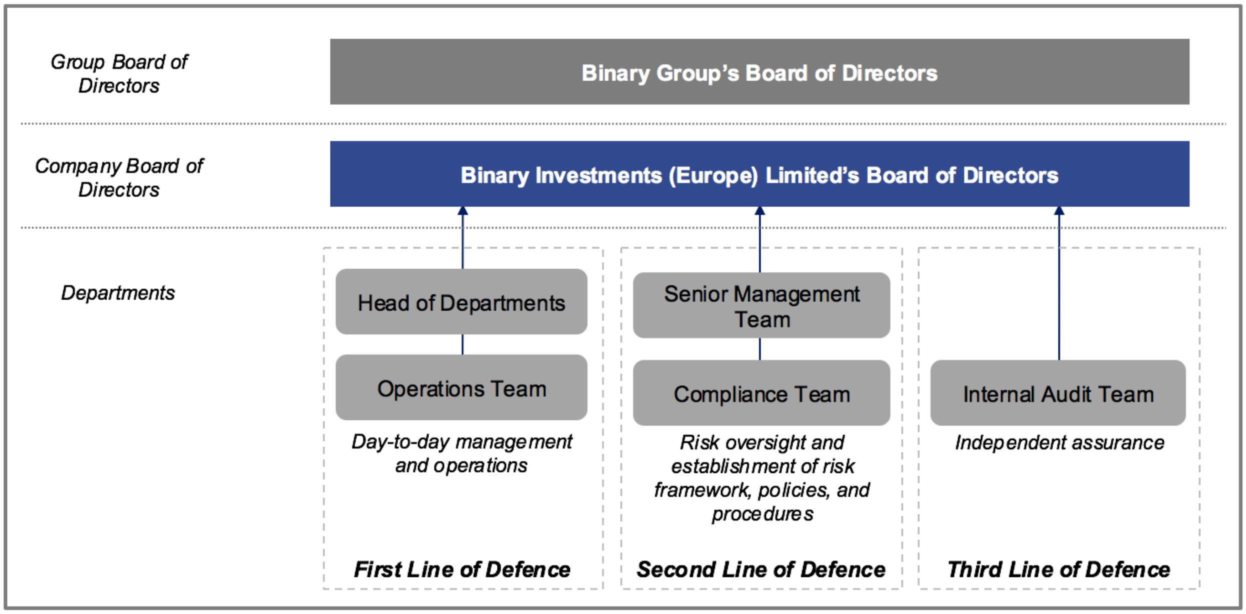
The Board Diversity Policy is expected to be approved no later than 31 December 2016.

5.6.5 Risk Management Function

Risk is an inherent component in all aspects of the Company's business. The Company continuously promotes a culture of risk awareness and responsibility.

