



DISCLOSURE OF POTENTIAL CONFLICTS OF INTEREST

1. Binary Option and Market Making

Binary options is a financial instrument which is commonly traded "Over The Counter" ("OTC"), and as such, traded with the counterparty, a "market maker", and not through an exchange. The market maker is a professional participant in the financial market, who continuously offers purchase and sales prices for a financial instrument in order to buy and sell respectively in the event of interested clients.

SpotOption Exchange Ltd ("SOX") acts as the market maker in respect to **Spot Capital Markets Ltd ("SCM")**. SCM, as a Broker, is responsible for executing the Client's trading orders with SOX as a counterparty, while SCM remains fully liable towards the Client, in any aspect of the trading activity and the financial instrument.

The product type, asset and expiration times are requested and defined by SCM, while SOX facilitates the trading by offering the Client to buy or sell the offered call or put option at any given time throughout the lifetime of the option.

SOX potential profits arise from the spread between the financial products "win" potential pay-out vs. the "lose" potential pay-out (defined as the pay-out spread). Each financial instrument's trading rules and "win/lose" potential pay-out spreads are set by the market maker based on its internal risk evaluation, which may be affected by characteristic's such as market FX spreads, volatility, liquidity, trading hours, supply and demand from each broker etc.

SOX has the option to hedge its trading with third parties or internalize the trading on its own books. SOX hedges all its positions internally while combining the trading flow from SCM into a single trading book. In order to optimize the hedging process SOX may adjust the option strike price based on its internal supply and demand.

2. Remuneration of SCM and conflict of interest

In accordance with section 29 of the Cypriot Investment Services and Activities and Regulated Markets of 2007 ("the Law") and in light of the above, we hereby wish to clarify as follows:

1. SCM remuneration is based on percentage of the trading volumes and the additional discretionary commission paid by SOX based on the quality of the flow;
2. SOX and SCM are affiliated companies.

Due to the concern that a potential conflict of interest may arise, SCM is taking all appropriate measures to mitigate this concern, including, but not limited to a **strict remuneration policy** that applies on all of the client facing personnel, intended to ensure they will act for the benefit of the client and in full compliance with the Law, and various supervisory and monitoring measures.