Admiral Markets AS

Annual Report 2018

(Translation of the Estonian original)

2018

Admiral Markets AS

Annual Report 2018

Commercial Registry no.	10932555
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Main area of activity	Investment services
Activity licence no.	4.1-1/46
Beginning and end date of financial year	1 January to 31 December
Members of the Management Board	Sergei Bogatenkov Dmitry Kuravkin
Chairman of the Supervisory Board	Alexander Tsikhilov
Members of the Supervisory Board	Dmitri Lauš Anton Tikhomirov Anatolii Mikhalchenko
Auditor	PricewaterhouseCoopers AS

HIGHLIGHTS 2018

- Net trading income increased 25% to EUR 24.2 million
- EBITDA* was EUR 10.1 million
- EBITDA margin increased to 42%
- Net profit was EUR 9.5 million
- Net profit margin increased to 39%
- Cost to income ratio decreased to 63%
- Value of trades up 41% to EUR 572 billion
- Number of trades up 42% to 30 million

Net trading income
EUR 24.2mln

2018	24.2
2017	19.3
2016	18.0

EBITDA
EUR 10.1mln

2018	10.1
2017	6.4
2016	6.3

Net profit
EUR 9.5mln

2018	9.5
2017	6.0
2016	5.9

EBITDA margin
42%

2018	42%
2017	33%
2016	35%

Net profit margin
39%

2018	39%
2017	31%
2016	33%

Cost to income ratio
63%

2018	63%
2017	66%
2016	69%

Number of trades
30mln

2018	30.1
2017	21.2
2016	20.4

Value of trades
EUR 572bn

2018	572
2017	407
2016	335

*Earnings before interest, taxes, depreciation and amortisation

To the investors of Admiral Markets

2018 has been a year of growth for Admiral Markets Group AS and Admiral Markets AS, which is a subsidiary of Admiral Markets Group AS. Established in Tallinn, the Group is represented and known globally and competes on equal terms with the first-tier UK and Swiss companies.

Admiral Markets AS got all-time high revenues and profit in 2018. Net trading income increased to EUR 24.2 million in 2018, a rise of 25% compared to EUR 19.3 million a year earlier. The growth in net trading income can mainly be attributed to an increase in the number of active clients in the Group, but also to high-value clients trading more. The net profit of Admiral Markets AS reached EUR 9.5 million in 2018, a 58% increase compared to 2017. The ultimate owners of Admiral Markets AS received a 30.1% return on their shareholdings.

Admiral Markets Group AS, the parent company of Admiral Markets AS, also showed record results in 2018. The consolidated net trading income of Admiral Markets Group AS increased to 32.6 million euros in 2018, which is 5.6 million euros more than a year earlier. The consolidated net profit of the Group was 10.3 million euros, or 58% more than 6.5 million euros a year before. The value of trades increased 41% to 572 billion euros in 2018. The Group had ca 22,300 active clients in 2018, a 10% increase compared to the year before. The clients of Admiral Markets made over 30 million trades in 2018.

2018 was mostly characterised by strengthening and increasing Admiral Markets AS and other Group investment companies' positions in Europe. 2018 brought Admiral Markets AS record results thanks to our excellent customer service, the addition of new financial instruments with the largest expansion of our products portfolio, access to 15 of the largest stock exchanges, the development of our trading technology as well as great marketing activities.

Our long-term goal as a Group is to become a leader in both providing services to trading-educated people, familiar with the modern financial and trading world, and in helping people to improve their knowledge of trading and financial markets. We bring great attention to increasing the knowledge of our clients as this means new business opportunities for us.

Admiral Markets AS serves to support the aim of the Group.

To accommodate the business growth over the past 12 months, and reflecting expectations of continued growth in the future, Admiral Markets AS relocated to its new headquarters.

2018 also marks the year of going public for Admiral Markets AS. This means that since January 11th, 2018, it has been possible to trade the bonds of Admiral Markets AS on the Baltic Bond List, the regulated market organised by Nasdaq Tallinn AS.

Many new regulations influenced 2018, but Admiral Markets AS started implementing the necessary changes before-hand. The European Securities Market Authority imposed one of the main regulatory changes, and the other was General Data Protection Regulation.

Going digital will be the definition of success in future years as the level of competition for digital business is increasing. Therefore digital marketing skills and the creation of new methods to attract and retain clients is critical. We will focus on bringing attention to IT and developing advanced and unique technological solutions. By doing this, we will be able to deliver a new wave of innovative products to our clients, which is crucial for our transformation into a true high-technology company.

As best customer service is what distinguishes the big players from the small ones, we will seek opportunities to develop our customer service to an even higher level. We want to offer the best possible customer experience for our clients.

The present and future are mobile, meaning we are also present there, together with our client. User-friendly mobile solutions and their constant development is something we strongly believe in. Over the years we have developed successful and productive work processes. Combined with the best trading platforms, flexibility and speed are what characterise our workflow.

Our success in 2018 was possible due to the high commitment of our employees, their extremely good expertise and their dedication to achieving our overall goals. We put much effort into developing and retaining a strong team as success is always built on having the best people and applying their knowledge. Offering a competitive salary, training and self-development possibilities we can attract the best people to join our team. By obtaining the best skills concerning customer service and professionality, we guarantee that Admiral Markets AS is a service provider ahead of the game in the industry. In the coming years, we will continue to seek opportunities to develop our customer service to an even higher level.

We highly appreciate cooperation with regulatory authorities as trustworthiness in business is essential for growth and expansion.

26th March 2019
Sergei Bogatenkov
Chairman of the Management Board

Table of contents

1. Management report

Our company

ADMIRAL MARKETS AS was founded in 2003. In 2009, the Estonian Financial Supervisory Authority granted Admiral Markets AS the activity licence no. 4.1-1/46 for the provision of investment services. The Company is part of an international group (hereinafter as "Group") which operates under a joint trademark – Admiral Markets. Admiral Markets Group AS, the parent company of Admiral Markets AS, owns 100% of the shares of Admiral Markets AS.

Our business

The main activity of Admiral Markets AS is the provision of investment services (trading with derivative products) to retail, professional and institutional clients. Customers are offered Forex and leveraged Contract for Difference (CFD) products in the over-the-counter market as well as listed instruments. The Company's activities are primarily targeted at experienced traders and, therefore, the Company focuses on the improvement of general trading skills and training of new enthusiasts.

In addition to provision of other support services, under White Label agreements, Admiral Markets AS, being the administrator and developer of the platform, provides all sister companies that are part of the same consolidation group the possibility of using the investment platform. In line with the Group's strategy, the sister investment companies of Admiral Markets AS hedge the risks arising from their customers' transactions in Admiral Markets AS, who is also their sole liquidity partner. Due to this, the results of Admiral Markets AS depend on other companies in the Group.

In addition to the services offered to retail, professional and institutional customers, Admiral Markets AS also acts as a provider of support services for its consolidation group companies, being responsible for all key middle and back-office functions:

- Administration and development of IT platforms in cooperation with AMTS Solutions OÜ and Runa Systems, the subsidiaries of Admiral Markets Group AS;
- Risk management;
- Liquidity provision – Admiral Markets AS is the sole liquidity provider for all investment companies in Admiral Markets Group AS;
- Marketing;
- Financial services;
- Compliance.

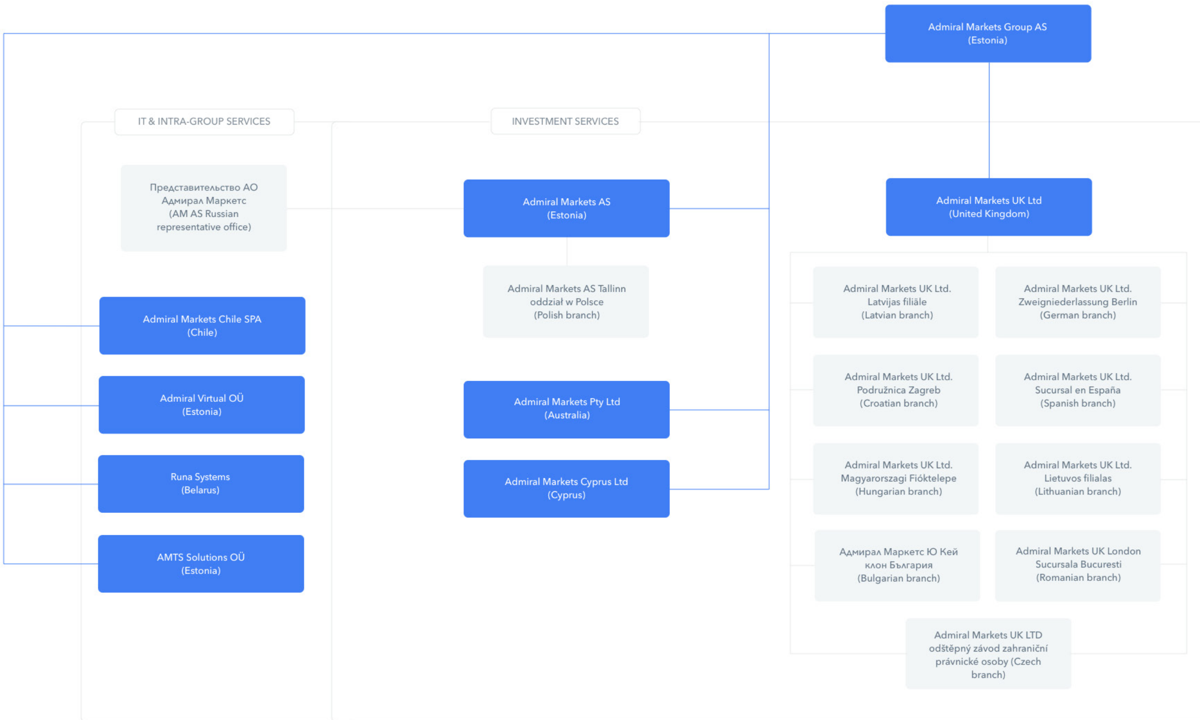
The licenced investment companies that are part of the same consolidation group as Admiral Markets AS are Admiral Markets UK Ltd, Admiral Markets Pty Ltd and Admiral Markets Cyprus Ltd. Admiral Markets AS has a licence granted by the Estonian Financial Supervisory Authority (EFSA). Since Admiral Markets AS and other licenced investment companies that are part of the same consolidation group use the same joint trademark, the reputation of the trademark of Admiral Markets has a major direct impact on the financial indicators as well as business success of Admiral Markets AS.

Currently Admiral Markets AS has a branch in Poland and a representative office in Russia. In June 2018 two branches of Admiral Markets AS, established in the Republic of Romania and in the Czech Republic, were closed. The closure of the branches is related to the strategy implementation of Admiral Markets Group AS. As part of the strategy, Admiral Markets UK Ltd has established several branches within the European Union, including the establishment of a branch in the Republic of Romania and the Czech Republic.

Other companies that are part of the same consolidation group as Admiral Markets AS are Runa Systems, Admiral Markets Chile SpA, AMTS Solution OÜ and Admiral Virtual OÜ. The latter was established in June 2018. In July 2018, 75% of shares in Vorld OÜ (formerly BCNEX OÜ) was sold and since then Vorld OÜ is an associate company of Admiral Markets Group AS, the parent company of Admiral Markets AS. Runa Systems and AMTS Solution OÜ offer IT and other intra-group services. Admiral Markets Chile SpA and Admiral Virtual OÜ are inactive at the moment.

Admiral Markets Group AS structure

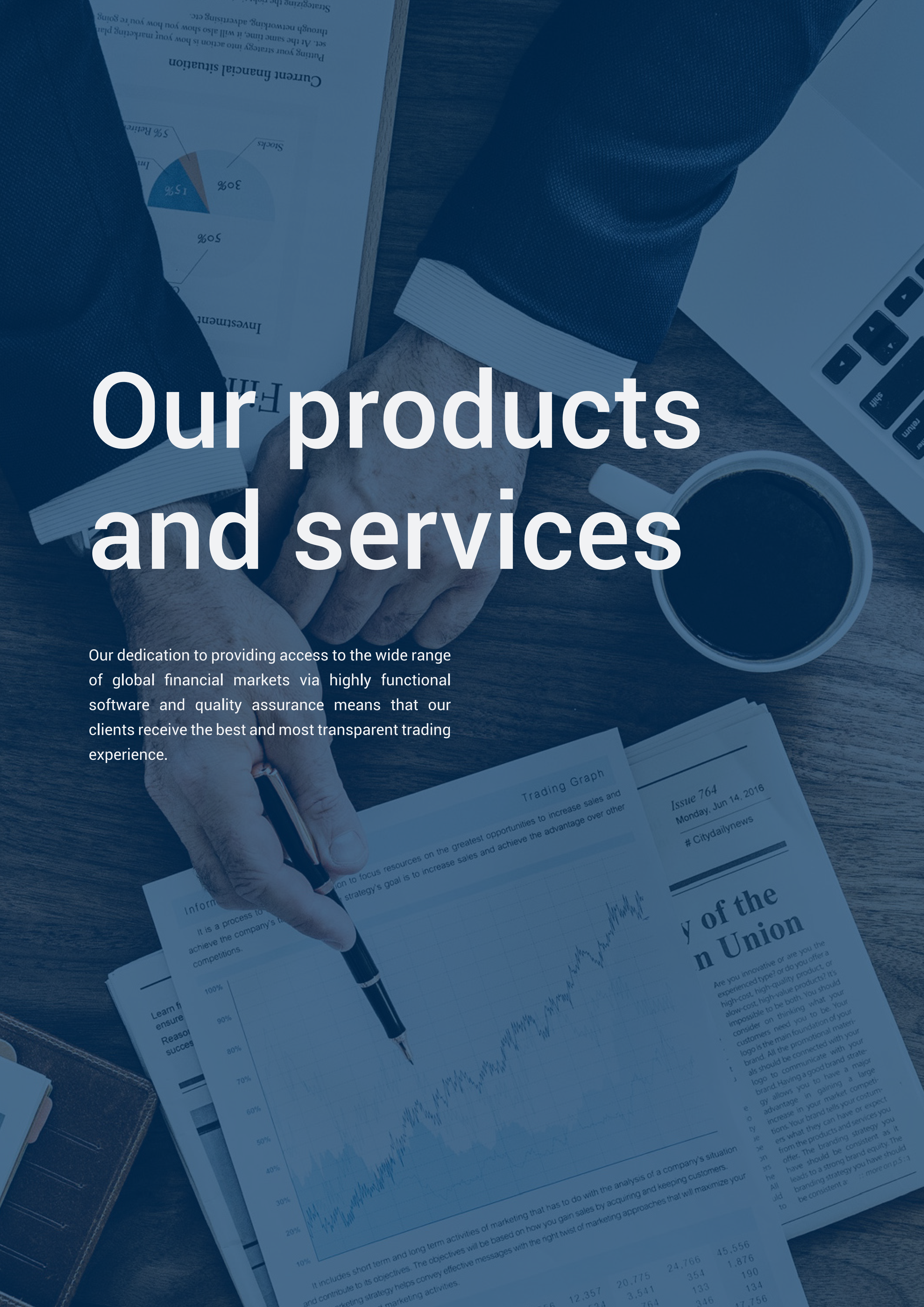
The structure of Admiral Markets Group AS, the parent company of Admiral Markets AS as of 31.12.2018:



Admiral Markets Group AS owns 100% of the shares of all its subsidiaries as of 31.12.2018, except for AMTS Solutions OÜ, where Admiral Markets Group AS has 62% ownership.

Our products and services

Our dedication to providing access to the wide range of global financial markets via highly functional software and quality assurance means that our clients receive the best and most transparent trading experience.



Trading platforms and access to global financial markets

Our trading infrastructure enables optimised low-latency access to the world's largest multi-asset class electronic trading ecosystem. Trading servers are located in one of the most prominent data centers and Internet exchange points for international financial services providers – Equinix London LD4. The proximity to trading servers of all major liquidity providers and institutional trading counterparties in combination with our proprietary order routing and execution engine consistently ensure best possible order execution outcomes for our clients across all financial products.

The service to clients relies on two trading platforms: MetaTrader 4 and MetaTrader 5. The latter is the latest generation of the famous MetaTrader trading application, developed by the MetaQuotes Software corporation, which has been trusted and used by millions of traders and hundreds of trading services providers across the world for well over a decade.

The MetaTrader 5 platform inherited the intuitive, easy-to-use interface and trading functions of MetaTrader 4 but, unlike its predecessor, it is no longer prone to tradable product range scalability limitations. The newest platform now also supports trading in exchange-traded products like stocks, exchange-traded funds, futures, bonds, and options. This inherent multi-asset support created an opportunity for Admiral Markets to engage with new market segments, reach an even broader group of traders and expand the global footprint of Admiral Markets by enabling trading in stocks and exchange-traded funds.

In a partnership with third-party developers, we created MetaTrader Supreme Edition – a trading platform add-on for desktop versions of MetaTrader 4 or MetaTrader 5 applications. MetaTrader Supreme Edition includes a set of market analysis and trading tools for our clients and helps us to gain a competitive edge over other investment services providers who also rely on MetaTrader platforms.

MetaTrader 4 & MetaTrader 5 basic features:

- Native iOS and Android apps for mobiles and tablets;
- Browser-based WebTrader app;
- Full-scale downloadable platform software for Windows-operated desktop PCs;
- *Supreme Edition* add-on for desktop platforms;
- Advanced charting and market price analysis tools;
- Premium quality market insights and news by Dow Jones Newswires;
- Free real-time market data for live clients;
- Support for custom automated trading algorithms and scripts;
- Trading strategy backtesting and optimization tools.

Considering the ease of scalability and multi-asset support, we intend to make MetaTrader 5 based trading account types our flagship offer to both retail and professional clients.

Products

We offer Forex and leveraged Contract for Difference (CFD) products in the over-the-counter market as well as listed instruments. Our clients can choose between a wide range of trading instruments.

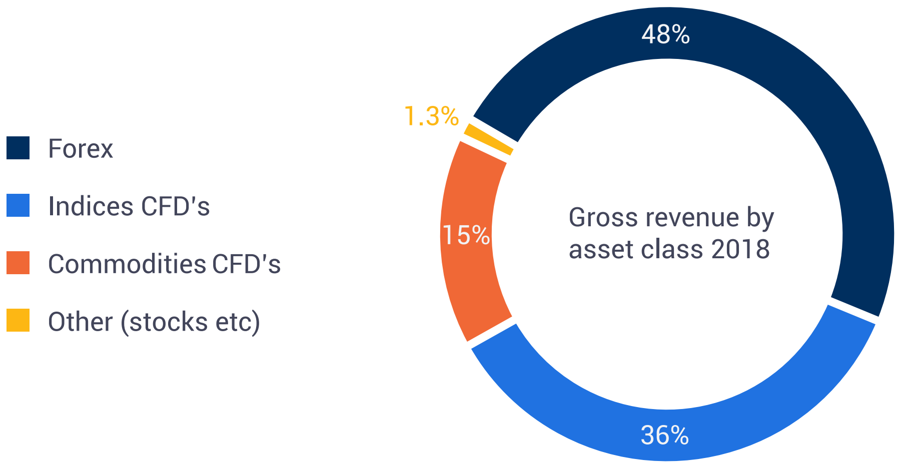
We offer around 3,900 over-the-counter products, including Forex and CFDs on stocks, bonds, indices, cryptocurrencies, agricultural products, precious metals and energies; and over 4,200 listed instruments, including over 4,000 stocks and over 200 exchange-traded funds on Admiral.Invest accounts. The latter products were introduced in 2018 to diversify our business and provide clients with broader investing opportunities.

Thus far, the focus of our product has been offering great options for active (short-term) trading. This is still our core and "DNA". But, in addition, classic investment opportunities like long-term stock or ETF investing will be developed even further. Our driving force is all kinds of trading and investment products and offering the best education in these areas.

Contracts for Difference (CFDs) are financial derivative products that allow traders to take leveraged exposure to price movements in financial assets and instruments, without owning the particular asset or instrument. CFDs provide investors with all of the benefits and risks of owning a security without actually owning it.

CFDs give traders the opportunity to profit as the market moves in both directions, with long and short trading being possible (usually this is not available for retail clients in the stock market).

In addition, because CFDs are an over-the-counter product, the trading costs are much lower than those of classic securities.



