

ICFD Limited

**RISK MANAGEMENT DISCLOSURES**

YEAR ENDED 31 DECEMBER 2018

According to Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

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# 1 Scope of Application

The Management of iCFD Limited (hereinafter the “Company”), in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the “Regulation”) and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (the “CySEC”) for the prudential supervision of investment firms, has an obligation to publish information relating to risks and risk management on an annual basis at a minimum.

The Company obtained its license with number 143/11, to act as a Cyprus Investment Firm, on 23 May 2011.

The Company offers the following investment and ancillary services:

Investment Services	Ancillary Services
Reception and transmission of orders in relation to one or more financial instruments	Safekeeping and administration of financial instruments, including custodianship and related services
Execution of orders on behalf of clients	Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
Dealing on own account	Foreign exchange services where these are connected to the provision of investment services
	Investment research and financial analysis or other forms

The information provided in this report is based on procedures followed by the Management to identify and manage risks for the year ended 31 December 2018 and on reports submitted to CySEC for the year under review.

The Company is making the disclosures on an individual (solo) basis.

## **2 Governance – Board and Committees**

### **The Board**

As at 31 December 2018 the Board consisted of two Executive and three Non-Executive Directors.

The Board is responsible, inter alia, for ensuring that the Company complies with its obligations under the relevant and applicable legislation. The Board assesses and periodically reviews the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the relevant and applicable legislation, and to take appropriate measures to address any deficiencies.

The Board ensures that it receives at least annually, written reports regarding Risk Management, Compliance, Money Laundering & Terrorist Financing and Internal Audit issues, indicating, in particular, whether the appropriate remedial measures have been taken in the event of any deficiencies. The Board is responsible for the monitoring of the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and the prevention of any unlawful transactions, the identification of risks, and the timely and adequate flow of information.

### **Board - Recruitment and Diversity Policy**

Board members must be of sufficiently good repute and have the skills, knowledge and expertise for performing their assigned responsibilities. Therefore, the Company is obtaining relevant constituents and/or recommendations and/or certificates proving the integrity, morals, credibility and ethos and the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them, while selecting the members of the Board. It shall also be noted that prior to the appointment of any member of the Board, the Company communicates its intention to the CySEC by sending all relevant details and documentation, and such appointment only becomes effective if CySEC does not oppose to it.

### **Board Committees**

In order to support effective governance and management of the wide range of responsibilities the Board has established a Risk Management Committee and an Investment Committee, which is formed with the purpose of ensuring the practice of a proper investment policy and the monitoring of the proper provision of investment services to clients.

Furthermore, the Company maintains a ‘Senior Management - “4-Eyes”’ structure, which is responsible to ensure that the Company complies with its obligations under the applicable legislation, to assess and periodically review the effectiveness of the policies, arrangements and procedures put in place and to take appropriate measures to address any deficiencies.

#### ***Risk Management Committee***

The Company maintains a Risk Management Committee, which is formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment and

ancillary services to clients, as well as the risks underlying the operation of the Company, in general.

The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of the risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of the measures taken to address any deficiencies with respect to those policies and procedures, including failures by the Company's relevant persons to comply with them.

As at 31 December 2018 the Risk Management Committee is comprised of two Executive Directors, one Independent Non-Executive Director, and the Risk Manager of the Company (ex officio and without any voting rights).

During 2018, the Risk Management Committee held four regular meetings.

### ***Investment Committee***

An Investment Committee was formed to ensure the practice of a proper investment policy and the monitoring of the provision of adequate investment services to clients.

The Investment Committee is responsible to supervise the proper choice of investments and analyse the investment potential, as well as to contribute to the elaboration of the investment policy. The Committee shall also determine the Company's pricing policy, and the mode, content and frequency of the clients' briefing. Finally, the Committee shall analyse the economic conditions and the investment alternatives based on a thorough examination of third party reports, decide upon the market and types of financial instruments in which the Company shall be active and establish, approve and monitor the Company's policy and strategy for dealing on own account.

As at 31 December 2018 the Investment Committee comprised of two Executive Directors, the Head of Dealing on Own Account Department and the Head of Investment Research Department.

### **Risk Management Function**

The Board appointed a Risk Manager to ensure that all the necessary procedures relating to risk management are in place and are functional on an operational level and on a day to day basis. The Risk Manager reports directly to the Senior Management of the Company.

The Risk Manager's primary role is the implementation of risk management policies. As detailed above, this role is supported and monitored by the Risk Management Committee and is more operational than strategic. Policy is set by the Board and the Risk Management Committee. The activities carried out by the Risk Management Function are, inter alia:

- To assist the relevant persons responsible for carrying out investment services and activities to comply with its obligations under the Investment Firms Law 87(I)/2017 ("the Law") as subsequently amended and the Directives issued pursuant to the Law;
- To educate and train the personnel of the Company on risk related issues; and

- To evaluate and provide assurance that risk management control and governance systems are functioning as intended and will enable the Company's objectives and goals to be met.