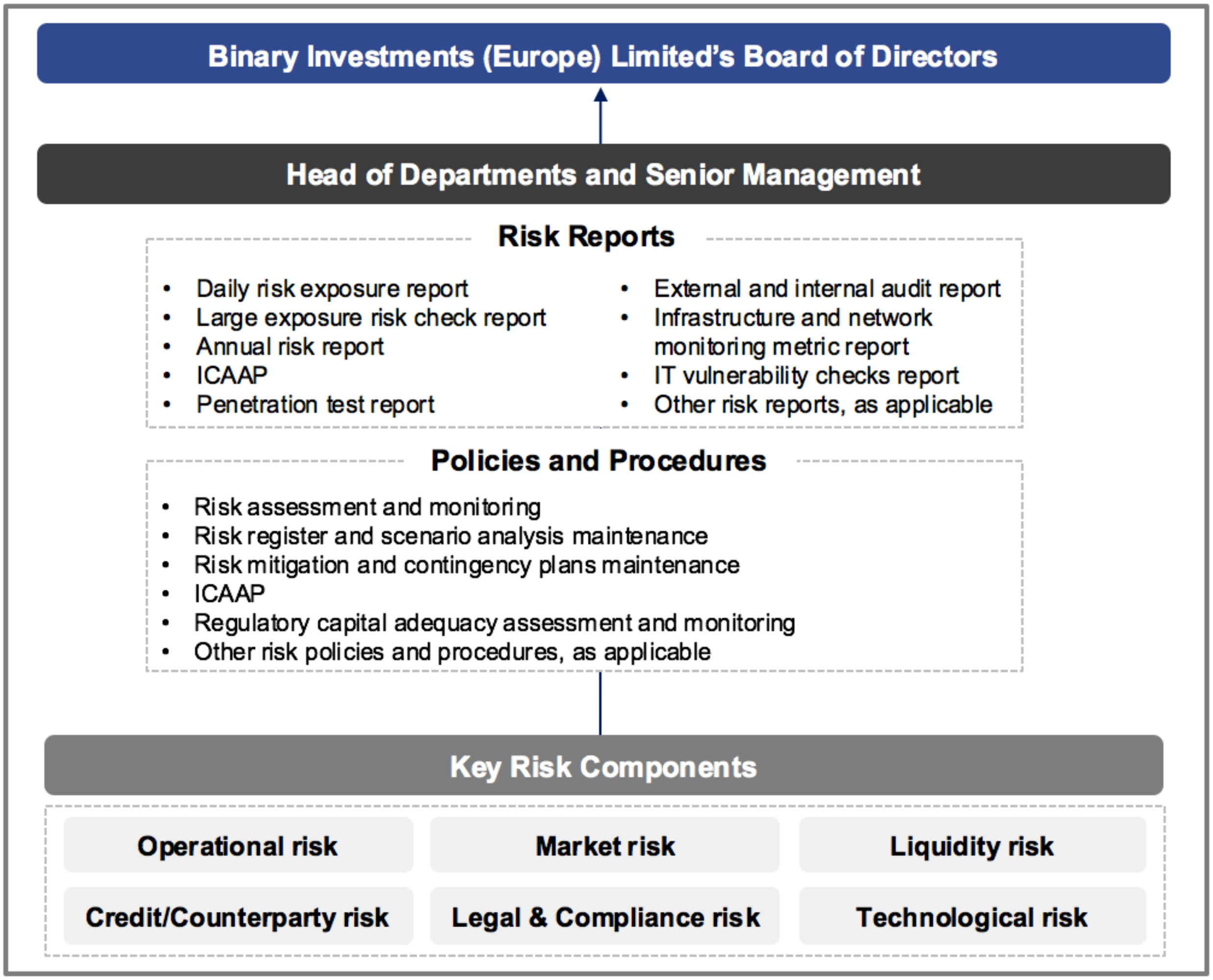
The following describes the structure and organisation of the Company's risk management function:

Diagram 1. Structure and organisation of risk management function



The following describes the risk reporting flow of the Company:

Diagram 2. Risk information flow to the Board of Directors



5.6.6 Risk Management Committee

Due to the business nature and size of the Company, risk management committee has not been established during the financial year ended 31 December 2015. The Board will continuously assess the need for the establishment of a risk management committee.

6. OWN FUNDS

The table below provides the disclosure of the Company's own funds structure:

Table 5. Regulatory capital

	2015 US$
Common equity Tier 1 Capital: instruments and reserves	**1,000,948**
Capital instruments	1,000,000
Other reserves – investor compensation scheme	948
Regulatory adjustments to CET 1:	**(57,746)**
Accumulated loss	(54,046)
Other intangible assets	(3,700)
Total Capital (Own Funds)	**943,202**
Risk weighted exposure amounts for credit/ counterparty risks	386,346
Total risk exposure amount for foreign exchange risk	146,915
Total risk exposure amount for operational risks	59,764
Total risk exposure amount	**593,025**

The full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and other filters and deductions applied to the own funds of the Company and the balance sheet in the audited financial statements is provided in the following table:

Table 6. Reconciliation of balance sheet to regulatory capital

	Balance sheet in accordance with IFRS 2015 US$	Regulatory adjustments 2015 US$	Regulatory own funds 2015 US$
Ordinary share capital	1,000,000	-	1,000,000
Accumulated loss	(54,046)	-	(54,046)
Inadmissible assets - intangible assets	-	(3,700)	(3,700)
Investor compensation scheme	948	-	948
	946,902	**(3,700)**	**943,202**

The main features and terms and conditions of Tier 1 and Tier 2 instruments are disclosed in the table below:

Table 7. Terms and conditions of regulatory capital

Capital Instruments Main Features	**Ordinary Share Capital**
Governing Law	Maltese Law
Regulatory Treatment	
Transitional CRR rules	Common Equity Tier 1
Post-transitional CRR rules	Common Equity Tier 1
Amount recognised in regulatory capital	US$ 1,000,000
Nominal amount of instrument	US$ 1,000,000
Issue price	US$ 1
Accounting classification	Share equity
Original date of issuance	22 April 2015
Perpetual or dated	N/A
Original maturity date	N/A
Issuer call subject to prior supervisory approval	No