Our clients

The quality of a product or service weighs heavily on client satisfaction. That is the reason why we truly pay respect to the quality of our customer service. The activities of Admiral Markets are primarily targeted at experienced traders, but at the same time for many clients Admiral Markets is the very first company with whom they start investigating the world of financial trading. Due to this, we focus on the improvement of their general trading skills and the training of new enthusiasts. We have developed a state-of-the-art education course – From Zero to Hero – and continuously are providing not only webinars but also seminars. Here we are not only speaking about the trading ABCs, but also giving our clients the opportunity to freely and without risk explore trading possibilities with over 8,000 trading instruments via a free demo account.

Moreover, for many clients we are and remain their only trading provider, as Admiral Markets supports a wide range of different trading-related services, which is sufficient even for the very demanding client.

By being transparent, our clients have access to our execution statistics and are able to compare Admiral Markets to competitors. By using no-dealing-desk best order execution, we exclude the conflict of interest and treat every client independently and fairly.

While we offer many education options for all beginners in the field, we are already a “hotspot” for active traders. Since 2018, in the light of the European ESMA regulation, we have developed and improved our services for professional clients, who are up to five times more active in trading than retail clients.

Vision

We believe that every person is a builder of his/her own success, therefore our goal is to make sure that our clients are equipped with a set of powerful tools and knowledge to make thoughtful trading decisions.

Mission

Being a client-oriented company, Admiral Markets’ mission is to become a global leader in providing comfortable access to every type of financial market, while providing clients with relevant education, competitive trading terms, an engaging community, and quality support.

We at Admiral Markets want to help clients realise their full potential through:

- Acting as a reliable partner
- Offering affordable, client-oriented services
- Promoting ethics and transparency in the industry

We strongly believe that our client needs to be our number one priority. We follow the principle of being professional in every aspect of what we do.

Customer Support

In the M&A era with very strict competition, we know how to sustain and enlarge our advantages. Being a client-centric company we, first of all, think about how we can make our services more supportive of trading and really useful.

It is not only about our new Trader's Room upgrades (totally redesigned with plenty of new functionality), constantly launching new products, making a variety of trading instruments more convenient for all traders (new account types and over 7,000 new trading instruments were offered in 2018), making our offers better (typical spreads have been lowered by 20 to 30 per cent for major currency pairs) – it is also about taking care of traders' future needs today. We do this by being present for our clients and by offering swift and high-quality customer service.

Transparency & Compliance

We want to make sure that our clients have confidence when using our services. We believe that trust is achievable only through full transparency and compliance with the current regulation.

Admiral Markets AS is licensed by the Estonian Financial Supervision Authority (EFSA) for the main investment and brokerage activities in the European Union. Admiral Markets AS is entitled to perform investment and brokerage activities in financial markets, including foreign exchange, stocks, futures and CFDs. Consequently, Admiral Markets AS is authorised to provide cross-border brokerage services in the 28 member countries of the European Union (EU), and in three European Economic Area (EEA) countries: Iceland, Norway and Liechtenstein.

Other companies in the Admiral Markets group licenced to act as investment firms:

Admiral Markets UK Ltd: Authorised by the Financial Conduct Authority (FCA) to offer Forex and CFD online trading. In EU Member States and EEA agreement countries, the majority of Admiral Markets investment services are provided by Admiral Markets UK Ltd. The decision regarding this preference was based on customer feedback, as customers and potential customers had indicated that, in the interest of trustworthiness, the license from the FCA was the preferred choice. The biggest benefit to customers is that Admiral Markets UK Ltd is registered with the Financial Services Compensation Scheme (FSCS), therefore Admiral Markets UK Ltd client deposits are covered by the FSCS for up to £50,000 under the Financial Conduct Authority Client Asset (CASS) rules. The company is regulated to hold customer assets in segregation from its own assets under the UK law.

Admiral Markets Pty Ltd: Licenced to provide financial services by the Australian Securities and Investments Commision (ASIC) under the Australian Financial Services Licence.

Admiral Markets Cyprus Ltd: Authorised and regulated by the Cyprus Securities and Exchange Commission (CySEC) for Cyprus, the independent public supervisory authority responsible for the supervision of the investment services market and transactions in transferable securities carried out in the Republic of Cyprus. The company is authorised to provide cross-border brokerage services in the EU, and in three EEA countries.

Our aim is to be transparent and truthful about our business activities, giving timely and accurate information to our stakeholders. All our stakeholders are treated equally, with a clear focus on continuous improvement on our part.

Information Isn't Knowledge

Trading in online financial markets requires a certain amount of knowledge. While information is abundant and available, it can be overwhelming for new traders.

One of the priorities of Admiral Markets is to help its customers to make informed trading decisions, which leads to better returns to the investors, better client satisfaction and higher customer retention rates. For this reason, we offer numerous educational programs designed to teach trading skills and explain the financial opportunities traders have within Forex and other financial markets. In addition, Admiral Markets delivers news and analysis that clients can use to make informed trading decisions and publishes educational books and brochures in several languages, which are distributed internationally.

The trader training programs include both paid and free courses. Training courses are carried out both as classical teaching arrangements and webinars, in the course of which Admiral Markets introduces its services, teaches how to use the trading platform, develop skills for analysing the economic situation, and explains trading-related capital and risk management. During the year Admiral Markets AS hosted a number of educational events ranging from multiple-day courses for small groups to large seminars for vast audiences.

Financial Empowerment

We recognise that different clients have different needs, based on their resources. As a well-established financial organisation, we guarantee that our clients will receive appropriate trading conditions catering to their specific needs.

Due to the additional requirements imposed by the European Securities and Markets Authority (ESMA), applicable from 1 August 2018, for CFDs offered to retail customers in the European Union, Admiral Markets AS, as well as its European sister investment companies, offer its eligible clients the opportunity to apply to be categorised as professional customers if the client meets the requirements of this amendment. This gives clients access to reduced margin requirements (increased leverage) and full access to all existing and prospective bonus programs.

ESMA also requires brokers to fully protect retail clients from negative balances starting from 1 August 2018 but does not require such protection for professional clients. As a number of traders got accepted as professional clients in 2018, Admiral Markets AS, as well as all its European sister investment companies, decided to provide its professional clients with such an additional benefit. Although negative balance protection is not an Australian regulatory requirement, at Admiral Markets we are proud to be leading the way and offer clients of Admiral Markets Pty Ltd negative balance protection.

Platform Features

We offer our clients access to our products through user-friendly, flexible, secure and fast MetaTrader platforms, which are available on all devices. MetaTrader 4 (MT4) is the most popular Forex and CFD trading platform for traders of all skill levels across the globe. MT4 offers free real-time charting, news and analyses and is totally customisable. MetaTrader 5 (MT5), the newest generation of the MetaTrader platform offer, is the #1 multi-asset platform chosen by traders and investors from around the globe for trading Forex, CFDs, exchange-traded instruments and futures. The platform offers advanced charting and trading tools, as well as options for automated trading. For both MT4 and MT5 we offer a special MetaTrader Supreme Edition plugin, which boosts the available features a great deal.

The features available with MetaTrader Supreme Edition include advanced trading via charts, improved 1-click-trading, high-end analysis, real-time news directly in MetaTrader and many more features. MT5 and MT4 Supreme Edition is free for live and demo accounts.

We offer multi-language support to clients for an even better trading experience. Trading with Forex CFDs is usually available up to 24 hours a day, 5 days a week, while cryptocurrency CFDs are available for even longer trading hours – 24 hours, 7 days a week – just like the underlying market.

To help our clients manage their risks we offer the following risk management tools: stop loss order limit, closing open positions when positions in an account reach 30% or 50% of the margin requirement depending on the account type (stop out level), volatility protection and negative account balance protection.

Our people

We recruit talent

Our business is built on best, most transparent trading experience, innovation, and success of our customers. Our people are critical for us in achieving our strategic goals. We are committed to hiring and developing the highest quality of talent.

We operate in sectors where there is strong competition for employees. We keep our recruitment processes under constant review and evolve them in order to make applying for work as easy as possible, while maintaining our high standards. This, as well as new attraction methods, for example using MeetFrank as a new recruitment tool, has allowed us to remain flexible and agile when responding to the changing labour market.

Each year Admiral Markets grows – not only in the number of people we have working in each office, but every new idea or goal set makes the company grow each day. Every year we have more and more people joining Admiral Markets. By the end of 2018 we had circa 230 people working in the Group (2017: 209 employees), 123 of them in Admiral Markets AS.

We admire people who are passionate and respectful towards their work and the work of their clients. We spend a great amount of time and effort to motivating our employees and helping them achieve their set goals.

In 2017, Admiral Markets AS started 360-degree feedback surveys for employee evaluation. The 360-degree feedback gives a broad perspective of how employees are perceived by the people around them. This feedback encourages employees to invest in personal development, increases their responsibility, raises self-awareness and improves their performance. The feedback survey supports the Company's annual appraisal interviews, which allows us to determine the strengths and weaknesses of employees and, consequently, provide subsequent growth and development opportunities. It also enables collecting feedback from employees about their current role and future career plans.

We also continued our internal financial training Fundamentals of Financial Markets and provided our employees the opportunity to broaden their knowledge about financial markets and instruments. During these trainings, participants gain a better understanding about the functioning of financial markets, the behaviour and strategies of traders, various financial instruments and more. Since the people participating in these training have varying levels of base knowledge concerning financial markets, the training is divided into two groups: beginners and advanced participants.

Many Human Resource policies have been reviewed and renewed, including the New Employee Onboarding policy, Training policy, Relocation policy, and more.

Most trainings concern the following areas: occupational health and safety, leadership, technical skills trainings for different departments, Estonian language trainings for expats and computer skills trainings. The training plan for individual employees is agreed upon between the employee and the direct manager during the appraisal meeting or during regular working days. We are always encouraging our employees to share their knowledge with their colleagues as well. As the saying goes "Sharing is caring!" – we are continuously developing the communities of practice mindset among our employees, to make sure that the knowledge received from different trainings doesn't "stay with only one person".

Diversity

We ensure that the Admiral Markets AS workforce has the diversity of talent and expertise that is needed for the continuing growth and innovation of the company.

Our equal opportunities policy is dedicated to creating an environment for our employees that is free of discrimination, harassment and victimisation. Our commitment is to create a diverse workforce and environment that supports all individuals, irrespective of their gender, age, race, disability, sexual orientation, or religion. We believe in the equal treatment of all people.

Admiral Markets AS is not only an Estonian company but together with its Group companies, it is also a global one, so diversity is a key factor. Having employees that represent the world helps to deliver the best possible financial trading services to every customer. We think globally and act locally, so the Group has offices in every country where a large percentage of our clients are represented. In 2019, we would like to focus more on women in leadership and increase the number of female managers.

Diversity among everything:

- The average age of the employee in the Company is 32 years; the youngest employee is 23 years old and the oldest employee is 48 years old.
- Men 63% and women 37%.
- Diverse nationalities – Estonian, Belarusian, Russian, Chilean, Australian, Spanish, Ukrainian, Georgian, Iranian, American, British and we have one employee from Thailand.

Doing the right thing

We joined the Family Friendly Employer program. In Admiral Markets we feel it is extremely important that our employees have all the opportunities and conditions to successfully manage their daily challenges – the fast pace of work, a continually changing environment and the complexity of the business area – as well as keeping in mind that the working environment is comfortable and pleasant and considers employees' social/family needs.

Admiral Markets AS participated also in the salary survey organised by Fontes in 2018. The objective of the salary survey is to provide input for the Company's salary system and support the Company's management in making remuneration decisions. Admiral Markets AS uses the survey as a tool to assess the salaries paid by the Company against the salary market and to develop a suitable salary level pursuant to the specificity of the Company. The employees of Admiral Markets AS are experts in their field and we hold their satisfaction and motivation in high regard.

On October 1st we moved to our new headquarters situated in one of the newest business offices of Tallinn. We believe in a working environment that motivates our employees and gives them comfortable, innovative and spacious working rooms.

Engaging with our people

Communication is a key element in people engagement. Enabling colleagues to work across the business and share their best practice allows us to leverage the value of our employees and encourages a collaborative environment. There is regular communication to staff at all levels through multiple internal communication channels, including different team events and an internal monthly newsletters and publications on the intranet. In addition, our management encourages dialogue with employees through an open-door policy.

Reward and benefits

Admiral Markets has always taken employee well-being seriously and this is the reason we have loyal employees who wish to stay and develop within the company. In 2018 we reviewed our Employer Value Proposition, which demonstrates we care about the physical, mental and financial health and well-being of our employees. We have amazing events together – Friday breakfasts, Admiral Markets' birthday party, Summer days, sport competitions, Autumn days, the Christmas party and many more.

Admiral Markets employees' dedication and contribution has been awarded by many institutions, and Admiral Markets group companies have received many new awards described in "2018 overview" section.

2018 Overview

2018 has been a successful year for Admiral Markets AS, despite the new regulations imposed on the industry. We have created a runway to success as the previous year set records in terms of financial results. The Company made record results in profit, described in more detail in the financial results section.

In 2018, we focused on offering innovative solutions and the best trading platforms for our clients, combined with the best customer service. As one of the characteristics to define success is the ability to adapt to the ongoing developments in the financial world, we became a co-investor of Fundwise OÜ and started cooperation with them, promoting joint investment in Estonia.

2018

Listing on the stock exchange

On 08.12.2017, Admiral Markets AS announced the public offering, listing and admission to trading of subordinated bonds through Nasdaq Tallinn AS. Investors subscribed for the bonds in the amount of EUR 1,827 thousand and, consequently, on 28.12.2017 the investors received a total amount of 18,268 bonds in their securities accounts. The maturity date of the bonds is 28.12.2027 when Admiral Markets AS must redeem all the bonds. From 11.01.2018, it is possible to trade with the bonds of Admiral Markets on the Baltic Bond List, the regulated market organised by Nasdaq Tallinn AS.

Changes in regulation

One of the main regulatory changes affecting the activities of Admiral Markets AS and its sister investment companies in 2018 was imposed by the European Securities Market Authority (ESMA). ESMA decided to apply additional requirements to CFDs and binary options offered to retail customers in the European Union. These measures included both marketing restrictions and the distribution or sale of CFDs to retail customers. According to Markets in Financial Instruments Regulation (MiFIR), ESMA can only impose temporary measures that will be in force for three months from the date of their publication. Before the end of the three-month period, ESMA will assess the need for further measures to be taken over the next three months.
All the Group investment companies started the implementation of measures to comply with these requirements long before the actual deadline of the implementation process and finished the implementation successfully on time.

In 2018, the General Data Protection Regulation (GDPR) came into force. Its purpose is to protect the data privacy of all EU citizens and to improve the way organisations across this region approach data privacy. Admiral Markets AS, together with other group companies in EU, updated its Privacy Policy to reflect the changes made to strengthen its customers' personal data privacy rights. Being in alignment with the standards introduced by GDPR is part of our ongoing commitment to being transparent about how we handle our clients' personal data.

Innovation

Trader's Room and Admiral Markets mobile app

Admiral Markets AS has finished its development of a web app Trader's Room 3 (TR3) in 2018. The customers of Admiral Markets use the Trader's Room to register themselves as users, open demo or real accounts, transmit applications for deposits and withdrawals, approve and amend personal information and submit documents required for know-your-customer (KYC) procedures. TR3 also includes a billing system and single log-on service to all services offered by Admiral Markets.

Compared to TR3's predecessor Trader's Room 2 (TR2), TR3 is scalable (i.e. Admiral Markets can add more clients to the system just by adding a server), faster and more user friendly.

In addition, Admiral Markets AS launched a native mobile application for iOS and Android platforms with basic functionality of the Trader's Room 3. The Admiral Markets App is simple and secure. It gives clients control over trading accounts and seamless access to an extensive product offering – CFDs on Forex currency pairs, stocks, indices, commodities, cryptocurrencies, and ETFs.

Developed by Admiral Markets AS, the app has a user-friendly interface and allows clients to comfortably trade on a mobile device. Clients can open the trading account that best suits their needs and trade in real-time with the world's most popular financial instruments on the MetaTrader 4 or MetaTrader 5 platform, demo or live, monitor their account and market quotes, manage and protect positions, use the best tools, interact with support chat, make in-app deposits and submit documents pursuant to requirements of our KYC and anti-money-laundering procedures.

Market news and analysis services

Dow Jones Newswires news is now delivered to Admiral Markets' trading platforms, providing clients with comprehensive market insights and commentary, economic event data and expert analysis. The Company's aim at providing clients with more products and tools from the Dow Jones is to offer clients an easily accessible, solid basis for informed investment and trading decisions by allowing them to receive premium quality market updates right inside the trading platform, free of charge. Another market analysis provider – Trading Central – has added content to Admiral Markets' MetaTrader Supreme Edition platform, providing clients with technical analysis and the automatic screening of a large number of markets for trading opportunities according to predefined filters.

Bubble-O-Meter

In 2018 Admiral Markets deployed a new web-based cryptocurrency tool called Bubble-O-Meter for all markets and operating companies. The business objective of this new tool is to support company cryptocurrency CFD offerings by providing users and clients with an interactive tool that allows the comparison of different cryptocurrencies. Bubble-O-Meter allows clients and users to compare Bitcoin with other cryptocurrencies and tokens. Bubble-O-Meter helps to highlight the fact that there are coins – including those in the top 10 – that are overpriced relative to Bitcoin by such a large magnitude that they may dwarf the speculative part of Bitcoin itself. This new tool provides a simple, fast and effective way to analyse cryptocurrency prices. Also, it will help clients and users to understand how to value cryptocurrencies in general.

All-time largest product range expansion

The inherent support of the MetaTrader 5 platform for new asset classes and a large number of financial instruments created a solid base for the addition of over 3,000 new CFDs on different underlying financial assets, and over 4,000 exchange-traded instruments from 15 stock exchanges around the globe (stocks and exchange-traded funds). Additions of new instruments took place in several phases throughout 2018 and significantly improved our positions in the competition with the largest FX and CFD trading services providers globally.

Admiral Markets Pro

2018 has been a year of changes for CFD and Forex traders in the EU. When ESMA published new regulatory requirements for CFD dealers on June 1, 2018, it resulted in different trading terms being required for retail and professional clients. In response to new requirements, we developed Admiral Markets Pro – a service for experienced CFD traders who are seeking for a truly premium trading experience. With higher leverage, loyalty programs and priority access to our products, Admiral Markets Pro is a choice for the eligible seasoned trader who applies to be treated as a professional client according to criteria laid out in Annex II of the MiFID II directive.

Marketing projects

Each year, effective marketing becomes more relevant to the success of the business. Marketing isn't simply an important part of business success, it is the business. Marketing and business should go hand in hand, with marketing being the background force for reaching business goals.

Admiral Markets AS carries out most of the Groups' companies marketing activities.

As mentioned earlier in the report, 2018 was a year that was influenced by many new regulations, setting the targets also for marketing activities.

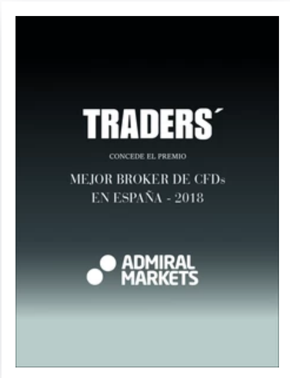
Arising from that, many of the marketing projects in 2018 were not visible directly to the client but were strongly anticipated and needed to be addressed in the long-term strategic plan of Admiral Markets AS and its group companies. These included, for example, marketing activities related to OC Switch (allowing a client to switch between his trading accounts in different Admiral Markets group companies), GDPR, ESMA regulations and cost-per-lead optimisation.

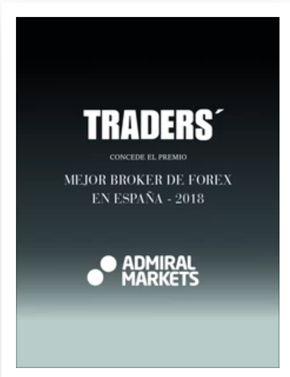
Admiral Markets AS continued providing content marketing services in Admiral Markets' various established markets, offering the best education and information about trading. We introduced many new campaigns and marketing projects with the aim to be seen globally through Admiral Markets trademark.