Furthermore, the Risk Management Function of the Company bears the responsibility to construct the Company's ICAAP, including the formation of the subjective decisions/ policies on the relevant risks applicable to the Company, as well as to plan and organize the implementation and embedment of the ICAAP within the Company, on an operational level. Further, the Risk Management Function is responsible to review, re-run as well as draft the Company's ICAAP Report to the Board, on an annual basis.

### **Number of directorships held by members of the Board**

The table below provides information on the number of directorships each member of the management body of the Company holds at the same time in other entities, including iCFD Limited. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below.

It shall be noted that, based on its internal assessment, the Company does not consider itself to be significant in terms of its size, internal organization and the nature, scope and complexity of its activities.

<b>Name of Director</b>	<b>Position within iCFD Limited</b>	<b>Directorships – Executive</b>	<b>Directorships – Non-Executive</b>
Suzi Attal	Executive Director	1	-
Theodotos Choraitis	Executive Director	1	-
Christakis Taoushanis	Independent Non – Executive Director	-	13
Itai Sadeh	Non – Executive Director	1	2
Pavlos Nacouzi	Independent Non – Executive Director	2	1

Mr. Yogev Mines and Mr. Or Yaakov Kapelinsky had resigned from the Board on 28 February 2018 and 15 May 2018. Mr. Theodotos Choraitis was appointed on 23 April 2018 while Mrs. Suzi Attal and Mr. Itai Sadeh were appointed on 1 August 2018.

### **3 Information flow on risk to the management body**

The information flow on risk to the management body is achieved, inter alia, through:

- The reports of the Risk Manager, the Compliance Officer and the Money Laundering Compliance Officer and the Internal Auditor which are prepared at least annually and indicate, in particular, any risks identified and any remedy measures taken;
- The audited financial statements provided on an annual basis by the Company's External Auditors;

- The Suitability Report on the adequacy of the measures taken for the safeguarding of clients' assets, provided annually by the External Auditors;
- The report on the status of the European and Cypriot Economy and on the review of the credit ratings of the Company's counterparties, which is prepared by the Risk Manager at least quarterly;
- The minutes of the Risk Management Committee meetings; and
- The Company's Internal Capital Adequacy Assessment Process Report (ICAAP), which is a process embedded at the core of the Company's operations, and discusses the Company's overall Risk Management System, Governance Framework, Internal Control system, the definition of its financial budget and corporate strategy, and the alignment with the Company's available capital and risks faced.

#### **4 Board Declaration – Adequacy of risk management arrangements**

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and -as such- offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board considers that it has in place adequate systems and controls with regards to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

#### **5 Board Risk Statement**

The Company's risk statement is provided in the Appendix. This is approved by the Board and describes the Company's overall risk profile associated with the business strategy.

#### **6 Capital Management**

The adequacy of the Company's capital is monitored by reference to the provisions of the Regulation and the Directives 144-2014-14 & 144-2014-15 of the CySEC (the "Directives").

The Basel III consists of three pillars:

- Pillar I - Minimum capital requirements
- Pillar II - Supervisory review process
- Pillar III - Market discipline

##### **Pillar I – Minimum Capital Requirements**

The Company adopted the Standardised approach for Credit and Market risk and the Basic Indicator approach for Operational risk.

According to the Standardised approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, according to their characteristics and asset classes to which they belong.

The Standardised measurement method for the capital requirement for market risk adds together the long and short market risk positions according to predefined methods to determine the capital requirement.

For operational risk, the Basic Indicator approach calculates the average, on a three year basis, of net income to be used in the Risk Weighted Assets calculation.

## **Pillar II – The Supervisory Review and Internal Capital Adequacy Assessment Processes**

The Supervisory Review Process (“SREP”) provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company’s internal capital adequacy assessment procedures and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

The Company’s ICAAP is a valuable risk management tool which ensures that the Company’s Risk Management framework receives the necessary attention from all the related functions of the Company. Through the ICAAP, the Board communicates to the personnel its commitment in cultivating a risk-averse culture within the Company.

In performing its ICAAP, the Company has adopted the “Pillar I Plus” approach. In particular, the Company uses simple methods to quantify the capital requirements, over and above the Pillar I minimum requirement, as more advanced approaches are considered unsuitable for the size and complexity of the Company and require extensive use of resources and time to produce. The allocation of capital for Pillar II takes into consideration the risks that have been assessed internally by the Company as “material”, through the risk assessment as well as the stress tests performed. All risks falling outside the Company’s risk appetite are considered to be threats to the Company and are covered with additional capital or additional controls.