Coupons/dividends	
Fixed or floating dividend coupon	Floating
Coupon rate	N/A
Existence of dividend stopper	No
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	No
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
Write-down features	No
Position in subordination hierarchy in liquidation	Subordinated to creditors
Non-compliant transitional features	No

7. RISK COMPONENTS

7.1 Credit/Counterparty Risk Components

The exposure classes applicable to the Company in respect of its credit/counterparty risk is comprised of:

Table 8. Credit/Counterparty exposure analysis by exposure class

Exposure Classes	Total Exposure Value	Minimum Capital Requirements	Risk Weighted Exposure
	US$	US$	US$
Central Government	28,591	5,718	71,478
Institutions	1,511,218	24,180	302,244
Corporates	2,803	224	2,803
Other Items	9,821	786	9,821
Total	1,552,433	30,908	386,346

The Company applies the Standardised Approach for the calculation of its Credit/Counterparty risk.

Credit/counterparty risk is the risk of incurring a financial loss on the assets, loans and receivables of the Company when a counterparty fails to meet the obligations towards the Company and includes concentration risk. Concentration risk is the risk arising from high exposures to a single counterparty or a group of connected counterparties.

The Company’s exposure to central government is composed of the deferred tax asset arising from temporary differences.

Exposure to institutions comprised of cash and cash equivalents placed with financial institutions. The Company’s counterparty for cash and cash equivalents are financial institutions of high quality external credit ratings. As such, the Board considers the credit risk for cash and cash equivalents to be low.

7.2 Credit/Counterparty Risk Adjustment

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that they carrying amount may not be recoverable.

The Company did not have any financial assets that are past due and impaired as at 31 December 2015. No specific and general credit risk adjustments were made to the Company's financial assets for the financial year ended 31 December 2015.

7.2.1 Exposures by average exposure amount over the period broken down by different type of exposure classes

The table below outlines the Company's exposure by exposure class net of any specific provision:

Table 9. Average Credit/Counterparty exposure

Exposure Classes	Total Exposure Value	Average Exposure Value
	US$	US$
Central Government	28,591	9,530
Institutions	1,511,218	1,236,290
Corporates	2,803	48,806
Other Items	9,821	17,896
Total	1,552,433	1,312,522

7.2.2 Exposures post value adjustments by industry and exposure class

The table below outlines the Company's exposure by exposure class and industry area* net of any specific provision:

Table 10. Industry analysis of Credit/Counterparty exposure

Exposure Class	Financial Service	Real Estate	Public Administra-tion	Others	Total
	US$	US$	US$	US$	US$
Central Government	-	-	28,591	-	28,591
Institutions	1,511,218	-	-	-	1,511,218
Corporates	-	-	-	2,803	2,803
Other Items	601	2,041	-	7,179	9,821
Total	1,511,819	2,041	28,591	9,982	1,552,433

* The Company uses the UK Standard Industrial Classification of Economic Activities 2007 for the above classification purpose

7.2.3 Exposures post value adjustments by significant geographic area and material exposure class

The table below outlines the Company's exposure by exposure class and geographic area net of any specific provision:

Table 11. Geographical analysis of Credit/Counterparty exposure

Exposure Class	Malta	Germany	United Kingdom	Isle of Man	Total
	US$	US$	US$	US$	US$
Central Government	28,591	-	-	-	28,591
Institutions	1,442,405	48,537	14,971	5,305	1,511,218
Corporates	2,803	-	-	-	2,803
Other Items	9,821	-	-	-	9,821
Total	1,483,620	48,537	14,971	5,305	1,552,433

7.2.4 Exposures post value adjustments by residual maturity and by material exposure class

The table below outlines the Company's exposure by exposure class and residual maturity net of any specific provision:

Table 12. Residual maturity analysis of Credit/Counterparty exposure

Exposure Class	< 3 months	< 1 year	> 1 year	Total
	US$	US$	US$	US$
Central Government	-	-	28,591	28,591
Institutions	-	1,511,218	-	1,511,218
Corporates	-	2,803	-	2,803
Other Items	2,642	-	7,179	9,821
Total	2,642	1,521,200	28,591	1,552,433

7.3 Market Risk Analysis

7.3.1 Foreign Currency Risk

The Company's revenue, purchases and operating expenditure are mainly denominated in euro and sterling pound. The Company has a short-term risk exposure for foreign currency risk on its cash and cash equivalents placed with financial institutions denominated in euro and sterling pound.

The Head of Risk/Director monitors the Company's exposure to foreign currency risk on a continuous basis against acceptable thresholds.