In 2018 Admiral Markets AS, together with other investment companies in the Group, took part in many seminars, conferences and made the brand visible at such events to our desired audience, traders and competitors. We will continue with such public attention and broaden such participation.

Our Awards

The level of client satisfaction is reflected by the awards Admiral Markets' companies have won. Admiral Markets received many new awards in 2018 – for example: Admiral Markets was named the Best Forex and CFD Broker for the third time in a row in Germany; the magazine "Traders" gave Spain two awards – Best CFD Broker in Spain and Best Forex Broker for 2018; and Spain won another two awards, Best International Online Broker and Best platform of Online Trading in Spain.





Strategy and objectives

Admiral Markets AS objectives are aligned with the objectives of the Group.

As previously mentioned, the Group is well established in Europe. Today, our expansion plans include establishing ourselves in new markets, focusing on Asia, Africa and Latin America. Our client base will increase through the expansion of our range of products and services, exploring new markets and growth in already established markets. Admiral Markets reached and exceeded its goal to offer a 20% return to its owners in 2018, and the goal of Admiral Markets is to continue with the same financial target of at least a 20% ROE in the coming years.

2019 will be characterised by the desire to become a home broker for many Asian traders. We will develop our services and products adapted by the local needs and expectations of the new targeted areas. Being flexible, understanding the needs of our clients, innovation, developing our customer service and investing into our brand will be the benchmarks of the strategic decisions affecting our activities this year. In addition, we seek possibilities to extend our availability to clients, in respect of new offices, customer support and websites in new languages.

Products and IT Solutions

After relying on successful tradable product range expansion in 2018, we shall continue with the development and enlargement of our trading products so that clients can diversify their portfolio with the Admiral Markets offering alone. In the year 2019, we intend to increase the range of available trading instruments even further by introducing new asset classes in our MetaTrader 5 platform. Both retail and professional clients may expect to see even more exchange-traded products, with futures being the next new asset class in our offer. Another objective for 2019 is to develop a new offer for institutional clients that will include informational, technical and risk mitigation products.

Client environments for account management (Trader's Room 3 and the Admiral Markets app) will continue to receive planned post-release functionality updates that aim at making both mobile and web applications even more convenient and that aim at including all necessary tools for day-to-day operations between us and our clients.

We will optimise the web navigation, thus making it even easier for our clients to navigate among a large range of our services. Enhancement of feedback collection from our clients will be put into action. This will make it more efficient to analyse our clients' feedback so that all single proposals and good ideas are brought into action. The future development of the Group will be affected by innovation and digital solutions. We will seek opportunities to engage small players in our business. Technological opportunities will open up new possibilities for the expansion of the Group as technology will shape the future of the Group and existing marketing activities. Digital marketing, new technological possibilities such as data mining, optical recognition, robotisation will be of utmost importance. One of the keywords for 2019 is improving cybersecurity at Admiral

Markets to ensure clients feel even more certain their money is safe.

Brand

We will continue with top-rated marketing activities, making our brand even more visible in our markets and among our target groups. In order to understand our clients better, we will carry out a brand positioning survey, which allows us to identify the exact types of possible customers who are aligned with our unique culture and purpose. Clearly defined customer personas enable us to target them with the right messaging. Investment into further developing our brand is one of the key priorities for 2019.

Knowing our client better helps us to develop an even higher level of customer service. We will start collecting feedback, which will be of enormous input for our customer service. As we are approaching new markets in Asia, Africa and Latin America, we will put attention to our growing client base in their native language.

Knowing where the Admiral Markets brand stands today will give us better input for making it more visible. A well-known brand will have benefits from many perspectives. On one hand, it will help us onboard high-value clients. The other value of being brand everybody knows, is the access to best qualified and desired employees on the labour market.

The pillar on which we will be building our brand is our new "YES!" concept – a positive, recurring theme that will help connect with our audience on an emotional level as well as a practical one. The word "YES!" will run as a red thread through all activity at Admiral Markets: not only marketing but all internal and external communication.

Finally, in 2019 a communication strategy will be prepared and implemented to give a strategic overview of the desired outcome of various communication activities.

Admiral Markets as an Employer

As the race for best employees is in full swing, we seek opportunities to attract the best employees for our valuable team. We have already adopted MeetFrank as an innovative recruitment tool and this year we will put attention on moving closer to the students in the universities and approaching the next generation.

We shall continue with development programs of our employees as retaining the best people is one of the key factors defining the success of our business. Self-development and access to various programs and courses in the name of growing professional skills and knowledge is highly appreciated by our employees.

Our Clients

In 2019 we seek to increase our client base. At the moment we are considering three new additional licences which would empower our local presence. We will focus more on investing while at the same time maintaining our ROE at 20%. Our clients' high trust in us is characterised by the fact that most of our clients are long-term clients. At Admiral Markets, we are constantly moving towards higher client retention, even more so now that the new leverage rules imposed by ESMA and win/loss percentage disclosure are in effect. This year we wish to grow the premium client share in our client portfolio and put more attention into the investing possibilities and advantages of being our client.

Our strategic goal is to become an export company for Estonia. The biggest challenge for the upcoming years is accessing Asian markets and offering local instruments in the region. By doing that we ensure the increase of our portfolio. We must raise the local knowledge and awareness of the business. In that way we open ourselves up to over 3 billion new potential clients.

In very simple words, the field where we today find ourselves are very similar to the food industry where big service providers and manufacturers take up a large part of the market. Our biggest concern is a potential new service provider who will reinvent the business. But in our favour, offering new instruments and services is simple and available for well-established service providers such as Admiral Markets. There will be a fight to reach the new customers in Asia, such as in India, China, Malaysia and Indonesia, but we will put high attention into winning this race.

Main trends and factors likely to affect our future business

Changes in Regulation

The main additional regulatory requirement affecting the activities of Admiral Markets AS and other EU investment companies belonging to the Group was imposed by the European Securities Market Authority (ESMA) in 2018. Admiral Markets AS and its sister investment companies started the implementation to comply with these requirements long before the actual deadline of the implementation process and finished the implementation successfully on time.

In 2019 there will be no further regulations becoming effective and we hope to find an answer to how the ongoing regulations, especially ESMA and GDPR affect the market. There will definitely be differentiation between those who will successfully manage the change brought by ESMA and smaller service providers will most likely take their businesses to offshore companies. We hope to see the high presence of local financial authorities creating permanent precedents. Today there is a lot of ambiguity in the sector, but we hope to see clear direction from the authorities regarding regulations and their implementation.

As the complex regulatory environment has a strong effect on the costs and capital of investment companies, we expect that the consolidation of the retail industry will continue. In 2019 we expect to see increased M&A activity with very strict competition.

UK Leaving the EU

One of the factors that could affect the activities of Admiral Markets AS is the decision of the UK to leave the EU, as Admiral Markets UK Ltd, the sister company of Admiral Markets AS, is incorporated and licensed in the UK. Admiral Markets UK Ltd is the main retail office of the Group's European customers. The latter strategy was mainly chosen due to the high reputation of the United Kingdom business environment and the existence of broader investor protection (Financial Services Compensation Scheme – FSCS).

The extent of the possible exposure is to be determined during the negotiations between the EU and the UK, but in case the entities providing financial services are no longer allowed to passport their services to the EU, the Group may be forced to rearrange its business activities.

The Group currently has three possible strategies that could be initiated in the event the Group is no longer able to provide services to EU clients under Admiral markets UK Ltd: (i) Admiral Markets AS will restore provision of services to and acceptance of retail and professional clients within EU; (ii) Admiral Markets Cyprus Ltd, subsidiary of Admiral Markets Group AS, will restore provision of services to and acceptance of retail and professional clients within EU; (iii) application for a licence to act as an investment firm in an additional EU member state. Concerning the extension of activities of the Group, the Group is prepared to initiate such strategies immediately if necessary.

Financial results

Economic environment

Global Economy

Since 2009, the markets have been flooded by billions to overcome the credit and liquidity crises resulting from the global financial crisis, with these funds intended to help the respective economies regain momentum.

However, this funding did not always have the intended effect, with the quantitative easing (QE) program of the US Federal Reserve (the FED) ballooning the economy's balance sheet from below 1 trillion USD before 2008 to over 4 trillion USD at the end of 2014, while the European Central Bank's (ECB) QE program from 2015 until the end of 2018 pushed their balance sheet up to over 4.6 trillion euro.

As a result, yields were driven sharply lower, and in the eurozone German bonds still trade with a negative yield up to nine years maturity (Feb 2019).

But with the end of the ECB QE program in December 2018, following the end of the FED QE program at the end of 2014, the European and global economy as a whole enter a very interesting period in terms of economic growth.

The main question is: can the global economy continue growing without the help of the liquidity provided from global central banks? This question becomes even more important with growing fears around a further escalation of the trade wars between US President Trump and China, as well as Trump and the EU.

While trade barriers and protectionist policies in a globalised world naturally result in an economic downturn, a strengthening US dollar, not only by a more restrictive FED, but also a natural appreciation as a result of the economy's protectionist policies, could accelerate capital outflows from emerging markets. This could then result in a downward spiral for the global economy, driving major economies such as China, the EU and the US into a recession.

These tendencies can already be seen in several countries and it seems only a question of when the global economy will face a period of slower economic growth.

The Eurozone

The Eurozone economy grew 0.2% in the final three months of 2018, unrevised from a preliminary estimate and matching the third quarter rate. It was the weakest growth rate since the second quarter of 2014, mainly due to a negative contribution from external demand. Among the bloc's largest economies, Germany and Italy posted contractions, while France's growth picked up and Spain's expansion remained solid. In combination with the end of the QE program of the ECB from January 2019 onwards, the rising political tensions, especially in France, uncertainties around the Brexit deal and the slowing German economy, the outlook for 2019 is not very bright with several indications and estimates pointing to a recession in the Eurozone.

The United States

The US economy advanced an annualised 3.4% quarter-on-quarter in the third quarter of 2018, slightly below earlier estimates of 3.5% growth. It follows a 4.2% expansion in the previous period, which was the highest since the third quarter of 2014. Personal consumption expenditures (PCE) and exports were revised down, while private inventory investment was revised up. The main question that arose towards the end of 2018 was whether the ongoing rate hike cycle of the FED, in combination with the reduction of the FED's balance sheet, would cause an economic slowdown and ongoing turbulence in the US equity markets.

At the first FED rate decision in January 2019, the FED declared that it would be prepared to adjust the balance sheet runoff 'in light economic and financial developments' after it already lowered its expectations for US economic growth to 2.3% for 2019, down from 2.5% at the September FED meeting. The FED justified these lowered expectations with the global economic slowdown and volatility in financial markets. That said, a growth rate of 2.3% is probably a bit optimistic, given that the flexibility in regards to the balance sheet runoff points to economic scepticism. Therefore, US economic growth for 2019 of 2.0% for 2019 is more realistic.

The United Kingdom

When reviewing 2018 economic activity, the economic growth in the United Kingdom met expectations, and was 0.6% in the third quarter of 2018. Nevertheless, the CBI Business Optimism indicator in the UK decreased to -23 in the first quarter of 2019 from -16 in the previous three-month period. It was the lowest reading since the third quarter of 2016, when the UK voted to leave the EU, and a clear sign of how the uncertainty surrounding Brexit continues to affect the country's economy. Into the end of 2018, no deal between the EU and UK was found in regard to an orderly Brexit. And even if one is found, the slowing economy in Germany leaves the UK's GDP growth vulnerable to slowing again in 2019. The IMF expects the UK economy to grow around 0.1% by the end of the first quarter of 2019, and 0.4% in 2019.

China

The same is true for the Chinese economy, which grew by 6.4% over the last quarter of 2018, pointing to the lowest growth rate since the global financial crisis 2008, amid an intense trade dispute with the US, which weakened domestic demand and alarming off balance sheet borrowings by local governments. Over the entire calendar year, the economy grew by 6.6%, which was its weakest pace since 1990. The IMF estimates the Chinese GDP Annual Growth Rate will be 6.3% in 2019.

Significant global events in 2018

Significant events in 2018:

- US President Trump triggers a trade war;
- Still no agreement between the EU and UK found regarding UK leaving the EU;
- United States leaves the Iran nuclear deal;
- US democrats win back the house in midterm elections;
- Yellow vest protests in France against president Macron;
- Leaders of North Korea and South Korea agree to an official end to the Korean War.

Estonian Economy

The Estonian economy advanced 0.4% quarter-on-quarter in the three months to September of 2018, slowing from a 1.4% expansion in the second quarter.

Year-on-year, it advanced 4.2% in the third quarter of 2018, following an upwardly revised 3.8% growth in the previous period.

It was the highest annual growth rate since the last quarter of 2017, amid a strong rebound in fixed investment (4.2% vs. -0.6% in the second quarter). Meanwhile, private consumption rose at a softer pace (4.1% vs. 5.2%) and government spending contracted further (-0.8% vs -0.5%).

Net exports contributed negatively to the GDP growth, as imports increased by 6.1% (vs. 8% in the second quarter), while exports grew much softer at 0.8% (vs. 6.5%). On the production side, the main contributors to economic growth were construction, manufacturing, professional, scientific and technical activities, information and communication, and transportation and storage. Eesti Pank estimates the Estonian GDP Annual Growth Rate to be at 3.2% in 2019, but amid recession fears rising for the eurozone with a slowing tendency for the years to come.

Economic forecast by key indicators*

	2016	2017	2018 E	2019 E	2020 E	2021 E
Nominal GDP (EUR billion)	21.1	23.62	25.62	27.38	28.89	30.31
GDP volume**	2.1	4.9	3.6	3.2	2.3	2.2
Exports	4.1	3.5	1.5	1.8	3.5	3.3
Imports	5.3	3.6	6.1	3.9	3.6	2.6
CPI	0.1	3.4	3.5	2.6	2.1	1.9
Unemployment rate (% of the labour force)	6.8	5.8	5.8	6.7	6.9	6.9
Current account (% of GDP)	1.9	3.3	0.5	-1.0	-1.0	-0.7
Budget balance (% of GDP)***	-0.3	-0.4	0.5	0.5	0.3	0.3

*Numbers reported are annual rates of change in percentages, if not noted otherwise.
**GDP and its components are chain-linked.
***The budget balance forecast only considers those measures on which sufficient information was available at the date of the forecast.

Source: Eesti Pank

ADMIRAL MARKETS

Financial review

Main Financial Indicators of Admiral Markets AS

	2018	2017	Change 2018 vs 2017	2016	2015*	2014
Income statement						
Net trading income, mln EUR	24.2	19.3	25%	18.0	16.5	13.2
Operating expenses, mln EUR	-15.2	-12.7	20%	-12.5	-19.4	-11.3
EBITDA, mln EUR	10.1	6.4	58%	6.3	-2.3	2.5
EBIT, mln EUR	9.8	6.2	58%	5.9	-2.5	2.2
Net profit (loss), mln EUR	9.5	6.0	58%	5.9	-2.5	2.2
EBITDA margin, %	42%	33%	9	35%	-14%	19%
EBIT margin, %	40%	32%	8	33%	-15%	17%
Net profit margin, %	39%	31%	8	33%	-15%	17%
Cost to income ratio, %	63%	66%	-3	69%	118%	86%
Business volumes						
Cash and cash equivalents, mln EUR	22.2	22.0	1%	18.0	15.6	17.8
Debt securities, mln EUR	10.8	3.3	227%	2.4	0	0
Shareholders' equity, mln EUR	35.6	27.4	30%	22.8	17.3	19.8
Total assets, mln EUR	39.4	30.6	29%	24.1	20.4	21.9
Off-balance sheet assets (client assets), mln EUR	3.6	3.3	9%	4.4	7.8	15.5
Number of employees	123	124	-1%	119	122	101

*Without the extraordinary allowance for doubtful receivables arising from the Swiss franc price fluctuation operating expenses and net profit in 2015 were EUR 9.4 million and EUR 7.5 million respectively.

Equations used for the calculation of ratios:

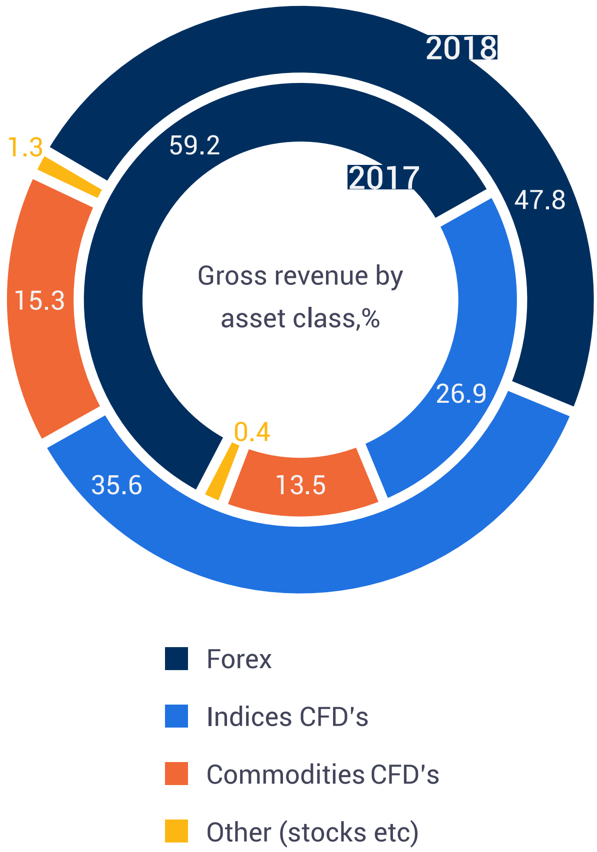
EBITDA margin, % = EBITDA / Net trading income
EBIT margin, % = EBIT / Net trading income
Net profit margin, % = Net profit / Net trading income
Cost to income ratio, % = Operating expenses / Net trading income

Statement of Comprehensive Income

Net Trading Income

Admiral Markets AS earned record revenue and profits in 2018. Net trading income increased to EUR 24.2 million in 2018, a rise of 25% compared to EUR 19.3 million a year earlier. The growth in net trading income can mainly be attributed to an increase in the number of active clients in the Group, but also to high-value clients trading more. The results of Admiral Markets AS depend on other companies in the Group, more precisely its sister investment companies, as its sister investment companies hedge the risks arising from their clients' transactions in Admiral Markets AS only. Active clients increased by 10% in the Group while the value of trades went up by 41% year-on-year in 2018.

In 2018, Forex products accounted for 47.8% of total gross trading income, a decrease of 11.4% year-on-year. Forex's share decreased due to an increase in all other asset classes, including an increase of 9% in index CFDs increase and 2% in commodity CFDs of total gross trading income. The share of other products, such as stocks, increased to 1.3%.



Expenses

Operating expenses increased by 20%, which was mainly due to the increase in marketing costs. The largest share of total operating expenses for the Company comes from personnel expenses and marketing costs. Personnel expenses stayed on the same level as the previous year and totalled to EUR 5.1 million in 2018, which is 34% of total operating expenses. There was a slight decrease in personnel expenses as Admiral Markets AS had already reached an optimum level of employees the year before and thus did not increase its total number of employees in 2018. As 2018 was a year that was influenced by many new regulations, it also set the targets for marketing activities. Due to this, marketing expenses increased by 41% compared to the previous year and reached EUR 4.8 million in 2018, which accounts for over 31% of total operating expenses. IT expenses increased by 24% due to the continued investment in product and trading platform development. Other larger expense types for the Company are legal and audit services, other outsourced services, rent and utilities and VAT expenses.

Operating expenses by largest expense types:

Expenses by type, mln EUR	2018	2017	Change
Personnel	5.1	5.3	-0.2
Marketing	4.8	3.4	1.4
IT	2.1	1.7	0.4
Legal and audit services	0.6	0.5	0.1
Rent and utilities	0.4	0.3	0.1
Other outsourced services	0.5	0.3	0.2
Regulative reporting services	0.2	0.1	0.1
VAT expenses	0.5	0.3	0.2
Depreciation of fixed assets	0.3	0.2	0.1
Other	0.7	0.6	0.1
Total	**15.2**	**12.7**	**20%**

The cost to income ratio fell to 63% by the end of 2018 (2017: 66%), which is a sign of continuous improvement in the operational efficiency of Admiral Markets AS.

Net Profit

The Company's net profit reached EUR 9.5 million in 2018, a 58% increase compared to EUR 6.0 million a year earlier. The Company's net profit margin also increased and was 39% compared to 31% the previous year. The increase in net margin was mainly due to an increase in high-value clients trading more in the Group. As mentioned before, the results of Admiral Markets AS depend on its sister investment companies. Active clients increased by 10% in the Group while net trading income increased by as much as 25%. In addition, the increase in operating expenses was less (in absolute and percentage terms) than net trading income, helping the Company reach a record high net profit result in 2018.

The return on equity of the Company was 30.1% at the end of 2018 (2017: 23.9%).

Statement of Financial Position

	2018	2017	Change
Cash and cash equivalents, mln EUR	22.2	22.0	1%
Debt securities, mln EUR	10.8	3.3	227%
Shareholders' equity, mln EUR	35.6	27.4	30%
Total assets, mln EUR	39.4	30.6	29%
Off-balance sheet assets (client assets), mln EUR	3.6	3.3	9%

As of 31 December 2018, the assets of the Company totalled EUR 39.4 million. Over 55% of assets are cash and cash equivalents. Cash and cash equivalents have increased marginally in 2018, as a large part of cash was invested in debt securities in 2018. The debt securities portfolio only consists of high-quality liquid assets and accounts for 27% of total assets.

In 2018, tangible assets increased from EUR 0.4 million to EUR 1.3 million, mostly due the Company moving to a new office in Tallinn to facilitate the growth of employees in Admiral Markets over the past 5 years. Also, in 2018 new servers were bought in order to develop, magnify and update Admiral Markets' IT infrastructure. Intangible assets increased substantially from EUR 0.1 million at the end of 2017 to EUR 0.7 million by the end of 2018. This increase is due to the Company finishing the development of Trader's Room 3 by the end of 2018.

The Company does not have any long-term liabilities, except for subordinated debt securities issued by the Company in 2017. The subordinated debt securities are in the amount of EUR 1.8 million and make up over 47% of total liabilities. All other liabilities are short-term and are mainly liabilities to trade creditors and related parties, taxes payable and payables to employees.

The off-balance sheet assets (client assets) of the Company totalled EUR 3.6 million in 2018 (2017: EUR 3.3 million). Historically the amount of off-balance sheet assets has decreased for Admiral Markets AS as the strategy of the Group changed and instead of Admiral Markets AS, its sister company Admiral Markets UK Ltd became the main retail office of the Group's European customers. The latter strategy was mainly chosen due to the high reputation of the United Kingdom business environment and the existence of broader investor protection (Financial Services Compensation Scheme – FSCS).

Key financial ratios

	2018	2017	Change 2018 vs 2017	2016
Net profit per share, EUR	23.4	14.8	8.6	14.5
Return on equity, %	30.1%	23.9%	6.2	29.4%
Equity ratio	1.1	1.1	-	1.1
Return on assets, %	27.1%	21.9%	5.2	26.4%
Short-term liabilities current ratio	17.3	21.9	-4.6	17.0

Equations used for the calculation of ratios:

Net profit per share, in EUR = net profit / average number of shares
Return on equity (ROE), % = net profit / average equity * 100
Equity ratio = average assets / average equity
Return on assets (ROA), % = net profit / average assets * 100
Short-term liabilities current ratio = current assets / current liabilities

The ratios are calculated as an arithmetic average of closing balance sheet figures from the previous and current reporting period, and the indicators of the income statement are shown as at the end of the reporting period.

Client Trends

The number of active clients of the Group increased by 10% to 22,321 in 2018 (2017: 20,236 active clients). Admiral Markets AS direct client base constitutes circa 11% of the total clients of the Group. This is in line with the strategy of the Group where Admiral Markets UK Ltd is the main retail office of the Group's European customers. As the sister investment companies of Admiral Markets AS hedge the risks arising from their customers' transactions in Admiral Markets AS, who is also their sole liquidity partner, the number of clients in the Group, together with their trading volumes, has a direct impact on the Company's financial results. The Group gained over 8,100 new clients during the year, i.e. clients who traded for the first time in 2018.

When new ESMA regulations were established in August 2018, the client categorisation into retail and professional clients came into the foreground. Before this, there was no real benefit for a client to request professional status – the trading offer, conditions and leverage were the same. Since 2018, Admiral Markets has offered its eligible clients the opportunity to apply to be categorised as professional customers if the client meets the requirements of this amendment. This gives clients access to reduced margin requirements (increased leverage) and full access to all existing and prospective bonus programs. With the new EU regulation, professional clients exclusively get access to higher leverage, up to 1:500, while retail clients have access to leverage of up to 1:30 for Forex majors, 1:20 for index CFDs and lower for other instruments. The Group received a little over 20,000 applications, out of which ca 40% of applications were accepted. At the end of 2018, the Group had in total 19% of clients categorised as professionals generating ca 36% of total gross trading revenue.

Main Consolidated Financial Indicators of Admiral Markets Group AS:

	2018	2017	Change 2018 vs 2017	2016	2015*	2014
Income statement						
Net trading income, mln EUR	32.6	27.0	21%	23.0	20.2	15.7
Operating expenses, mln EUR	22.0	19.0	16%	17.6	23.1	14.4
EBITDA, mln EUR	11.2	7.2	54%	7.0	-1.9	2.1
Net profit (loss), mln EUR	10.3	6.5	58%	6.5	-2.2	1.8
EBITDA margin, %	34%	27%	7	31%	-9%	13%
Net profit margin, %	32%	24%	8	28%	-11%	11%
Cost to income ratio, %	68%	71%	-3	77%	114%	92%
Business volumes						
Cash and cash equivalents, mln EUR	27.8	27.7	0.5%	22.0	20.3	21.3
Debt securities, mln EUR	10.8	3.3	227%	2.4	0	0
Shareholders' equity, mln EUR	38.8	29.5	31%	24.4	18.3	21.6
Total assets, mln EUR	43.4	33.5	30%	26.4	23.2	24.4
Off-balance sheet assets (client assets), mln EUR	31.6	25.9	22%	21.9	20.7	21.0

*Without the extraordinary allowance for doubtful receivables arising from the Swiss franc price fluctuation operating expenses and net profit in 2015 were EUR 14.6 million and EUR 1.2 million respectively.

Risk management

Risk management is part of the internal control system of the Admiral Markets AS, and its objective is to identify, assess and monitor all the risks associated with Admiral Markets AS in order to ensure the credibility, stability and profitability of Admiral Markets AS.

The Supervisory Board has established risk identification, measurement, reporting and control policies in the risk management policies. Risk control is responsible for daily risk management. Risk management is based on three lines of defense. The first line of defense is the business units that are responsible for risk taking and risk management. The second line of defense includes risk control and compliance functions, which are independent of business operations. The third line of defense is the internal audit function.

As we are exposed to credit and market risk in connection with our retail trading activities, developing and maintaining robust risk management capabilities is a high priority.

We allow our customers to trade notional amounts greater than the funds they have deposited with us through the use of leverage, making management of credit risk a key focus for us. The maximum leverage available to retail traders is generally set by the regulator in each jurisdiction. We manage customer credit risk through a combination of providing trading tools that allow our customers to avoid taking on excessive risk and automated processes that close customer positions in accordance with our policies, in the event that the funds in customers' accounts are not sufficient to hold their positions. For example, our customer trading platforms provide a real-time margin monitoring tool to enable customers to know when they are approaching their margin limits. If a customer's equity falls below the amount required to support one or more positions, we will automatically liquidate positions to bring the customer's account into margin compliance.

In addition, we actively monitor and assess various market factors, including volatility and liquidity, and take steps to address identified risks, such as proactively adjusting required customer margin.

Admiral Markets AS' key market risk management objective is to mitigate the impact of such risk on the profitability of its operations. The Company's practice in this area is consistent with the following principles. As part of the internal procedures, the Company applies limits to mitigate market risk connected with maintaining open positions on financial instruments. These are, in particular: a maximum open position on a given instrument, currency exposure limits, maximum value of a single transaction. The Trading Department monitors open positions subject to limits on a regular basis, and in case of excesses, enters into appropriate hedging transactions. The Risk Control Function reviews the limit usage on a regular basis, and controls the hedges entered into.

For calculating capital requirements for credit and market risk, Admiral Markets AS uses the standardised approach and a basic indicator approach is used for calculating the capital requirement for the operational risk.

An internal capital adequacy assessment process (ICAAP) aimed at identifying the possible need for capital in addition to the regulatory capital requirements is carried out once a year by Admiral Markets AS. As required, Admiral Markets AS provides the ICAAP on Admiral Markets Group AS consolidated basis. A detailed overview of risks taken by Admiral Markets AS is provided in Note 5 of the annual report.

As at 31.12.2018, the own funds of Admiral Markets AS amounted to EUR 35.3 million (31.12.2017: EUR 21.8 million).

The level of own funds of Admiral Markets AS grew mainly due to the inclusion of 2017 and 2018 profit in the composition of own funds. At the end of the reporting period, Admiral Markets AS was well capitalised, the capital adequacy level was 33.0% (31.12.2017: 21.3%) and met all regulatory capital requirements in both 2018 and 2017.

Own Funds

(in thousands of euros)	31.12.2018	31.12.2017
Paid-in share capital	2,586	2,586
Statutory reserve capital transferred from net profit	259	259
Retained earnings of previous periods*	31,333	17,258
Intangible assets	-745	-93
Total Tier 1 capital	**33,433**	**20,008**
Subordinated debt securities	1,827	1,827
Total Tier 2 capital	**1,827**	**1,827**
Net own funds for capital adequacy	**35,260**	**21,835**

*Retained earnings of previous periods as of 31.12.2017 has been adjusted by dividends paid to the owners in February 2018 (Note 17) and retained earnings of previous periods as of 31.12.2018 has been adjusted by expected dividends to be paid out in the amount of EUR 1.39 million.

Capital Requirements

(in thousands of euros)	31.12.2018	31.12.2017
Credit institutions and investment companies under standardised approach	5,810	6,448
Retail claims under standardised approach	4,330	5,783
Other items under standardised approach	5,510	4,749
Total credit risk and counterparty credit risk	**15,650**	**16,980**
Currency risk under standardised approach	37,677	39,676
Position risk under standardised approach	6,483	5,668
Commodity risk under standardised approach	7,972	6,354
Total market risk	**52,132**	**51,698**
Credit valuation adjustment risk under standardised method	**13**	**4**
Operational risk under basic indicator approach	**39,133**	**34,017**
Total capital requirements for adequacy calculation	**106,928**	**102,699**

Capital Adequacy

	31.12.2018	31.12.2017
Capital adequacy	**33.0%**	**21.3%**
Tier 1 capital ratio	**31.3%**	**19.5%**

Corporate governance report

Admiral Markets AS pursues its business activities on the basis of and in compliance with the Company's articles of association, national and European legislation, the instructions and recommendations of the Financial Supervision Authority, Nasdaq Tallinn Rules and Regulations and the rules of good governance practices adopted through the internal rules of Admiral Markets AS.

To manage its activities, Admiral Markets AS mainly draws on the expertise of specialists employed under employment contracts, but also uses professionals through contracts for services in compliance with the terms and procedures laid down in the legislation, relevant guidelines and established internal procedures on the basis of the decisions made by the Supervisory Board and the Management Board.

Management of Admiral Markets AS takes into account the interests of the whole group of companies united under the Admiral Markets brand and provides an adequate opportunity to customers, investors and other interested parties to obtain an overview of it. Disclosure and governance requirements of Admiral Markets AS must ensure equal treatment of shareholders and investors. Admiral Markets AS adheres to good corporate governance practices, with the exception of the cases outlined in this report.

Management of Admiral Markets AS

General Meeting of Shareholders

Admiral Markets AS' highest governing body is the general meeting of shareholders through which the shareholders of Admiral Markets AS carry out their rights according to the procedure and to the extent laid down in the legislation and articles of association of Admiral Markets AS.

For as long as Admiral Markets AS has only one shareholder, the rules established in good corporate governance for convening the general meeting, information published for shareholders, participation in the general meeting of shareholders and its conduct shall not be applied. Currently Admiral Markets AS' sole shareholder is Admiral Markets Group AS, registry code 11838516.

At the time of the preparation of this report the main shareholders of Admiral Markets Group AS (holding over 5% of the voting rights represented by their shares) are:

1. Montes Auri OÜ (1,225,000 shares, representing 49.0% of the total number of shares), sole shareholder of which is Alexander Tsikhilov;
2. Alexander Tsikhilov (684,375 shares, representing 27.375% of the total number of shares);
3. Laush OÜ (446,250 shares, representing 17.85% of the total number of shares), sole shareholder of which is Dmitri Lauš.

The rest of the shareholders hold less than 2% each of the total number of shares.

Supervisory Board

The Supervisory Board exercises strategic management and performs the supervisory function. The members of the Supervisory Board are elected at the general meeting of Admiral Markets AS. Persons who have sufficient knowledge and experience for participating in the work of the Supervisory Board are elected as members of the Supervisory Board. In electing a member of the Supervisory Board, characteristics of the activities of the Supervisory Board and Admiral Markets AS, potential risk of conflict of interests, and if necessary, the person's age are taken into account. Not more than two (2) former members of the Management Board who were members of the Management Board of Admiral Markets AS or an entity controlled by Admiral Markets AS less than three (3) years ago shall simultaneously be members of the Supervisory Board.

Supervisory Board of Admiral Markets AS:

- plans the operations of Admiral Markets AS in collaboration with the Management Board;
- organises the management of Admiral Markets AS (including participation in making important decisions concerning the operations of Admiral Markets AS);
- supervises the activities of the Management Board in accordance with the procedures and to the extent established by the legislation, inter alia regularly assesses the Management Board's actions in implementing Admiral Markets AS' strategy, financial condition, risk management system, legality of the activities of the Management Board and whether essential information about Admiral Markets AS is disclosed to the Supervisory Board and to the public as required; and
- determines and regularly reviews Admiral Markets AS' strategy, its general action plan, risk management policies and annual budget.

In addition to the activities prescribed by the law and internal rules of Admiral Markets AS, the Supervisory Board gives its consent to the Management Board in issues that are outside the daily business operations and in issues described in law that require the consent of the Supervisory Board. In the framework of regular meetings, the Supervisory Board received regular reviews of operational and financial results of Admiral Markets AS.

As a result of the decisions of Admiral Markets AS general meetings the Supervisory Board members of Admiral Markets AS, at the time of preparation of the annual report, are:

ADMIRAL MARKETS

Alexander Tsikhilov

Chairman of the Supervisory Board

Has been involved in several commercial projects, including the provision of Internet services. Founded Admiral Markets in 2001. Obtained a master's degree in 2006 and a doctorate in Business Administration from the Swiss Business School in 2015.

Anatolii Mikhalchenko

Member of the Supervisory Board

Joined Admiral Markets in 2004 as IB (introducing broker) manager. Obtained a degree from ITMO University in Saint Petersburg. Has been working as a Chairman of the Supervisory Board for Admiral Markets Group AS since 2011.

Anton Tikhomirov

Member of the Supervisory Board

Has been working in the industry since 1999 and has managerial experience in a financial broker firm. Joined Admiral Markets during the company's merging with the local Russian broker. Has been developing Admiral Markets' business activity in Spain and Latin America. Currently responsible for the supervision of the regional structure as well as research and development of the Group's KPIs and other critical business metrics.

Dmitri Lauš

Member of the Supervisory Board

Obtained a bachelor's degree in Business Administration from the Estonian Business School. Together with Alexander Tsikhilov, founded the headquarters of Admiral Markets in Estonia. With a background in financial technology, played an integral part in the Company's technological development.

The Supervisory Board may set up committees. When setting up committees by the Supervisory Board, Admiral Markets AS publishes on its website information about the existence, functions, composition and location of committees in the Admiral Markets AS structure. In case of a change in circumstances related to committees, Admiral Markets AS shall publish the content and time of implementation of the amendment in the same procedure. The Supervisory Board has set up four committees, whose responsibilities and structure is presented below.

Credit Committee:

- evaluates the compliance of the leverage (credit), which is offered to the clients by companies that belong to the same consolidation group as Admiral Markets AS in relation to the use of investment services, with applicable legislation and risk management principles of Admiral Markets AS;
- develops and makes proposals to the Management Board for establishing the limits of the credit offered to clients; and
- evaluates, at least once a year and each time when applicable legislation is amended, the implementation of credit limits and, where necessary, makes a proposal for updating the limits of credit and prepares a corresponding draft resolution.

The members of the Credit Committee are the Chairman of the Management Board of Admiral Markets AS Sergei Bogatenkov, members of the Supervisory Board of Admiral Markets AS Anatolii Mikhalchenko and Anton Tikhomirov. The Members of the Credit Committee receive no fee for membership in the committee.

Remuneration Committee:

- evaluates the implementation of the remuneration principles (including the reward system) in Admiral Markets AS and companies that belong to the same consolidation group;
- evaluates the impact of the remuneration-related resolutions on compliance with the requirements laid down about risk management and prudential requirements; and
- exercises supervision of the remuneration (including rewarding) of members of the Management Board and employees of Admiral Markets AS and of companies that belong to the same consolidation group as Admiral Markets AS, and evaluates, at least once a year, the implementation of the remuneration principles and, where necessary, makes a proposal for updating the remuneration principles and prepares draft remuneration resolutions for the Supervisory Board (concerning the remuneration of members of the Management Board) and the chairperson of the Management Board (concerning the remuneration of employees), respectively.

The members of the Remuneration Committee are Anatolii Mikhalchenko and Anton Tikhomirov, who are members of the Supervisory Board of Admiral Markets AS. The Members of the Committee receive no fee for membership in the committee.

Risk and Audit Committee:

- evaluates the implementation of the risk management principles in Admiral Markets AS and in companies that belong to the same consolidation group, following the risk management principles of Admiral Markets AS and applicable legislation;
- upon occurrence of unexpected events that may have a significant impact on Admiral Markets AS and/or on a company that belongs to the same consolidation group, ensures the implementation of the procedure that guarantees the continuity of activities and, where necessary, develops without delay, a more detailed or additional action plan in order to prevent or at least minimise an adverse impact on Admiral Markets AS and on companies that belong to the same consolidation group;
- evaluates, at least once a year, the implementation of the risk management principles and the principles of ensuring the continuity of activities and makes proposals, where necessary, for updating these principles and prepares, where necessary, proposals for amendment;
- advises the Supervisory Board on exercising supervision of accounting, auditing and internal control, establishment of the budget as well as lawfulness of activities;
- monitors and analyses processing financial information to the extent that is necessary for preparing interim and annual reports, efficiency of risk management and internal control, the process of auditing annual accounts or a consolidated report and independence of an audit firm and a sworn auditor that represents it on the basis of law as well as the compliance of their activities with the requirements of the Auditors Activities Act;
- makes proposals and recommendations to the Supervisory Board for appointing or recalling an audit firm, appointing or recalling an internal auditor, preventing or removing problems and inefficiency in the organisation and for compliance with legislation and good professional practice.

The members of the Risk and Audit Committee are Anatolii Mikhalchenko and Anton Tikhomirov, who are members of the Supervisory Board of Admiral Markets AS, and Olga Senjuškina, who is a member of the Supervisory Board of Admiral Markets Group AS. Members of the Risk and Audit Committee receive no fee for membership in the committee.

Nomination Committee:

- submits proposals to a corresponding management body of Admiral Markets AS or of a company that belongs to the same consolidation group for appointing members of a lower level management body;
- finds suitable candidates, assesses their background and compliance with the requirements stipulated in legislation and the internal procedures of Admiral Markets AS and the companies belonging to the same consolidation group and, if possible, makes its reasoned proposals two (2) weeks before the appointment of the member of the respective managing body.

The members of the Nomination Committee are Anatolii Mikhalchenko and Anton Tikhomirov, who are both members of the Supervisory Board of Admiral Markets AS. The members of the Nomination Committee receive no fee for membership in the committee.

Management Board

The Management Board coordinates day-to-day operations of the company according to the legislation, articles of association and decisions of the Supervisory Board, acting in the most economical manner to adhere to Admiral Markets AS' and its clients' best interests.

Members of the Management Board are elected by the Supervisory Board. The Management Board of Admiral Markets AS must have at least two members.