The Company does not enter into any hedging positions to mitigate its exposure to foreign currency risk.

7.3.2 Interest Rate Risk

The Company is not exposed to interest rate risk since it does not have any interest bearing borrowings. Interest exposure on its financial assets bearing variable interest rates is not considered to be significant and the Company does not rely on it as a source of income.

7.4 Liquidity Risk

The Company's exposure to liquidity risk arises from its obligations to meet its financial liabilities, comprised of derivative financial liabilities, trade payables, and other payables. Prudent liquidity risk management activities include maintaining sufficient cash balances to ensure the availability of an adequate amount of liquid funds to meet the Company's obligations when they become due.

The Company adopts systems and procedures to monitor and manage liquidity risk. The primary objective of these systems and procedures are to ensure that adequate levels of liquidity buffers are maintained.

Periodic reconciliations, reporting and cash management procedures are in place to manage the Company's liquidity.

The Company's liquidity risk is not deemed to be significant in view of the excess of net cash inflows arising from operating, financing and investment activities.

7.5 Large Exposure Risk Components

Limits on large exposures are established to ensure that a company manages its exposure to counterparties within appropriate limits determined in accordance with its capital resources requirements.

The Company implements an automated control procedure by checking, limiting and reporting its large exposure risk whenever a contract is purchased.

The Company does not have any large exposures exceeding the calculated threshold percentage of own funds for the financial year ending 31 December 2015.

7.6 Commodities Risk Components

Commodities risk refers to the risk of holding or taking positions in commodities such as physical products which are, and can be traded in the secondary market. This includes commodity derivatives. It is the Company's policy not to hold any investments in commodities.

7.7 Operational Risk Components

Operational risk represents the risk of loss resulting from inadequate or failed internal controls, or from external events, and this includes legal risk. The internal control system of the Company consists of systematically structured organisational and technical measures to secure and protect the Company's assets, prevent and report errors and irregularities and comply with laws and regulations. The Company's internal processes and procedures are continuously monitored and reviewed by the senior management team for efficiency and effectiveness purposes.

The Company adopts established International Financial Reporting Standards and implements adequate segregation of duties in place to avoid conflict of interests. Audit trails and logs are maintained in all systems and tools accessed and used by employees. Additionally, the Company adopts a “need-to-know” access control policy.

All employees and contracted telecommuters of the Company are vetted for their conduct, qualifications and experience prior to their engagement. Continuous education and training programme is provided to develop the necessary knowledge and skills required to carry out their job functions.

7.8 Credit Valuation Adjustment Risk

Credit valuation adjustment (“CVA”) refers to an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the entity, but does not reflect the current market value of the credit risk of the entity to the counterparty.

The Company collects the total purchase price for each contract up front, at the time the client enters into a contract. This purchase price is deducted from the client’s account balance. The Company does not offer any form of loans or financing facilities to its clients. This means that for the entire duration of the contract, the client will not be liable for any additional funds. As such, the credit risk of the client is not an influencing factor in the ultimate outcome of a given client’s contract. The Company’s risk exposure to credit valuation adjustment is low.

7.9 Compliance Risk

In accordance with the directors’ report of the audited financial statements for the financial year ended 31 December 2015, there were no breaches of licence conditions which are subject to administrative penalties or other regulatory sanctions. The risk of regulatory sanctions, financial loss, or adverse reputational impact due to failure to comply with financial reporting requirement set out by MFSA and International Financial Reporting Standards is low. All the necessary reports required by MFSA are filed on time and prepared with the utmost of diligence and care. The Directors consider the Company’s reputation as one of its key success factors.

7.10 Insurance Covers

The Company holds an insurance policy which provides coverage in respect of loss of money or loss or damage to any other asset or property belonging to the Company or which are in the care, custody or control of the Company of for which the Company is responsible. The policy is reviewed on an annual basis.

7.11 Trading Book Risk Components

7.11.1 Position Risk

Position risk is the risk of losses arising from movements in market prices, in on- and off-balance sheet investments in financial instruments which qualify as trading book business.

For measuring Position Risk on Derivatives, the Company uses the Scenario Approach (Scenario Matrix Analysis), as outlined in the Basel II Agreement, Bank for International Settlements, in order to mitigate and report its Position Risk.

Scenario Matrix Analysis is accomplished by specifying a fixed range of changes in the option portfolio's risk factors and calculating changes in the value of the option portfolio at various points over the grid.