Members of the Management Board of Admiral Markets AS must meet, inter alia, the following requirements:

- must have a university degree or equivalent education and experience necessary for managing an investment company;
- may not be at the same time member of the Management Board of more than two (2) entities whose securities are listed on the stock exchange (the issuer), or Chairman of the Supervisory Board of another issuer. A Member of the Management Board may be Chairman of the Supervisory Board of the issuer that belongs to the same group as Admiral Markets AS.

At the time of preparation of the annual report, the Management Board of Admiral Markets AS consisted of two members:

Sergei Bogatenkov

Chairman of the Management Board

Joined Admiral Markets in 2014. Obtained a bachelor's degree in Economics and a master's degree in Corporate Finance from the Tallinn University of Technology. Has over 10 years of experience in consulting, banking and asset management. Held various positions in Swedbank, Ernst&Young, and Bank of Estonia.

Dmitry Kuravkin

Member of the Management Board

Joined Admiral Markets in 2017. Holds a Master's degree in law from the University of Tallinn. He has completed several courses in financial law and compliance control. More than 10 years of professional experience in financial law (including participation in legislative processes). Previously worked in various legal and compliance control positions at Swedbank and Pocopay.

Remuneration of the Management Board and the Supervisory Board

Remuneration of the members of the Management Board and the Supervisory Board, including the reward system, must be such that it motivates the person to act in the best interests of Admiral Markets AS and refrain from acting in his or her own or another person's interest.

Admiral Markets AS does not disclose remuneration of individual members of the Management Board and Supervisory Board, since according to the contract concluded with them, it is confidential information.

The total management remuneration is disclosed as aggregate amount and set out in the annual report.

Financial Reporting and Auditing

Admiral Markets AS prepares and publishes the annual report of the financial year on its website each year. The annual report is subject to an audit.

Considering the proposals of the Management Board and the auditor's consent, under the resolution of the sole shareholder of Admiral Markets AS of 24.10.2018, Admiral Markets AS' auditor for the 2018 annual report is company AS PricewaterhouseCoopers, registry code 10142876. Upon agreement with the auditing company, the fee to be paid to the auditor is not subject to disclosure and is treated as confidential.

During 2018, the Company's auditor has provided other assurance services, the provision of which is the obligation arising from the Securities Market Act, as well as other advisory services permitted in accordance with the Auditors Activities Act in force in the Republic of Estonia.

Disclosure of Information

Admiral Markets AS has a website which includes a specially developed subsite for investors www.admiral.ee. This website is available in both Estonian and English languages. This website contains annual reports (including Corporate Governance Report), interim reports, articles of association, composition of the Management Board and Supervisory Board and the information about the auditor. Since 2016, the annual reports are also available in English.

Admiral Markets AS neither discloses the financial calendar, information disclosed to financial analysts or other persons, nor times and locations for meeting analysts, investors and the press, as these are not necessary considering the current activities of Admiral Markets AS and high awareness of its parent company, the sole shareholder Admiral Markets Group AS.

2. Financial Statements

Statement of Financial Position

(in thousands of euros)	Note	31.12.2018	31.12.2017
ASSETS			
Current assets			
Cash and cash equivalents	7	22,205	22,002
Financial assets at fair value through profit or loss	8	10,997	3,361
Short-term loans, receivables and prepayments	9,10	1,639	4,247
Inventories		61	0
Total current assets		**34,902**	**29,610**
Non-current assets			
Long-term loans	10	2,500	451
Long-term investments		0	50
Tangible assets	11	1,267	398
Intangible assets	12	745	93
Total non-current assets		**4,512**	**992**
TOTAL ASSETS		**39,414**	**30,602**

LIABILITIES			
Current liabilities			
Financial liabilities at fair value through profit or loss	8	176	177
Liabilities and prepayments	13	1,843	1,175
Total current liabilities		**2,019**	**1,352**
Long-term liabilities			
Subordinated debt securities	16	1,827	1,827
Total long-term liabilities		**1,827**	**1,827**
TOTAL LIABILITIES		**3,846**	**3,179**
EQUITY			
Share capital	19	2,586	2,586
Statutory reserve capital		259	259
Retained earnings		32,724	24,579
TOTAL EQUITY		**35,568**	**27,423**
TOTAL LIABILITIES AND EQUITY		**39,414**	**30,602**

Notes on pages 64 to 122 are an integral part of the Financial Statements.

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Statement of Comprehensive Income

(in thousands of euros)	Note	2018	2017
Net gain from trading of financial assets at fair value through profit or loss with clients and liquidity providers		34,081	27,795
Brokerage fee income		85	71
Brokerage and commission fee expense		-9,960	-8,653
Other trading activity related income		74	167
Other trading activity related expense		-44	-35
Net income from trading	**21**	**24,236**	**19,345**
Other income		475	502
Other expense		-98	-98
Interest income		166	109
Interest expense		-147	0
Net gain (loss) on exchange rate changes		380	-826
Personnel expenses	22	-5,082	-5,257
Operating expenses	23	-9,843	-7,248
Depreciation of fixed assets	11,12	-283	-200
Profit before income tax		**9,804**	**6,327**
Income tax	17	-334	-331
Profit for the reporting period		**9,470**	**5,996**
Comprehensive income for the reporting period		**9,470**	**5,996**
Basic and diluted earnings per share	19	23.44	14.84

Notes on pages 64 to 122 are an integral part of the Financial Statements.

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ADMIRAL MARKETS

Statement of Cash Flows

(in thousands of euros)	Note	2018	2017
Cash flow from operating activities			
Profit for the accounting period		9,470	5,996
Adjustments for:			
Depreciation of fixed assets		283	200
Gains on the sale of property, plant and equipment		0	-37
Interest income		-166	-109
Interest expense		147	0
Allowance for doubtful receivables		49	58
Corporate income tax expenses		334	331
Other financial income and expenses		-380	826
Adjusted operating profit		**9,737**	**7,265**
Change in receivables and prepayments relating to operating activities		1,321	-1,372
Change in derivatives assets		-55	11
Change in restricted cash balance		120	-90
Change in payables and prepayments relating to operating activities		-667	-143
Change in the derivative liabilities		-1	125
Changes in inventories		-61	0
Interest received		55	43
Interest paid		-146	0
Corporate income tax paid		-334	-331

Net cash from operating activities		**9,969**	**5,508**
Cash flow from investing activities			
Disposal of tangible and intangible assets	11, 12	2	35
Purchase of tangible and intangible assets	11, 12	-1,800	-325
Loans granted	10	-300	-220
Repayments of loans granted		0	220
Acquisition of bonds		-18,342	-3,487
Proceeds from disposal of bonds		11,519	2,297
Acquisition of shares		0	-50
Net cash used in investing activities		**-8,921**	**-1,530**
Cash flow from financing activities			
Dividends paid	19	-1,325	-1,325
Proceeds from subordinated debt securities issued		0	1,827
Net cash from/used in financing activities		**-1,325**	**502**
TOTAL CASH FLOWS		**-277**	**4,480**
Cash and cash equivalents at the beginning of the period	**7**	**21,671**	**17,777**
Change in cash and equivalents		**-277**	**4,480**
Effect of exchange rate changes on cash and cash equivalents		**600**	**-586**
Cash and cash equivalents at the end of the period *	**7**	**21,994**	**21,671**

* Except restricted cash; for more information refer to Note 7.

Notes on pages 64 to 122 are an integral part of the Financial Statements.

Statement of Changes in Equity

(in thousands of euros)	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 01.01.2017	**2,586**	**259**	**19,908**	**22,752**
Dividends paid	0	0	-1,325	-1,325
Profit for the reporting period	0	0	5,996	5,996
Total comprehensive income for the reporting period	**0**	**0**	**5,996**	**5,996**
Balance as at 31.12.2017	**2,586**	**259**	**24,579**	**27,423**
Balance as at 01.01.2018	**2,586**	**259**	**24,579**	**27,423**
Dividends paid	0	0	-1,325	-1,325
Profit for the reporting period	0	0	9,470	9,470
Total comprehensive income for the reporting period	**0**	**0**	**9,470**	**9,470**
Balance as at 31.12.2018	**2,586**	**259**	**32,724**	**35,568**

For more information of share capital refer to Note 19.
Notes on pages 64 to 122 are an integral part of the Financial Statements.

3. Notes to the Financial Statements

1. General information

ADMIRAL MARKETS AS (hereinafter "Admiral Markets" and "Company") is an investment company since 05.06.2009. The Company's head office is located at Maakri 19/1, Tallinn, Estonia. The annual report for the year ending 31 December 2018 was approved for publication on 26.03.2019 in accordance with the management's decision. The annual report approved by the Management shall be authorized for approval by Supervisory Board and shareholders. Shareholders have the right to approve or disapprove the financial statements and require management to compile new ones. The Supervisory Board does not have that right.

2. Accounting policies and estimates used in preparing the financial statements

The financial statements of Admiral Markets AS have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. In addition to the information complying with International Financial Reporting Standards, financial statements include information on risk management, own funds and capital adequacy that must be disclosed pursuant to §110[1] of the Securities Market Act that is presented in Note 5. The financial statements contain the financial results of Admiral Markets AS and its branches.

These financial statements are not consolidated since Admiral Markets AS has no subsidiaries.

The key accounting policies used in the financial statements are outlined below. These policies have been used consistently in all of the years presented, unless otherwise stated. These financial statements have been prepared under the historical cost convention, except for the cases when described otherwise in the following accounting policies.

An overview of new standards and amendments to certain standards and interpretations that have been published by the time of preparation of these financial statements, as well as the assessment of the Company's management on the effect of adoption of new standards and interpretations is disclosed in Note 3.

The preparation of the financial statements requires making estimates. Estimates are based on the information about the Company's status, intentions and risks at the date of preparing the financial statements. The final result of economic transactions recognised in the financial year or in previous periods may differ from the current period estimates.

The financial year started on 1 January 2018 and ended on 31 December 2018. The Company's functional currency is the euro. The annual financial statements are presented in thousands of euros, unless otherwise stated.

Recognition of foreign currency transactions and financial assets and liabilities denominated in foreign currencies

(a) Functional and presentation currency

The Company's functional and presentation currency is euro.

(b) Transactions and balances in a foreign currency

Foreign currency transactions are recorded at the official currency exchange rates quoted by the European Central Bank on the transaction day. Monetary assets and liabilities denominated in foreign currencies are translated into euros at the official foreign currency exchange rates quoted by the European Central Bank prevailing at the balance sheet date. The fair value of derivatives is measured by the exchange rate quoted by the European Central Bank prevailing at the balance sheet date. Gains and losses on translation from assets and liabilities are recognised in the statement of profit or loss under "Net gain (loss) on exchange rate changes." Non-monetary financial assets and liabilities not measured at fair value denominated in foreign currencies (e.g. prepayments, tangible and intangible fixed assets) are not translated at the balance sheet date, but are measured based on the foreign currency exchange rates of the European Central Bank prevailing at the transaction date.

Financial assets

Accounting policies from 1 January 2018

Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments (Loans and debt securities)

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

The Company's debt instruments have been classified into the following measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.

As at 1 January 2018 and 31 December 2018, the following financial assets of the Company were classified in this category:

- Cash and cash equivalents;
- Trade receivables;
- Loans;
- Other receivables.

- FVPL: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income (FVOCI) are measured at FVPL. This is the case if the business model is held for trading; where financial assets are considered held for trading if they are held with the intention to be sold in the short-term and for the purpose of generating profits. Debt instruments are mandatorily measured at fair value through profit or loss if the assets are managed and evaluated on a fair value basis or the assets are held with an intention to sell, or alternatively, if the cash flows do not consist of solely payments of principal and interest. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented in the period in which it arises. The contractual interest earned is recognized in the statement of profit and loss line Interest income.

As at 1 January 2018 and 31 December 2018, the following financial assets of the Company are measured FVPL:

- Bonds.

Equity instruments

The Company subsequently measures all equity investments at fair value through profit and loss. Changes in the fair value are recognised in other income/(expenses) in the statement of profit or loss as applicable.

Derivative financial instruments

Derivative financial instruments, including futures, forward contracts, options contracts and other instruments that are related to the change in underlying assets are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Company does not apply hedge accounting.

Impairment

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions. The Company uses expert based individual assessments for calculating ECLs.

The ECL model has a three-stage approach based on changes in the credit risk. A 12-month ECL (Stage 1) applies to all items, unless there is a significant increase in credit risk since initial recognition. For items where there is a significant increase in credit risk (Stage 2) or in default (Stage 3), lifetime ECL applies.

At the end of each reporting period the Company performs an assessment of whether credit risk has increased significantly since initial recognition. The assessment of whether there has been a significant change in credit risk is based on quantitative and qualitative indicators. Indicators include payments that are past due >30 days and <90 days and financial assets whose contractual terms have been revised due to the customer's financial difficulties. In case there has been a significant increase in credit risk since initial recognition, an allowance for lifetime ECL shall be recognised and the financial instrument is transferred to Stage 2.

The approach is symmetrical, meaning that in subsequent reporting periods, if the credit quality of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the financial asset moves back to Stage 1.

For trade receivables and contract assets without a significant financing component the Company applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Company uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

Accounting policies applied until 31 December 2017

The Company classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss (FVTPL);
- Loans and receivables (L&R);
- Available-for-sale assets (AFS).

Financial assets are initially recognised at fair value, being the fair value of the payment made or received for the financial asset, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The acquisition cost includes all transaction expenses directly related to financial assets, except financial assets at fair value through profit or loss. Financial assets are derecognised from the statement of financial position when the Company loses the right to receive cash flows from the financial asset or assigns to a third party cash flows arising from the assets and significant risks and rewards connected to the financial assets.

Purchases and sales of financial assets are consistently recognised at the settlement date, i.e. at the date when the Company becomes the owner of a financial asset or loses its ownership of the financial asset that has been sold.

I. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include:

(a) Financial assets held for trading in trading accounts,

(b) Derivatives, including currency pairs.

Financial instruments measured at fair value are assessed at each balance sheet date to their current fair value, without deducting any transaction costs related to disposal of the financial instrument.

Fair value gains/losses arising from financial assets and derivatives held for trading are recognised as profit or loss in the statement of profit or loss on line „Net gain from trading of financial assets at fair value through profit or loss with clients and liquidity providers“.

Derivatives

A derivative is a financial instrument or other contract, which has the following characteristics:

- its value changes in response to changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, price or rate index, credit rating or credit index, or other variable, provided that in case of non-monetary variable the variable is not specifically associated with the party to the contract;
- it is settled in the future.

Derivatives are futures contracts, forward contracts, swap contracts, options contracts and other instruments of similar nature that are related to the change in underlying assets. A derivative usually has a nominal amount, which is the amount of money, number of shares, number of weight or volume units or other units specified in the contract.

Financial assets held for trading include open:

- foreign exchange net spot positions;
- net forward positions;
- rolling spot forex contracts;
- Contracts for Differences (CFD).

Derivatives (e.g. futures, forward, swap and option contracts) are recognised in the statement of financial position at their market value. If derivatives are quoted in an active market, the fair value shall be the market value on the balance sheet date. Subsequently, reporting a revaluation is made and the result is recognised in the statement of profit or loss line „Net gain from trading of financial assets at fair value through profit or loss with clients and liquidity providers".

Derivatives are recognised in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheet only when the Company has a legally enforceable right to set off the recognised amounts and the Company intends to set them off on a net basis, or to realise the asset and settle the liability simultaneously. Legally applicable right may not be dependent on the upcoming events and must be applied to the ordinary course of business, and in case of breach of contract, insolvency and bankruptcy of the Company or transaction partner.

The Company does not use special hedge accounting rules when accounting for derivatives.

II. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are recorded until they are repaid or written off. After initial recognition, the Company recognises loans and advances at amortised cost, and in the following periods accounts for interest income from the receivable using the effective interest rate method.

Customer receivables arise from the provision of the service to clients and they are initially measured at fair value including transaction costs and they are subsequently measured at amortized cost, using the effective interest rate method (less any refunds and impairment losses).

Impairment losses of financial assets are recognised in the statement of profit or loss during the period when the loss event (or events) occurs after the asset's initial recognition and that loss event (or events) has an impact on the future cash flows of financial asset or group of financial assets that can be reliably estimated.

The Company assesses the risks, taking into consideration all known information on the solvency of the debtor and whether there is objective evidence of impairment (buyer's financial difficulties, bankruptcy or inability to meet its obligations to the Company).

<u>Trade receivables</u>

Trade receivables are receivables arising in the Company's ordinary course of business. Trade receivables are recognised at amortized cost (i.e. nominal value less any impairments, if necessary).

Accounts receivables are valued in the statement of financial position on the basis of the amounts collectible. This includes an assessment of each customer's outstanding receivables separately, considering the information available on the solvency of the customer. Any impairment losses related to doubtful receivables are recognised in operating expenses. Uncollectible receivables are written off from the statement of financial position. Receipts of previously impaired uncollectible receivables are recorded as a reduction of cost of uncollectible receivables.

<u>III. Available-for-sale assets</u>

Available-for-sale assets are long-term financial investments, such as shares and other equity instruments. These financial assets are not publicly traded and their fair value cannot be reliably estimated, therefore they are recorded at cost (i.e., cost less any impairment losses).

Assessment of fair value

The Company assesses financial instruments such as derivatives at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined based on the assumption that the asset is sold or liability is settled:

- under the conditions of the primary market of the asset or liability, or
- in case of absence of such primary market in the most favourable market condition for the asset or liability.

The Company must have access to the primary or the most favourable market. In assessing the fair value of the asset or liability, it is expected that market participants are pricing the asset or liability based on the determination of their economic interests.

The Company uses fair value valuation techniques that are appropriate in the circumstances and for which there is sufficient data to estimate the fair value, maximizing the use of relevant observable inputs and minimize the use of unobservable inputs.

All assets and liabilities that are valued at fair value or disclosed in the financial statements, are classified in accordance with the fair value hierarchy, which is described below and are based on the lowest level input that is essential to the fair value measurement:

Level 1 – Quoted prices (unadjusted) for identical assets and liabilities on an active market;

Level 2 – Valuation techniques for which the lowest level of significant inputs are directly or indirectly observable;

Level 3 – Valuation techniques for which the lowest level of significant inputs are not observable directly or indirectly.

The Company assesses at the end of each reporting period whether the assets and liabilities, which are recorded in the financial statements throughout different periods require reclassification between levels (based on the lowest input, which is important for estimating the fair value).

Cash and cash equivalents

Cash and cash equivalents include cash in hand and at bank, short-term (with maturity of less than three months) bank deposits, which have no material market value change risk.

Cash in trading accounts in banks and investment companies also contains restricted cash. Cash and cash equivalents in the cash flow statement do not contain such cash balances with restricted use.

Recognition of off-balance sheet assets and liabilities

Admiral Markets AS acts as an intermediary of investment services and is responsible for keeping their clients' deposited funds under their control. As a result of the pass-through arrangement, the assets are considered as off-balance sheet assets, see Note 18.

Property, plant and equipment

Property, plant and equipment are recorded in the statement of financial position at cost less any accumulated depreciation and impairment losses. The Company depreciates items of property, plant and equipment under the straight-line method. The following useful lives are generally assigned to items of property, plant and equipment:

Group of property, plant and equipment	Useful life
Vehicles	3-5 years
Other tangible assets	3 years

The depreciation methods, useful life and residual value of items of property, plant and equipment are reviewed at least once at the end of each financial year and if estimates differ from previous estimates, the changes are recorded as changes in accounting estimates, i.e. prospectively.

If costs incurred for an item of property, plant and equipment are such that meet the definition of property, plant and equipment, these costs are added to the acquisition cost of the item of property, plant and equipment. Ongoing maintenance and repair costs are expensed as incurred.

Intangible assets

Intangible assets are initially recognised and subsequently measured in the statement of financial position on the basis of the same principles as applied to items of property, plant and equipment.

Intangible assets are amortised using the straight-line method. The following useful lives are generally assigned to intangible fixed assets:

Group of intangible asset	Useful life
Licenses, software	5 years

If any indication exists that intangible assets may be impaired, an impairment test will be carried out on the same basis as for property, plant and equipment.

Development costs are capitalised if there exist technical and financial resources and a positive intention to implement the project, the Company can use or sell the asset and the amount of development costs and future economic benefits generated by the intangible asset can be determined reliably.

Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Company's management assesses whether there are signs that may indicate that the asset may be impaired. If there is an indication that an asset may be impaired, an impairment test is carried out. The recoverable amount is equal to the higher of the asset's fair value (less costs to sell) or value in use based on the discounted cash flows. If the test reveals that the recoverable amount is lower than its carrying amount, the non-current asset is written down to its recoverable amount. If an impairment test cannot be carried out in respect of an individual asset, then the recoverable amount is determined for the smallest group of assets (cash-generating unit) to which the asset belongs. Asset impairments are recognised as loss in the accounting period.

If as a result of the impairment test of a previously impaired asset, the asset's recoverable value exceeds its carrying amount, the earlier impairment loss is reversed and the carrying amount of the asset is increased. The maximum limit is the carrying amount of the asset that would have been recognized using regular depreciation over the years.

Accounting for financial liabilities

The Company classifies financial liabilities either:

(a) financial liabilities measured at fair value through profit or loss,

(b) financial liabilities measured at amortised cost.

Recognition of a financial liability (derivative) at fair value through profit or loss is disclosed under accounting policy Financial assets *Derivative finacial instruments*. All other financial liabilities are subsequently measured at amortised cost using the effective interest method. Transaction costs are included in the calculation of the effective interest rate. The difference between the proceeds (less transaction costs) and redemption value are recognised in the statement of profit or loss during the term of the instrument, using the effective interest rate. Interest costs are included in the statement of profit or loss line "Interest expenses".

Debt securities issued and similar subordinated debts are initially recognised at fair value, less transaction costs (cash received less transaction costs). The subordinated debts are those liabilities, which in case of a liquidation of an investment company or declaration of bankruptcy, are settled after the satisfaction of the justifiable claims of other creditors. Other financial liabilities (trade payables and accrued expenses) are initially recognised at fair value less transaction costs and are subsequently carried at amortised cost.

Liabilities with maturity more than one year from the balance sheet date are recognised in the statement of financial position as non-current liabilities, and the rest as current liabilities.
Financial liabilities are derecognised when they are extinguished (ie. when the obligation specified in the contract is discharged, cancelled or expired).

ADMIRAL MARKETS

Payables to employees

Payables to employees include the calculated but unpaid salaries and vacation pay liabilities as of the balance sheet date. Vacation pay liabilities are recognised together with social and unemployment insurance taxes in the statement of financial position under liabilities and prepayments and in the statement of profit or loss under personnel expenses.

Leases

Finance and operating lease

A finance lease is a lease relationship where substantial risks and rewards related to the ownership of the asset are transferred to the lessee. Other lease agreements are treated as operating leases.

Company as the lessee

Operating lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term.

Provisions and contingent liabilities

The Company establishes provisions for obligations of uncertain timing or amount. The amount and timing of the provision is determined on the basis of management or expert estimates.

A provision is recognised when the Company has a present legal or constructive obligation as a result of past event, the realization of the provision in the form of outflow of resources is likely (over 50%) and the amount of the provision can be reliably determined.

Costs related to the realization of the provision are estimated at the balance sheet date and the amount of the provision is revalued at each balance sheet date. If the provision is likely to be realized in more than one year, it is recorded at discounted present value. Discounting is based on market interest rates for similar liabilities.

Provisions include potential litigation costs, fines and other obligations, the realization of which is possible and known to the management.

Contingent liabilities are liabilities whose probability of settlement is less than 50% or whose amount cannot be reliably estimated. Contingent liabilities are recognized off-balance sheet.

Corporate income tax

According to the current Income Tax Act, the profits distributed as dividends are taxed at the rate of 20/80 from the net dividend paid. Corporate income tax on dividends is recognised as an income tax expense in the statement of comprehensive income in the period when the dividend is declared, regardless of the period for which they are announced or when the dividends are paid out. The income tax liability and expense accounted from unpaid dividends as at the balance sheet date are adjusted according to the income tax rate in force in the new accounting period.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Admiral Markets AS has a branch in Poland and a representative office in the Russian Federation. Although the main activity of the branch and the representative office is to offer support services to the head office, and the branch and the representative office do not generate direct operating income, Admiral Markets AS allocates revenues between the branches and the representative office according to the transfer pricing policy developed at the Company. The profit generated in the distribution of income is taxed separately in each country according to local regulations. More information is provided in Note 17.

The maximum income tax liability that could arise on a dividend distribution is provided in Note 17.

Revenue and expenses

Accounting policies from 1 January 2018

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Company's performance. Such income includes brokerage fees from the companies in the same consolidation Group. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Company satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes inactiven fees and service commissions from payment systems.

Interest income and expense are recognised in the statement of comprehensive income for all financial instruments that are recognised at amortized cost, using the effective interest rate method. The effective interest rate is the interest rate which when used for discounting the cash flows arising from financial asset or liability will result in the current carrying amount of the financial asset or liability. The calculation of the effective interest rate includes all payable or receivable transaction costs, premiums or discounts related to the financial asset or liability.

Trading income includes market value changes of tradeable derivatives and other financial assets recognised at fair value through profit or loss.

The group operates a loyalty program where clients accumulate points, which entitle them to discounts on future services. Revenue from the award points is recognised when the points are redeemed or when they expire twelve months after the initial transaction. The amount of revenue is estimated based on the number of points redeemed relative to the total number expected to be redeemed. A contract liability is recognised for the amount of fair value of points expected to be redeemed until they are actually redeemed or expire.

Accounting policies until 31 December 2017

Revenue and expenses are recognised on an accrual basis. Revenue from the sale of goods is recognised when there is a reasonable expectation that the benefits resulting from the transaction will flow to the Company, the income can be reliably measured and the services are provided by the Company. Revenue is recognised at the fair value of the consideration received or receivable. Revenue from provision of the service is recognised in the same period when the services were provided.

Trading income includes market value changes of tradeable derivatives and other financial assets recognized at fair value through profit or loss.

Commission and brokerage fee income and expenses include the consideration received or receivable and consideration paid or payable at fair value for mediation of the service during the Company's ordinary course of business.

The bonus recognised as a result of client trading is recorded as a reduction of net trading income in the period when the bonus is granted. Bonus points can be redeemed within one calendar year.

Interest income and expense are recognised in the statement of comprehensive income for all financial instruments that are carried at amortized cost, using the effective interest rate method. The effective interest rate is the interest rate which when used for discounting the cash flows arising from financial asset or liability will result in the current carrying amount of the financial asset or liability. The calculation of the effective interest rate includes all payable or receivable transaction costs, premiums or discounts related to the financial asset or liability.

Other service fee income and other income are recognised on an accrual basis when the transaction occurs.

Statutory reserve capital

According to the Commercial Code of the Republic of Estonia, the Company transfers at least 5% of the net profit of the current year to the statutory reserve until the reserve is at least 10% of the share capital. The statutory reserve cannot be distributed as dividends, but it can be used to cover losses if the losses cannot be covered from unrestricted equity. The statutory reserve can also be used to increase the Company's share capital.

Cash flow statement

The cash flow statement has been prepared using the indirect method – cash flows from operating activities are calculated by adjusting net profit by eliminating the impact of non-monetary transactions and changes in business related current assets and current liabilities.

Cash flows from investing and financing activities are recognised using the direct method.

Events after the balance sheet date

The financial statements reflect all significant facts affecting the assessment of assets and liabilities which occurred between the reporting date, 31 December 2018, and the date of preparing the report, but are linked to transactions that occurred during the reporting period or transactions of previous periods. More detailed information is provided in Note 26.

3. Use and interpretation of new amended standards and new accounting principles

Certain new IFRS, amendments to existing standards and the interpretations of the standards have been published by the time of compiling these financial statements which became mandatory for the Company's reporting periods beginning on or after 1 January 2018. The overview of these standards and the potential impact of applying the new standards and interpretations are stated below.

(a) Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for the Company from 1 January 2018.

IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and to sell assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The table below shows the carrying amount of financial assets taking into account their historical measurement categories in accordance with IAS 39 and the new measurement categories for the transition to IFRS 9 on January 1, 2018:

	Measurement category					
Financial assets	**IAS 39**	**IFRS 9**	**Carrying value per IAS 39 (closing balance as at 31.12.2017)**	**Effect/ remeasurement ECL**	**Carrying value per IFRS 9 (opening balance as at 01.01.2018)**	**Note**
Cash and cash equivalents	L&R	AC	22,002	0	22,002	7
Bonds	FVTPL	FVTPL	3,333	0	3,333	8
Derivatives	FVTPL	FVTPL	28	0	28	8
Loans and receivables to group companies	L&R	AC	3,038	0	3,038	10,25
Other short-term receivables group companies	L&R	AC	184	0	184	
Total financial assets			**28,585**	**0**	**28,585**	

The adoption of IFRS 9 Financial Instruments from 1 January 2018 did not have a material impact on the Company's financial position, performance nor cash flows. Although all the financial assets, except financial assets at FVTPL, given in the previous table are subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial. For more information, please see Note 5, credit risk section.

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The new standard did not have a material impact on Company's financial position, performance nor cash flows.

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The new standard did not have a material impact on Company's financial position, performance nor cash flows.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2018 that have a material impact on the Company.

(b) New accounting pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Company's annual periods beginning on or after 1 January 2019, and which the Company has not early adopted.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company has applied the standard from its mandatory adoption date of 1 January 2019. The standard affects the accounting for the Company's operating leases, more precisely the rent of offices. The corresponding amount was recognized in the balance sheet as asset and liability resulting in an increase in the Company's total assets and liabilities. The Company applied the simplified transition approach by applying IAS 8 and did not restate comparative amounts for the year prior to first adoption.

As at the reporting date, the Company has non-cancellable operating lease commitments of EUR 3,802 thousand (see Note 15).

The Company recognised right-of-use assets and lease liabilities of approximately EUR 3,408 thousand on 1 January 2019.

The Company does not act as a lessor.

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019).

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company expects that there will not be a material impact on Group's financial position, performance nor cash flows.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Company is assessing the impact of the new standard on its financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company is assessing the impact of the new standard on its financial statements.

The Company intends to apply the aforementioned standards and interpretations as at the date of entry into force, subject to them being adopted by the European Union.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. Use of estimates, assumptions and judgements

Preparation of financial statements requires management to make decisions, assumptions and estimates that affect the total amount of income and expenses, assets and liabilities and contingent liabilities recognised during the accounting period. Uncertainty in these estimates and assumptions could lead to a situation where in the future periods it may be necessary to adjust the carrying amounts of assets or liabilities to a significant extent.

The main assumptions and estimates that may affect the future and have significant impact on the carrying amounts of assets and liabilities within the next financial year are described below. Although the Company uses facts that are known at the time of the report as the basis for making estimates and assumptions, future developments may give rise to changes in the market or in the circumstances that are outside the Company's control. Such changes are taken into account in assessments at the time they occur.

For the preparation of these financial statements, management has made a critical judgment when evaluating the funds deposited in investment companies. Based on the facts stated below, management is in opinion that the investment company balances recorded in these financial statements fulfill the cash and cash equivalent criteria of highly liquid and subject to insignificant risk of change in value. Below are disclosed management's consideration in more detail:

- funds deposited in investment companies are very liquid and, except for the restricted cash part (EUR 211 thousand), are available to transfer into Company's own bank accounts in credit institutions within 24 hours;
- the historical transactions with the investment companies support the liquidity of these funds and historical transfers have been within the 24 hour timeline;
- management makes regular assessment of the counterparties and their financial positions and public information. Based on that, although not rated by credit rating agencies, management has assessed the investment companies with strong financial position and low credit risk, supported by the strong capitalisation of these companies and strong liquidity of these companies; and
- the investment companies are subject to regulatory requirements and under supervision of local regulators, ie these companies need to fulfill the regulatory capital adequacy tresholds to the certain degree similar to credit institutions.

Due to the factors stated above, management has assessed that these funds meet the cash and cash equivalent criteria of highly liquid and subject to insignificant risk of change in value.

5. Risk management, principles of calculating capital requirements and capital adequacy

Admiral Markets AS offers the service of trading with derivative products (trading platform) to retail, professional and institutional clients, being the counterparty to client transactions. According to the risk management policies of Admiral Markets, risks arising from derivatives are partly hedged through counterparties (liquidity providers).

Risk is defined as a potential negative deviation from the expected financial result. The objective of the risk management of Admiral Markets is to identify, accurately measure and manage risks. Risks are measured according to their nature as follows: qualitatively (scale of impact and the probability of occurrence) or quantitatively (monetary or percentage impact). Ultimately, the objective of risk management is to increase the income of Admiral Markets through minimizing damages and reducing the volatility of results.

Risk management is part of the internal control system of Admiral Markets AS. Risk management procedures and basis of assessment are set out in the Company's internal rules and internal risk management policy. In accordance with the established principles Admiral Markets must have enough capital to cover risks. The risk management process is the responsibility of the risk manager.

Specifically, risk management is built on the principle of the three lines of defence. The first line of defence, i.e. business units is responsible for risk taking and risk management. The second line of defence, i.e. risk management, performed by the Risk Management Unit, is responsible for the development of risk methodologies and risk reporting. The third line of defence, i.e. internal audit, carries out independent supervision of the entire Company.

Quantitatively measurable:

- Market risk, including foreign exchange, commodity and equity price risk;
- Credit risk, including counterparty risk, concentration risk, country risk;
- Liquidity risk;
- Operational risk, including control and management risk, legal risk, personnel risk, IT risk and model risk.

Qualitatively measurable:

- Reputational risk;
- Business risk;
- Strategic risk.

ADMIRAL MARKETS

The Management Board of Admiral Markets AS estimates that the main risks are related to credit, market, liquidity and operational risks. The exposure of Admiral Markets to these risks, management and mitigation of these risks is described in detail below.

The general principles of effective risk management are based on the differentiation of the customer base and instruments by risk categories and the determination of the operating rules of hedging for every individual group. In the framework of client-based risk management the client base is divided into groups according to the client profile (e.g., trading volumes and activity, etc.). In accordance with risk hedging principles the total net position of a certain client profile is hedged 100% through the counterparties (liquidity providers). However, for other client profiles, the total net position is generally not hedged through the counterparty, except if the portfolio as a whole exceeds total limits set by the risk manager. Therefore important part of risk hedging is setting limits for risk hedging, monitoring of limits set and in case of exceeding the limits immediately hedging the position that exceeds the limit.

In addition to client-based risk management, risks are managed also by instruments for which a list of instruments has been set which must be hedged through a counterparty. Instruments that are hedged through a counterparty are mostly less tradable instruments.

An important part of risk management is:

- Stop Out rate imposed on clients' trading accounts – rate of compulsory liquidation of transactions, i.e. the level of collateral in which transactions are automatically closed at current market prices;
- Selection of counterparties (liquidity providers), which is made on the basis of a thorough market analysis and by observing certain rules and principles;
- Ongoing monitoring of the risk limit set for the trading portfolio by the dealers of the Trading Department around the clock on all working days;
- Regressive leverage for customers: the larger the client's overall position, the lower the leverage that is allowed;
- The maximum possible leverage is limited to the clients during the last business hours prior to the weekend, as well as reducing the leverage of instruments before significant events affecting currency and other markets, such as elections, etc.

Capital management

The objective of Admiral Markets in managing capital is:

(a) to ensure the continuity of operations of Admiral Markets and its ability to generate a profit for the owners;

(b) to maintain a strong capital base that supports business development;

(c) to meet capital requirements laid down by the supervisory authorities.

The Management Board and risk manager of Admiral Markets AS is responsible for the overall business planning process in assessing capital requirements in relation to the risk profile and for presentation of a strategy for maintaining recommended capital levels. Capitalization of Admiral Markets must be forward-looking and in line with the Company's short- and long-term business plans, as well as with expected macroeconomic developments.

Equity of Admiral Markets must at any time be equal to or exceed the minimum amount of share capital of EUR 730,000 as required by the Securities Market Act. Admiral Markets must also comply with the equity requirements provided in the European Parliament and Council Regulation (European Union) No 575/2013 (hereinafter CRR) and maintain capital buffers provided in the Credit Institutions Act.

The CRR requires that in respect of its risk assets, all credit institutions and investment companies operating in the European Union shall hold up to 4.5% of Common Equity Tier 1 (CET1) and 6% of Tier 1 Capital (Tier 1). The total Capital Adequacy Requirement (CAD), which includes both Tier 1 and Tier 2 capital, is set at 8.0%.

According to the Estonian Credit Institutions Act, Admiral Markets must hold an additional capital conservation buffer of 2.5% and the systemic risk buffer of 1% from Estonian risk positions.

The equity of Admiral Markets consists of only Tier 1 and Tier 2 capital (CET1 capital):

Own funds	31.12.2018	31.12.2017
Share capital	2,586	2,586
Statutory reserves transferred from net profit	259	259
Retained earnings of previous periods *	31,333	17,258
Intangible assets	-745	-93
Total Tier 1 capital	**33,433**	**20,008**
Subordinated debt securities	1,827	1,827
Total Tier 2 capital	**1,827**	**1,827**
Total own funds	**35,260**	**21,835**

*Retained earnings of previous periods as of 31.12.2017 has been adjusted by dividends paid to the owners in February 2018 (Note 19) and retained earnings of previous periods as of 31.12.2018 has been adjusted by expected dividends to be paid out in the amount of EUR 1.39 million.

As of 31.12.2018, the own funds of Admiral Markets AS amounted to EUR 35.3 million (31.12.2017: EUR 21.8 million). At the end of the reporting period, Admiral Markets AS is well-capitalized, the capital adequacy ratio was 33.0% (31.12.2017: 21.3%), and Admiral Markets AS has complied with all regulatory capital requirements in 2018 as well as in the earlier period.

Credit risk

Credit risk arises from a probable loss that may arise from incorrect performance or non-performance of the obligations arising from the law of obligations, or other factors (including the economic situation).

Assets open to credit risk are primarily cash and cash equivalents, receivables, loans, financial assets recognised at fair value through profit or loss and receivables arising from other financial assets. Counterparty credit risk results from the derivatives positions opened in the trading portfolio with clients and trading counterparties.

Counterparty credit risk is limited mainly through leveraging clients' trading positions: the bigger the client's open position, the lower leverage for new opened positions of instruments is permitted.

Maximum exposure to credit risk	Note	31.12.2018	31.12.2017
Cash and cash equivalents	7	22,205	22,002
Financial assets at fair value through profit or loss	8	10,914	3,361
Loans granted	10	2,725	1,871
Other financial assets	9	369	1,828
Total financial assets		**36,213**	**29,062**
Off-balance sheet client bank accounts	18	3,148	3,344

Cash and cash equivalents

Credit risk exposure from cash and cash equivalents, which are held in credit institutions and investment companies (liquidity providers). It mainly consists of demand deposits, which upon the first request could be moved to another credit institution, without limitation of time and that by their nature bear very low credit risk, as estimated by the management of Admiral Markets AS.

For assessing the risk level of credit institutions, the Company uses ratings issued by international rating agencies Moody's, Standard & Poor's or Fitch to credit institutions or their parent companies. If a credit institution has not been issued such credit rating, the country rating is used. Generally, the credit institution must have a rating of at least AA-. The amount of demand deposits of credit institutions with lower ratings is limited.

ADMIRAL MARKETS

Investment companies must have the operating permit of the supervisory authorities of their country of residence and a high reputation.

Twice a year, the ratings of credit institutions and investment companies are checked and publicly available information about potential problems is reviewed.

Due to the careful selection of investment companies and consistent monitoring, the management estimates that the credit risk arising from investment companies is low.

Rating (Moody's)	Credit institutions	Investment companies	Total 31.12.2018	Credit institutions	Investment companies	Total 31.12.2017
Aa1 - Aa3	14,171	0	14,171	15,163	0	15,163
A1 - A3	1,277	0	1,277	1,136	0	1,136
Baa1 - Baa3	3	0	3	1	0	1
Ba1 - Ba3	11	0	11	14	0	14
Non-rated	6	6,738	6,744	4	5,656	5,660
Cash in transit	0	0	0	28	0	28
Total (Note 7)	**15,468**	**6,738**	**22,206**	**16,346**	**5,656**	**22,002**

Non-rated credit institutions are payment and investment institutions without external credit rating, however management considers their credit quality to be good based on available market information. Management has assessed that the ECL from credit institutions and investment companies exposures is immaterial due to the strong ratings of corresponding parties, their financial position and also due to the positive economic outlook in short-term perspective, as the Company holds only very liquid positions with the counterparties.