7.11.2 Counterparty Credit Risk

Counterparty Credit Risk ("CCR") represents the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

CCR is not a concern for the Company with regards to the contracts within the trading book. The Company collects the total purchase price for each contract up front, at the time the client enters into a contract. This purchase price is deducted from the client's account balance. The Company does not offer any form of loans or financing facilities to its clients.

7.11.3 Settlement Risk

Settlement risk is the risk that the Company's cash against documented transactions in financial instruments are unsettled after the delivery due date.

Settlement risk is negligible for the Company. The Company collects the total purchase price for each contract up front, at the time the client enters into a contract. This purchase price is deducted from the client's account balance.

The Company will conduct settlements on the very same day that the contracts conditions are fulfilled by crediting pay outs to clients whose contracts are in the money. No additional funds will be exchanged between the Company and clients whose contracts are out of the money.

7.11.4 Free Deliveries

Free deliveries cater for the risk that the licence holder has either: (a) paid for free deliveries transactions in financial instruments which qualify as trading book business before receiving them; or (b) has delivered financial instruments which qualify as trading book business, sold in a free deliveries transaction, before receiving payment for them.

Free deliveries is not a concern for the Company with regards to the contracts within the trading book. The Company collects the total purchase price for each contract up front, at the time the client enters into a contract. This purchase price is deducted from the client's account balance. As such, the risk that the clients will not pay for their transactions does not constitute a risk exposure to the Company and its bottom line.

8. REMUNERATION POLICY AND PRACTICES

8.1 Remuneration Guiding Principles

The Board's remuneration structure is designed to achieve an appropriate balance between risk and reward. The current remuneration structure is based on two key principles, which are considered best practice in the human resources domain:

- Internal equity – Directors /employees who perform similar job functions with similar skill levels should earn similar amounts
- External competitiveness – Director /employee compensation package compares favourably with companies of similar industry, business nature, size, and geographical area.

Over time, remuneration reflects the director's /employee's value to the Company, and is fair vis-à-vis other directors /employees within the Company.

8.2 Performance Appraisal

The Company's performance appraisal is based on a self-assessment system and is conducted twice a year. The appraisal focuses on the following areas:

- Skills;
- Teamwork;
- Work performance; and
- Personal traits.

The three broad categories used as a general guideline for ratings of performance appraisal results:

- Exceeds expectation;
- Meets expectation; and
- Below expectation.

8.3 Directors' Remuneration

The Board represents the following:

- Amounts paid to Directors are fixed and any increase is based on the Company's performance as well as individual performance. Bonus is discretionary and performance based.
- All payments are done in cash and no shares or share options are granted as part of the remuneration package.
- The amount actually paid to two of the Directors during the financial year ended 31 December 2015 was US$ 49,408.
- The Company has paid an amount of US$ 12,275 in staff bonuses during the financial year ended 31 December 2015 (including bonuses paid to the directors).
- The Company does not offer any other variable remuneration packages to its directors / employees.

9. LEVERAGE

9.1 Leverage Ratios

Leverage ratio is calculated by dividing Tier 1 capital by a defined measure of on-balance sheet assets. It measures the relationship between the capital resources of the organisation to its total assets.

Periodically, the Internal Capital Adequacy Assessment Process (ICAAP), which provides a view of the impact of severe and unexpected events on profits, risk weighted assets, capital and leverage, is carried out. Leverage ratio is monitored periodically.

Leverage ratios calculated are disclosed as follows:

Table 13. Leverage ratio

	2015 **%**
Leverage Ratio - using a fully phased-in definition of Tier 1	60.61
Leverage Ratio - using a transitional definition of Tier 1	60.61

9.2 Reconciliation of leverage ratio

The following table discloses the the breakdown of leverage ratio exposure as well as the reconciliation of leverage ratio exposure with accounting assets in the balance sheet:

Table 14. Reconciliation of balance sheet to leverage ratio exposure

	2015 US$
Summary reconciliation of accounting assets and leverage ratio exposures:	
Total assets as per published financial statements	1,556,133
Total leverage ratio exposure	**1,556,133**

	2015 CRR leverage ratio exposures US$
Leverage ratio common disclosure:	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,552,433
Asset amounts deducted in determining Tier 1 capital	3,700
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**1,556,133**
Tier 1 capital	943,202
Total leverage ratio exposures	1,556,133
Leverage ratio	**60.61 %**

	2015 CRR leverage ratio exposures US$
Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**1,552,433**
Banking book exposures, of which:	
Institutions	1,511,218
Corporate	2,803
Other exposures (plant and equipment, deferred tax asset and prepayments)	38,412