Loans granted

Loans have been granted mainly to related parties. The Company assesses based on historical loss rate and forward looking macroeconomic information that the significant risk of the loans has not increased. Therefore, it is assessed to have low credit risk and resulting expected credit loss is immaterial.

Other short-term receivables

This includes all other balance sheet financial assets. Other short-term receivables in amount EUR 166 thousand (31.12.2017: EUR 3,039 thousand) are receivables from group companies. As at 31.12.2018 and 31.12.2017 there were no overdue receivables from group companies. Management estimates that these receivables bear in substance low credit risk.

If there is a receivable from client as a result of trading activity (negative client position and credit risk has materialised), then based on historical information the probability of default and loss given default are 100% and thus, the receivable is fully impaired and are written off with a management decision. Therefore, there is no need to assess or adjust forward looking information estimates.

Other financial assets (settlements with employees and other short-term receivables) have been settled after the balance sheet date or bear very low credit risk based on management assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of bonds and derivative positions opened at trading counterparties (liquidity providers).

The bonds are included in the liquidity management portfolio. Liquidity portfolio is part of the liquidity buffer of Admiral Markets and it consists of investments in pledgable and high liquidity bonds. Bonds must have a minimum rating of AA by Moody's.

Ratings of bonds	31.12.2018	31.12.2017
AAA	4,785	502
AA1	2,889	830
AA2	1,389	332
AA3	1,750	1,668
Total	**10,813**	**3,333**

Bonds classified as FVTPL is based on the management assessment of the instrument's business model and how management monitors these investments. Therefore, fair value through profit or loss measurement basis was applied at the application of IFRS 9 as at 1 January 2018.

In addition, the Company has granted loan in amount of 101 thousand euros, which is measured at fair value through profit or loss as the loan has conversion option (see Note 8). Management has assessed that the credit risk of the loan is within acceptable limits.

Off-balance sheet client bank accounts

When clients open a trading account they transfer funds to the bank account indicated by Admiral Markets AS. Admiral Markets AS keeps these funds in separate bank accounts in credit institutions with a high credit rating and separates client assets from its own assets in accordance with the requirements of the Securities Market Act. Admiral Markets AS is not allowed to use these client funds in its economic activities. As a result of the pass-through arrangement, the assets are classified as off-balance sheet. Admiral Markets AS bears the credit risk associated with these accounts in case the credit institution is unable to fulfil its obligations.

As at 31.12.2018 and 31.12.2017, off-balance sheet cash and cash equivalents in credit institutions were divided by ratings as follows:

Rating (Moody's)	31.12.2018	31.12.2017
Aa1 - Aa3	1,824	2,048
A1 - A3	690	1,111
Baa1 - Baa3	626	61
Caa2	8	95
Total	**3,148**	**3,315**

Off-balance sheet client bank accounts are held in the Estonian credit institutions or subsidiaries of large EU banks with high credit ratings. Therefore, management has assessed that the ECL from credit institutions is immaterial due to the strong ratings of corresponding parties, their financial position and also due to the positive economic outlook in short-term perspective, as the Company holds only very liquid positions with the counterparties.

Trading portfolio

Counterparty credit risk is calculated for derivatives opened at trading counterparties. Counterparty (liquidity provider) credit risk is managed as described in the section on cash and cash equivalents.

The credit risk of clients' trading portfolio is mainly managed through leveraging derivatives and collateral rates. Generally, the leverage of clients and collateral depend on the whole position opened by them. The greater the contingent value of the open position, the lower the leverage that is permitted for them. Also, the so-called Stop Out rate is assigned to each client's trading account. If the value of the client's open position relative to the collateral on the account is reduced to a certain level, the open position will be automatically closed in accordance with the agreement concluded with the client.

In addition, collateral and leverage rates are reviewed before known high-risk events in order to prevent a sharp drop in the client's trading portfolio that exceeds the value of the collateral held by the Company and that could create a credit risk for the Company. For example, in 2018 client leverages were reduced before the Italian general elections.

Market risk

Market risk of Admiral Markets AS is mainly due to assets on balance-sheet that are quoted in currencies other than the euro and derivatives related to currencies, equities and commodities in the trading portfolio. For managing the market risk, the Company has set an enterprise-level general limit. A separate limit has been set for the trading portfolio. The limit set for the trading portfolio is monitored in real time, five days a week. If the limit is exceeded, the excess risk is hedged with derivative positions opened at trading counterparties.

Counterparty credit risk that may occur in the realization of the market risk is limited primarily through leveraging clients' trading positions: the greater the client's open position, the lower the leverage for new opened positions of instruments is permitted. In addition, leverage and collateral rates are changed before known high-risk events in order to prevent a sharp drop in client's trading portfolio that would exceed the value of the collateral held by the Company and that could create a credit risk for the Company. For example, in 2018 client leverages were reduced before the Italian general elections.

The market risk related to the business activities of Admiral Markets AS is divided into three parts: currency risk, equity risk and commodity risk.

Foreign currency risk

Foreign currency risk is the main part of market risk for Admiral Markets AS in respect of which a set of internal risk management principles have been set. Foreign currency risk is defined as the potential damage caused by unfavourable movement of exchange rates. The foreign currency net open position is calculated by taking into account all assets and liabilities that depend on the changes in exchange rates. The euro is not considered as a foreign currency.

Foreign currency net open position is calculated separately for each currency. Admiral Markets AS has set a certain limit on the level of the foreign currency open position and holds an additional capital buffer to cover the foreign exchange risk. The currency risk is hedged by converting monetary funds into euros and by hedging positions arising from the transactions. The open foreign currency position is also continuously monitored and hedged by holding the net position resulting from foreign currency positions as low as possible.

Foreign currency risk arises mainly from derivatives consisting of currency pairs. In addition, clients are offered commodity and equity derivatives that are quoted in a currency other than the euro. Admiral Markets AS also has a number of foreign currency denominated assets, mainly in the form of demand deposits. Currency risk includes all assets that are not denominated in euros and trading portfolio derivatives linked to currencies and gold.

Below is a summary of the foreign currency risk bearing on and off-balance sheet financial assets financial and liabilities of Admiral Markets AS:

31.12.2018	Note	EUR	JPY	CAD	AUD	USD	GBP	Other	Total
Cash and cash equivalents	7	20,336	0	0	0	1,588	91	191	22,206
Financial assets at fair value through profit or loss (bonds and convertible loan)	8	101	0	0	0	10,813	0	0	10,914
Loans and other financial assets	9, 10	3,094	0	0	0	0	0	0	3,094
Total financial assets		**23,531**	**0**	**0**	**0**	**12,401**	**91**	**191**	**36,214**
Subordinated debt	16	1,827	0	0	0	0	0	0	1,827
Other financial liabilities	13	1,812	0	0	0	0	0	31	1,843
Total financial liabilities		**3,639**	**0**	**0**	**0**	**0**	**0**	**31**	**3,670**
Long positions of trading portfolio		112,851	34,067	13,643	8,554	143,002	34,783	20,313	367,213
Short positions of trading portfolio		78,825	13,302	28,745	21,865	159,695	35,269	21,151	358,852
Net open foreign currency position		53,918	20,765	-15,102	-13,311	-4,292	-395	-678	40,905

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31.12.2017	Note	EUR	USD	JPY	GBP	CAD	Other	Total
Cash and cash equivalents	7	11,374	10,193	0	47	0	388	22,002
Financial assets at fair value through profit or loss (bonds)	8	0	3,333	0	0	0	0	3,333
Loans and other financial assets	9, 10	2,902	0	0	0	0	346	3,248
Total financial assets		**14,276**	**13,526**	**0**	**47**	**0**	**734**	**28,582**
Subordinated debt	16	1,827	0	0	0	0	0	1,827
Other financial liabilities	13	552	92	0	11	0	87	743
Total financial liabilities		**2,379**	**92**	**0**	**11**	**0**	**87**	**2,569**
Long positions of trading portfolio		134,686	113,621	15,046	26,081	10,232	34,957	334,623
Short positions of trading portfolio		92,845	157,813	24,252	20,684	7,343	30,485	333,422
Net open foreign currency position		53,738	-30,758	-9,206	5,433	2,889	5,119	27,214

In the past three years, the currency with the largest position was USD, which has the greatest effect on Admiral Markets profitability. The highest intraday fluctuation (4.7%) was recorded on the day of the Brexit vote (2016). The EURUSD fluctuation exceeded 2% in six other days. Due to EURUSD intraday maximum fluctuations of 4.7%, which was the largest in recent years, the management has assessed it as a reasonable basis for the sensitivity analysis (5%).

The sensitivity analysis that was carried out shows the impact of fluctuations in exchange rates to the statement of comprehensive income in thousands of euros if all other parameters are constant.

Impact of statement of comprehensive income:

	JPY	CAD	AUD	USD	GBP
Exchange rate change in relation to EUR +/- 5%					
2018	1,038	755	666	215	20
2017	460	144	136	1,538	272

Equity risk

Equity risk includes instrument risk related to equities and stock indices that for Admiral Markets AS is mainly due to clients' trading portfolio. Equity instruments must be hedged 100%, therefore only potential credit risk arises from stock indices. Instruments related to stock indices must be hedged in accordance with the recommendations of the Company's Management Board and risk manager.

More detailed information about exposures to equity risk and how risk is managed, including internal policies and processes, is dislosed in the beginning of Note 5.

The following are the positions of derivatives bearing the equity position risk in the trading portfolio as at 31.12.2018 and 31.12.2017:

31.12.2018			31.12.2017		
Equity / Index	**Long positions**	**Short positions**	**Equity / Index**	**Long positions**	**Short positions**
[DAX30]	7,994	12,446	[DAX30]	18,826	22,228
[SP500]	1,529	694	[SP500]	1,661	655
[DJI30]	6,180	5,406	[DJI30]	8,799	7,055
[NQ100]	1,038	742	[NQ100]	869	1,807
[FTSE100]	352	188	[FTSE100]	1,027	929
Other equities and indexes	2,889	2,801	Other equities and indexes	2,155	2,439
Total	**19,982**	**22,277**	**Total**	**33,337**	**35,113**

The following sensitivity analysis identifies the impact of the largest stock index changes on the profit/loss arising from trading positions. Similarly with the currency risk, the largest possible volatility was also analysed. The largest intraday fluctuation in the last three years of the DAX30 index took place on the Brexit vote day, and was 9%. In addition, on one day the biggest daily fluctuation in a stock index was 5.6% in 2016. Accordingly, the management has estimated that the reasonable basis for the sensitivity analysis is the largest intraday fluctuation of ca 10%.

The following sensitivity analysis is also based on the largest intraday fluctuation of ca 10%.

Impact on statement of comprehensive income:

	[DAX 30]	[SP 500]	[DJI 30]	[NQ 100]
Change in stock index +/- 10%				
2018	445	84	77	30
2017	340	94	174	10

A possible credit loss caused by the realisation of the equity position is managed according to the principles described at the beginning of market risk chapter.

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Commodity risk

Commodity risk includes derivatives related to various raw materials (oil and gas) and precious metals (silver, platinum and palladium).

More detailed information about exposures to commodity risk and how risk is managed, including internal policies and processes, is disclosed in the beginning of Note 5.

Below are the commodity related derivative positions of the trading portfolio:

31.12.2018			31.12.2017		
Commodity	**Long positions**	**Short positions**	**Commodity**	**Long positions**	**Short positions**
WTI	952	3,208	BRENT	4,265	4,579
Platinum	699	1,128	WTI	3,453	1,735
Silver	2,494	2,837	Silver	1,510	1,946
BRENT	565	473	Platinum	480	828
Other commodities	626	437	Other commodities	452	461
Total	**5,336**	**8,083**	**Total**	**10,160**	**9,549**

The following sensitivity analysis is also based on the largest intraday fluctuation of ca 5%.
Impact on statement of comprehensive income:

	WTI	Platinum	Silver	BRENT
2018	113	21	17	5
2017	86	17	22	16

A possible credit loss caused by the realisation of the commodity position is managed according to the principles described at the beginning of the market risk chapter.

Liquidity risk

Liquidity risk is related to the solvency of Admiral Markets AS' contractual obligations in a timely manner due to differences in maturities between assets and liabilities. To manage the liquidity risk, probable net position of receivables and payables of different periods of time is monitored on a daily basis and by keeping at any time on the account adequate liquid assets, as well as the concentration of liabilities by maturity is monitored. As at 31.12.2018 nor 31.12.2017, Admiral Markets AS had no overdue payables.

31.12.2018	Note	On demand	0 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total	Carrying amount
Assets held for managing liquidity risk by contractual maturity dates								
Cash and cash equivalents	7	22,205	0	0	0	0	22,205	22,205
Financial assets at fair value through profit or loss (bonds and convertible loan)	8	0	903	5,605	4,631	0	11,139	10,914
Financial assets at fair value through profit or loss (derivatives)	8	0	83	0	0	0	83	83
Other financial assets	9	0	369	225	0	0	594	594
Assets total		**22,205**	**1,355**	**5,830**	**4,631**	**0**	**34,021**	**33,796**
Liabilities by contractual maturity dates								
Subordinated debt securities	16	0	0	146	584	2,411	3,141	1,827
Other financial liabilities	13	0	1,395	0	0	0	1,395	1,395
Financial liabilities at fair value through profit or loss (derivatives)	8	0	176	0	0	0	176	176
Liabilities total		**0**	**1,571**	**146**	**584**	**2,411**	**4,712**	**3,398**

31.12.2017	Note	On demand	0 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total	Carrying amount
Assets held for managing liquidity risk by contractual maturity dates								
Cash and cash equivalents	7	22,002	0	0	0	0	22,002	22,002
Financial assets at fair value through profit or loss (bonds)	8	0	510	787	2,105	0	3,402	3,333
Financial assets at fair value through profit or loss (derivatives)	8	0	28	0	0	0	28	28
Other financial assets	9	0	209	3,039	0	0	3,248	3,248
Assets total		**22,002**	**747**	**3,826**	**2,105**	**0**	**28,690**	**28,611**
Liabilities by contractual maturity dates								
Subordinated debt securities	16	0	0	146	584	2,557	3,287	1,827
Other financial liabilities	13	0	743	0	0	0	743	743
Financial liabilities at fair value through profit or loss (derivatives)	8	0	177	0	0	0	177	177
Liabilities total		**0**	**920**	**146**	**584**	**2,557**	**4,207**	**2,747**

Interest rate risk

In 2018 and 2017, Admiral Markets AS' exposure to interest rate risk was low due to very low interest rates in the current economic environment.

Subordinated debt securities are not exposed to interest rate risk, because of fixed interest rate.

ADMIRAL MARKETS

Admiral Markets is exposed to interest risk:

	31.12.2018	31.12.2017	Note
Cash and cash equivalents	22,205	22,002	7
Bonds	10,813	3,361	8
Total	**33,018**	**25,363**	

Concentration risk

Concentration risk is defined as risk arising from a large exposure to a single counterparty or related counterparties, or counterparties whose risk is influenced by a common risk factor or whose risk is in a strong positive correlation (including concentration risk based on a single economic sector, geographic region or activities/products).

Concentration risk is the ratio of Admiral Markets AS' risk exposure to Company's own funds.

The activities of Admiral Markets are aimed at avoiding excessive concentration risks, both geographically and by individual counterparties. To this end, the Company's management has established limits on concentration risk. With regard to banks the limit is 100% of own funds. With regard to investment companies the counterparty concentration risk limit is 25% of own funds.

Cash (except cash on hand and cash in transit) and clients' bank accounts distributed by countries				
	31.12.2018		31.12.2017	
Country	Balance sheet balances	Off-balance sheet balances	Balance sheet balances	Off-balance sheet balances
Estonia	14,350	2,259	15,010	2,548
United Kingdom	5,391	23	4,563	24
Switzerland	1,378	0	1,373	0
Poland	807	122	62	279
Bulgaria	3	535	77	57
Other countries	276	250	889	436
Total	**22,205**	**3,189**	**21,974**	**3,344**

Operational risk

Operational risk is the risk of loss from the activities of people (including employees, clients or third parties), internal procedures or systems not functioning as expected, or external events. Operational risk is expressed as the probability of damage, management and control mistakes, fraud, embezzlement by employees, damages caused by unprofessionalism, errors in the Company's internal systems and human errors.

This includes IT risk, which could cause damage in case of unauthorized access to information or technological failure.

The main methods for managing operational risk are the personnel policy, implementation of various internal controls and business continuity plan. For managing operational risk on a daily basis, the Company uses systems of transaction limits and competence systems and in work procedures the principle of segregation of duties is implemented.

In assessment, monitoring and managing of operational risks, compliance and internal audit function have key role. The main task of the person performing compliance control is to define, in accordance with the Credit Institutions Act and the Securities Market Act, the risk of non-compliance of the activities of Admiral Markets AS with legal acts, voluntary guidelines of the Financial Supervision Authority and internal rules of Admiral Markets AS, taking into consideration the business scope and complexity of services rendered, and to arrange for their hedging or prevention.

For managing the operational risk, Admiral Markets AS uses the database of incidents and loss events of operational risks. Incidents are analysed individually and together, in order to determine potential significant shortcomings in the processes and products of Admiral Markets AS. In addition, the Company is implementing key risk indicators in order to introduce various levels of operational risk in different areas.

Off-setting of financial assets and financial liabilities

31.12.2018	Notes	Gross amount in statement of financial position	Off-setting amount under agreement	Net amount
Financial assets				
Cash on trading accounts	7	6,738	0	6,738
Financial assets at fair value through profit and loss	8	83	83	0
Total		**6,821**	**83**	**6,738**
Financial liabilities				
Financial liabilities at fair value through profit and loss	8	176	83	93
Total		**176**	**83**	**93**

31.12.2017	Notes	Gross amount in statement of financial position	Off-setting amount under agreement	Net amount
Financial assets				
Cash on trading accounts	7	5,656	0	5,656
Financial assets at fair value through profit and loss	8	28	28	0
Total		**5,684**	**28**	**5,656**
Financial liabilities				
Financial liabilities at fair value through profit and loss	8	177	28	149
Total		**177**	**28**	**149**

6. Assessment of fair value of financial assets and liabilities

Quantitative data disclosed on the assessment of fair value hierarchy as at 31.12.2018:

			Assessment of fair value using		
	Notes	Total	Level 1	Level 2	Level 3
Financial assets recognised at fair value:					
Bonds	8	10,813	10,813	0	0
Convertible loan	8	101	0	0	101
Derivatives:					
Currency pairs	8	51	0	51	0
CFD derivatives	8	15	0	15	0
Other derivatives	8	17	0	17	0
Total		**10,997**	**10,813**	**83**	**101**
Financial liabilities recognised at fair value:					
Derivatives:					
Currency pairs	8	116	0	116	0
CFD derivatives	8	44	0	44	0
Other derivatives	**8**	16	0	16	0
Total		**176**	**0**	**176**	**0**

Financial assets not recognized at fair value:					
Cash and cash equivalents	7	22,205	0	22,205	0
Loans	9	225	0	0	225
Loans to related parties	10	2,500	0	0	2,500
Receivables from group companies	9	166	0	0	166
Other financial assets	9	122	0	0	122
Total		**25,460**	**0**	**22,205**	**3,255**
Financial liabilities not recognized at fair value:					
Other financial liabilities	13	1,395	0	0	1,395
Subordinated debt securities	16	1,827	0	0	1,827
Total		**3,222**	**0**	**0**	**3,222**

Quantitative data disclosed on the assessment of fair value hierarchy as at 31.12.2017:

			Assessment of fair value using		
	Notes	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets recognised at fair value:					
Bonds	8	3,333	3,333	0	0
Derivatives:					
Currency pairs	8	17	0	17	0
CFD derivatives	8	5	0	5	0
Other derivatives	8	6	0	6	0
Total		**3,361**	**3,333**	**28**	**0**

Financial liabilities recognised at fair value:					
Derivatives:					
Currency pairs	8	125	0	125	0
CFD derivatives	8	7	0	7	0
Indexes	8	1	0	1	0
Other derivatives	8	44	0	44	0
Total		**177**	**0**	**177**	**0**
Financial assets not recognized at fair value:					
Cash and cash equivalents	7	22,002	0	22,002	0
Receivables from group companies	9	3,038	0	0	3,038
Other financial assets	9	210	0	0	210
Total		**22,250**	**0**	**22,002**	**3,248**
Financial liabilities not recognized at fair value:					
Other financial liabilities	13	743	0	0	743
Subordinated debt securities	16	1,827	0	0	1,827
Total		**2,570**	**0**	**0**	**2,570**

Other financial assets and liabilities that are carried at amortized cost are short-term and the management estimates that their fair value is not materially different from their carrying amount.

Levels used in the hierarchy:

Level 1 – quoted price in an active market

Level 2 – valuation technique based on market data

Level 3 – other valuation methods with estimated inputs

Financial instruments on level 2

The value of trading derivatives is based on quotations received from counterparties (liquidity providers) and other public quotations.

Financial instruments on level 3

Interest rates on these loans are 2-4% and considering a relatively short period between the loan given and the balance sheet date, it can be said that there have been no significant changes in interest rates by the balance sheet date. Therefore, the fair value of these loans does not significantly differ from their book value. Significant estimates of management are used to assess the fair value of loans, so they are classified in level 3.

Other financial assets and liabilities have been incurred in the course of ordinary business and are payable in the shortterm, therefore, the management estimates that their fair value does not significantly differ from their carrying amount. These receivables and liabilities are interest-free.

Risks arising from client-related open positions are disclosed in Note 5.

7. Cash and cash equivalents

Type of cash	31.12.2018	31.12.2017
Demand deposits	15,467	16,318
Cash on trading accounts*	6,738	5,656
Cash in transit	0	28
Total cash and cash equivalents	**22,205**	**22,002**

*Recognized as cash in trading accounts in banks and investment companies which includes, inter alia, EUR 211 thousand in restricted cash (2017: EUR 331 thousand). As at 31.12.2018, the balance of restricted cash has decreased due to the change in trading conditions.

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8. Financial assets and liabilities at fair value through profit or loss

	31.12.2018		31.12.2017		
Instrument	**Asset**	**Liability**	**Asset**	**Liability**	**Note**
Bonds	10,813	0	3,333	0	6
Convertible loan	101	0	0	0	6
Currency pairs	51	116	17	125	6
CFD derivatives	15	44	5	7	6
Indexes	0	0	0	1	6
Other	17	16	6	44	6
Total	**10,997**	**176**	**3,361**	**177**	

Risks arising from client-related open positions are disclosed in Note 5.

9. Short-term loans, receivables and prepayments

	31.12.2018	31.12.2017	Note
Financial assets			
Trade receivables	0	2	
Doubtful receivables	0	-2	
Settlements with employees	81	25	
Short-term loans	225	0	10
Receivables from group companies	166	3,039	25
Other short-term receivables	122	184	
Subtotal	**594**	**3,248**	
Non-financial assets			
Prepaid expenditure of future periods	222	248	
Prepayments to suppliers	138	72	
Prepaid taxes	685	679	14
Subtotal	**1,045**	**999**	
Total	**1,639**	**4,247**	

Please refer to Note 5, section credit risk for information regarding credit quality and expected credit losses.

10. Loans granted

31.12.2018		Distribution by maturity						
	31.12.2018	Up to 1 year	2-5 years	Interest rate	Due date	Base currency	Interest receivable as at 31.12.2018	Note
Loan 1	25	25	0	12M Euribor+4%	03.2019	EUR	6	25
Loan 2	200	200	0	2%	12.2019	EUR	0	25
Loan 3	2,500	0	2,500	2%	12.2023	EUR	0	25
Total	**2,725**	**225**	**2,500**				**6**	

Based on management assessment of these loan exposures, there have not been significant increase in credit risk after initial recognition of these loan exposures, hence all loans have been assessed to be in stage 1 as of the balance sheet date. 12 month ECL has been considered immaterial, given the low probability of default and loss given default.

		Distribution by maturity						
	31.12.2017	Up to 1 year	2-5 years	Interest rate	Due date	Base currency	Interest receivable as at 31.12.2017	Note
Loan 1	25	25	0	12M Euribor+4%	03.2018	EUR	5	25
Loan 2	1,395	1,395	0	3-3.5%	12.2017	EUR	66	25
Loan 3	125	0	125	3%	12.2019	EUR	7	25
Loan 4	326	0	326	3%	02.2019	AUD	20	25
Total	**1,871**	**1,420**	**451**				**98**	

ADMIRAL MARKETS

11.Tangible assets

	Total
Balance as at 31.12.2016	
Cost	959
Accumulated depreciation and amortisation	-720
Carrying amount	**239**
Purchase of non-current assets	359
Non-current assets sold	-35
Depreciation/amortisation charge	-165
Balance as at 31.12.2017	
Cost	1,250
Accumulated depreciation and amortisation	-852
Carrying amount	**398**
Purchase of non-current assets	1,112
Non-current assets sold	0
Depreciation/amortisation charge	-243
Balance as at 31.12.2018	
Cost	2,317
Accumulated depreciation and amortisation	-1,050
Carrying amount	**1,267**

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Tangible assets increased in 2018 mostly due to the Company moving to a new office in Tallinn to facilitate the growth of employees in Admiral Markets over the past 5 years. Also, in 2018 new servers were bought in order to develop, magnify and update Admiral Markets' IT infrastructure.

12. Intangible assets

	Total
Balance as at 31.12.2016	
Cost	355
Accumulated depreciation and amortisation	-226
Carrying amount	**129**
Acquisition of non-current assets	0
Non-current assets sold	0
Depreciation/amortisation charge	-36
Balance as at 31.12.2017	
Cost	355
Accumulated depreciation and amortisation	-262
Carrying amount	**93**
Acquisition of non-current assets	688
Non-current assets sold	0
Depreciation/amortisation charge	-36

Balance as at 31.12.2018	
Cost	1,043
Accumulated depreciation and amortisation	-298
Carrying amount	**745**

In 2018, intangible assets increased due to the Company finishing the development of Trader's Room 3 by the end of 2018.

13. Liabilities and prepayments

Type of liability	31.12.2018	31.12.2017	Note
Financial liabilities			
Liabilities to trade creditors	824	621	
Payables to related parties	460	22	25
Other accrued expenses	111	100	
Subtotal	**1,395**	**743**	
Non-financial liabilities			
Payables to employees	175	139	
Taxes payable	273	293	14
Subtotal	**448**	**432**	
Total	**1,843**	**1,175**	

14. Tax liabilities

	31.12.2018		31.12.2017		
	Prepaid taxes	Tax payables	Prepaid taxes	Tax payables	Note
Value-added tax	147	0	449	7	
Corporate income tax	0	5	0	7	
Individual income tax	0	96	0	82	
Social security tax	0	155	0	151	
Unemployment insurance payments	0	10	0	10	
Contributions to funded pension	0	7	0	8	
Other tax receivables/liabilities in foreign countries	0	0	34	28	
Prepayments account	538	0	196	0	
Total	**685**	**273**	**679**	**293**	**9, 13**

15. Financial and operating lease

Tangible assets acquired under financial lease

As at 31.12.2018 and 31.12.2017, the Company has no liabilities under financial lease.

In 2018, Admiral Markets AS moved to new premises. New lease agreement was signed for 10 years.

Operating lease

The Company leases office premises under operating lease. In 2018 costs amounted to EUR 303 thousand (in 2017: EUR 245 thousand).

Non-cancellable operating lease payments in the future periods:

	31.12.2018	31.12.2017
During 12 months	343	25
1-5 years	1,873	0
Over 5 years	1,586	0

16. Subordinated debt securities

In 2017 Admiral Markets AS issued 18,268 subordinated debt securities and listed these on 11.01.2018 on the Nasdaq Tallinn Stock Exchange. The maturity date for bonds is 2027. The total number of shareholders at the end of the year was 299. Bondholder structure according to holders groups as at 31.12.2018 was the following:

- Private persons: 55%
- Legal persons: 45%

The note contains changes in subordinated debt securities, including monetary or non-monetary movements and exchange rate effects, if they have occurred during the reporting period or comparable period. No non-monetary transactions were executed.

In 2018, 88 transactions in the amount of EUR 195 thousand were made with Admiral Markets AS bonds.

Subordinated debt	Issuance year	Amount	Interest rate	Maturity date
Subordinated bonds (ISIN: EE3300111251)	2017	1,827	8%	28.12.2027

17. Corporate income tax

According to Estonian laws, retained earnings are not taxed with corporate income tax, whereas paid-out dividends are taxed. Dividends paid to shareholders during the year 2018 amounted to EUR 1,325 thousand (2017: EUR 1,325 thousand) and the accompanying income tax expense was in the amount of EUR 331 thousand (2017: EUR 331 thousand).

Income tax	2018	2017
Income tax expense associated with profit earned in branches	3	2
Income tax expense associated with dividends payment	331	331
Total income tax	**334**	**333**

In 2018, the income tax on corporate profits were paid in Czech branch and in a representative office in Russia. In 2018 the branches established in the Republic of Romania and in the Czech Republic were closed.

2018:

Country	Czech Republic	Total
Income tax rate in 2018	19%	-
Profit before tax	14	**14**
Income tax expense	3	**3**
Effective income tax rate	15%	-

In 2017, the income tax on corporate profits was paid by a branch in Romania.

2017:

Country	Russia	Romania	Czech Republic	Total
Income tax rate in 2017	20%	16%	19%	-
Profit before tax	10	0.2	0	**10**
Income tax expense	2	0	0	**2**
Effective income tax rate	20%	16%	19%	-

Potential income tax

As at 31.12.2018, the Company's retained earnings amounted to EUR 32,724 thousand (2017: EUR 24,579 thousand). Distribution of retained earnings as dividends to the owners is subject to the income tax at the rate of 20/80 on the amount paid out as net dividends. From 2019, regular dividend payments will be subject to corporate income tax at the reduced rate of 14/86 to the extent of the average dividend distribution of the three preceding years. 2018 is the first year that can be taken into account for the latter corporate income tax calculation. Therefore, taking into account regulatory requirements for net own funds and capital, from the retained earnings available at the reporting date, it is possible to pay out to the shareholders as dividends as at 31.12.2018 EUR 13,966 thousand (31.12.2017: EUR 8,602 thousand) and the corresponding income tax would have amounted to EUR 3,499 thousand (31.12.2017: EUR 2,151 thousand).

18. Off-balance sheet assets

Off-balance sheet assets are funds of these clients who use the trading systems mediated by Admiral Markets AS. Because of the specific feature of the system, Admiral Markets AS deposits these funds in personalized accounts in banks and in other investment companies. The Company does not use client funds in its business operations and accounts for them off-balance sheet.

Off-balance sheet assets	31.12.2018	31.12.2017
Bank accounts	3,148	3,315
Interim accounts of card payment systems	41	29
Stock	401	0
Total	**3,590**	**3,344**

19. Share capital

	31.12.2018	31.12.2017
Share capital	2,586	2,586
Number of shares (pc)	404,000	404,000
Nominal value of shares	6.4	6.4
Basic and diluted earnings per share	23.44	14.84

Basic and diluted earnings per share are calculated as follows:

	31.12.2018	31.12.2017
Profit attributable to the equity holders of the Group	9,470	5,996
Weighted average number of ordinary shares (pc)	404,000	404,000
Basic and diluted earnings per share	23.44	14.84

Under the articles of association, the minimum share capital of the investment company is EUR 766,940 and the maximum share capital is EUR 3,067,759, in the range of which share capital can be increased and decreased without amending the articles of association. All issued shares are fully paid.

In 2018 and 2017, owners were paid dividends in the total amount of EUR 1,325 thousand i.e. EUR 3.27 per share.

Each share grants one vote at the general annual meeting of shareholders of Admiral Markets AS.

20. Segment reporting

The Management Board is responsible for the allocation of resources and assessment of the results of operating segments. In 2018 and 2017, the Management Board monitored the operations of the Company as one operating segment.

The Company's internal reports prepared for the Management Board are drawn up on the basis of the same accounting principles and in a form that has been used in this annual report.

21. Net income from trading

	2018	2017
Net gain from trading of financial assets at fair value through profit or loss with clients	36,472	32,947
Net loss from trading of financial assets at fair value through profit or loss with liquidity providers	-2,391	-5,153
Brokerage income	85	71
Brokerage and commission fee expense	-9,960	-8,653
Other trading activity related income	74	167
Other trading activity related expenses	-44	-35
Net income from trading	**24,236**	**19,345**

22. Personnel expenses

The remuneration for employees including social security taxes amounted to EUR 4,659 thousand (2017: EUR 4,947 thousand) and the remuneration for the management amounted to EUR 423 thousand (2017: EUR 310 thousand).

Admiral Markets AS had 123 employees at the end of 2018 (2017: 124 employees).

	2018	2017
Employees (headquarters of Admiral Markets AS)	-4,218	-4,365
Employees (branches and rep. office)	-362	-516
Remuneration of the Management Board and Supervisory Board	-423	-310
Vacation pay reserve	-79	-66
Total	**-5,082**	**-5,257**

There were no direct pension contribution expenses in 2017 and 2018. The social security tax includes a lump-sum payment of social, health and other insurances.

23. Operating expenses

Type of expense	2018	2017
Marketing expenses	-4,773	-3,406
IT expenses	-2,090	-1,709
Other outsourced services	-491	-253
Expenses of doubtful receivables	0	-2
VAT expenses	-445	-265
Rent and utilities expenses	-372	-338
Legal and audit services	-653	-493

Regulative reporting services	-183	-118
Transport and communication costs	-102	-86
Travelling expenses	-116	-73
Supervision fee of the Financial Supervision Authority	-62	-59
Other operating expenses	-556	-446
Total operating expenses	**-9,843**	**-7,248**

24. Contingent liabilities

Tax authorities have the right to review the Company's tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at the Company during 2017 - 2018. The Company's management estimates that in year 2018 there are no such circumstances, which may lead the tax authorities to impose significant additional taxes on the Company.

25. Transactions with related parties

Transactions with related parties are transactions with the parent company, shareholders, members of the management, their close relatives and entities that they control or over which they have significant influence. The parent company of Admiral Markets AS is Admiral Markets Group AS. Mr. Alexander Tsikhilov has the ultimate control over the Company.

Revenue

	Relation	2018	2017
Revenue from brokerage and commission fees*	Companies in the same consolidation Group	34,254	28,948
Services	Companies in the same consolidation Group	265	434
Interest income	Senior management and companies related to them	5	1
Interest income	Parent company	62	67
Sale of property, plant and equipment	Companies in the same consolidation Group	0	2
Total transactions with related parties		**34,586**	**29,452**

*The majority of clients have concluded trading contracts with the entities which are part of the same consolidation group that mediate their trading transactions with the entity and to whom the entity pays a commission fee (see the next table).

Expenses

	Relation	2018	2017
Commission fees	Companies in the same consolidation Group	-9,554	-8,313
Services	Companies in the same consolidation Group	-288	-378
Services	Parent company	-423	-318
Total transactions with related parties		**-10,265**	**-9,009**

Loans and receivables

	31.12.2018	31.12.2017	Note
Loans and receivables from parent company (short-term)	0	1,505	9
Receivables from other companies in the same consolidation Group (short-term)	166	1,601	9
Loans from parent company (long-term)	2,500	451	10
Receivables from companies related to higher management	200	0	10
Total receivables from related parties	**2,866**	**3,557**	

Payables

	31.12.2018	31.12.2017	Note
Payables to other companies in the same consolidation Group	460	22	13
Total payables to related parties	**460**	**22**	

The payments made and benefits granted to the management (gross) were EUR 423 thousand and EUR 310 thousand respectively in 2018 and 2017.

As at 31.12.2018, there were no unpaid salaries which were accrued. The Company is obligated to pay the severance to a member of the management board in the total amount equal to the remuneration, bonuses, compensations and other benefits paid to him during the last two months. No severance benefits were paid out in 2018.

26. Events after the balance sheet date

There was a change in the Management Board of Admiral Markets AS, as Mindaugas Deksnys, the board-member of Admiral Markets AS, announced his wish to resign. The Supervisory Board of Admiral Markets AS decided to accept his resignation. His authorization as the member of the Management Board expires on 26.02.2019. Initially the Management Board of Admiral Markets AS will continue to consist of two members: the Chairman of the Management Board Sergei Bogatenkov and Dmitry Kuravkin.

4. Signatures of the Management Board members to the 2018 Annual Report

The Management Board has prepared the Management Report and the Financial Statements of Admiral Markets AS for the financial year ended on 31 December 2018.

The Management Board confirms that Management Report of Admiral Markets AS on pages 8 to 57 provides a true and fair view of the Company's business operations, financial results and financial position.

The Management Board confirms that according to their best knowledge the Financial Statements of Admiral Markets AS on the pages 58 to 63 presents a true and fair view of the Company's assets, liabilities, financial position and financial results according to the IFRS as they are adopted by the European Union and contains description of the main risks and doubts.

„26“ March 2019

Chairman of the Management Board:

Sergei Bogatenkov ______________________

Member of the Management Board:

Dmitri Kuravkin ______________________

Independent auditor's report

To the Shareholder of Admiral Markets AS

(Translation of the Estonian original)*

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Admiral Markets AS (the Company) as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

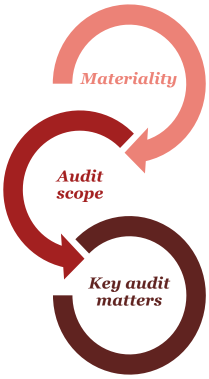
Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^{1} of the Auditors Activities Act of the Republic of Estonia. The non-audit services that we have provided to the Company in 2018 are disclosed in the management report.

Our audit approach

Overview



Materiality
Overall audit materiality is 490 thousand euros, which represents 5% of profit before tax.

Audit scope
The audit team performed full scope audit procedures for the Company.

Key audit matter

- Trading revenue recognition

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall audit materiality	490 thousand euros
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We have applied this benchmark as profit before tax is one of the principal considerations when assessing the Company's performance and a key performance indicator for Management and Supervisory Board.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Trading revenue recognition (detailed information is provided in Note 2 "Notes to the Financial Statements" and Note 21 "Net income from trading") The Company provides its clients various Forex and Contract for Difference (CFD) products with leverage. The Company's trading revenue predominantly comprises net revenues from these CFD transactions placed by clients, and the net gains or losses from the hedging trades that the Company places with external liquidity providers to manage its risk.	We assessed whether the Company's accounting policies over trading revenue recognition comply with International Financial Reporting Standards as adopted by the European Union (IFRS EU). We assessed the design and operating effectiveness of the controls related to trading revenue. We tested whether the trading revenue reports include all transactions, i.e. the reports are complete and the system calculates the revenue from trading transactions accurately. We determined that we could rely on these controls for the purposes of our audit. We have performed the following detailed testing: • we reconciled the detailed revenue recognition system reports with trading revenue recorded in the financial statements; • we tested that revenue is solely recognised from trading transactions; • we performed the cash and cash equivalent balances confirmation letters procedure, including on and off-balance sheet cash balances, and verified that both on and off-balance sheet bank account balances are accurate; • we reconciled the net loss from trading of financial assets at fair value through profit or loss with liquidity providers with the regular reports provided by liquidity providers; • we analysed the customer complaints register held in accordance with internal policy, to identify whether there are any shortfalls in the Company's processes and controls, which could result in over or under statement of Company's revenue. As a result of our work, we noted no material exceptions.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the financial services industry in which the Company operates.

The audit team performed a full scope audit procedures for the Company.

Other information

The Management Board is responsible for the other information contained in the annual report in addition to the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of the Company, as a public interest entity, for the financial year ended 31 December 2017. The total period of our uninterrupted engagement appointment for the Company, as a public interest entity, is 2 years.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

Verner Uibo
Auditor's certificate no. 568

26 March 2019

* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

6. Proposal for profit distribution

Management Board proposes the General Meeting of shareholders to transfer the profit in the amount of EUR 9,470 thousand to retained earnings and EUR 1,390 thousand to be paid out as dividends out of retained earnings accumulated until 31 December 2018.

7. Allocation of activity according to EMTA classificators

EMTAK	Activity	2018
66121	Security and commodity contracts brokerage	24,234
85599	Other education not classified elsewhere	2