The Company is in the process of updating its ICAAP for the financial year 2018.

## **Pillar III – Market Discipline**

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of Own Funds.

According to the CySEC Directive DI144-2014-14, the risk management disclosures should be included in either the financial statements of the investment firms if these are published, or on their websites. In addition, these disclosures must be verified by the external auditors of the investment firm. The investment firm will be responsible to submit its external auditors’ verification report to CySEC within five months from the end of each financial year.

The Company has included its risk management disclosures on its website as it does not publish its financial statements. Verification of these disclosures has been made by the external auditors so as to be submitted as appropriate to CySEC.

### Own Funds and Capital Adequacy Ratio

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that it maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of its activities.

The CySEC requires each investment firm to maintain a minimum ratio of Own Funds to Risk Weighted Assets ("RWAs") of 8% for Pillar I risks, plus the relevant capital buffers, as applicable. In addition, the CySEC may impose additional capital requirements for risks not covered by Pillar I. For 2018, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus a capital conservation buffer of 1875%, according to the relevant transitional implementation provisions, resulting to an overall minimum of 9,875%. The capital conservation buffer has to be met entirely out of Common Equity Tier 1 capital.

The Own Funds/capital base of the Company as at 31 December 2018 comprised solely of Common Equity Tier 1 (CET1) items and is presented in the table below:

<b>Own Funds and Minimum Capital Requirements</b>	<b>31 Dec 2018 (unaudited) €000</b>
<i>Own Funds</i>	
Share capital	1.295
Share premium	1.575
Retained Earnings	376
Unaudited loss for the period - <i>unaudited profit is not included</i>	-
<b>Total CET1 Capital before deductions</b>	<b>3.246</b>
<b>Deductions from CET1 Capital</b>	
CYSEC Investor Compensation Fund	(61)
<b>Total CET1 Capital after deductions</b>	<b>3.185</b>
<b>Additional Tier 1 Capital</b>	-
<b>Tier 2 Capital</b>	-
<b>Total Own Funds</b>	<b>3.185</b>
<i>Minimum Capital Requirements</i>	

Credit risk	2.701
CVA Risk	15
Market Foreign Exchange Risk	79
Market Equity Risk	-
Market Commodity Risk	-
Market Interest rate risk in the Trading Book	-
Operational Risk	6.570
Additional capital requirements for the large exposure excess in the Trading Book	0
<b>Total Minimum Capital Requirements</b>	<b>9.365</b>
<b>Capital Adequacy Ratio</b>	<b>34,01%</b>

### Authorized Capital

During 2018 the authorized share capital of the Company was increased from €1.220.000 divided into 1.220.000 ordinary shares of €1 each to €1.970.000 divided into 1.970.000 ordinary shares of €1 each.

### Issued capital

During 2018 the Company issued 750.000 ordinary shares of €1 each.

### Balance Sheet Reconciliation

Balance Sheet Description, as per published Financial Statements	31 Dec 2018 (unaudited)
	€000
Share Capital	1.295
Share premium	1.575
Retained Earnings	376
Profit & (Loss) for the year – <i>unaudited profit is not included</i>	-
<b>Total Equity as per unaudited Financial Statements</b>	<b>3.246</b>
(Less CySEC Investor Compensation Fund)	(61)
<b>Total Own Funds</b>	<b>3.185</b>

### Own Funds under the Transitional and Fully-Phased In definition

31 Dec 2017	Transitional Definition	Full - phased in Definition
	€'000	€'000
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
Capital instruments and the related share premium accounts	2.870	2.870
Retained earnings	376	376
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-	-
Funds for general banking risk	-	-
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>3.246</b>	<b>3.246</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>		
Intangible assets (net of related tax liability)	-	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
CYSEC Investor Compensation Fund	(61)	(61)
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(61)</b>	<b>(61)</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>3.185</b>	<b>3.185</b>
<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>3.185</b>	<b>3.185</b>
<b>Tier 2 (T2) capital</b>	<b>-</b>	<b>-</b>
<b>Total capital (TC = T1 + T2)</b>	<b>3.185</b>	<b>3.185</b>
<b>Total Risk Weighted Assets</b>	<b>9.365</b>	<b>9.365</b>
<b>Capital ratios and buffers</b>		
Common Equity Tier 1 ratio	34,01%	34,01%
Tier 1 ratio	34,01%	34,01%
<b>Total Capital ratio</b>	<b>34,01%</b>	<b>34,01%</b>

#### Definitions:

The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total RWAs for covering Pillar I risks.

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total RWAs for covering Pillar I risks.

The Total Capital ratio is the Own Funds of the Company expressed as a percentage of the total RWAs for covering Pillar I risks.

## 7 Credit Risk

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The Company has a significant concentration on credit risk from retail and corporate clients. Ongoing monitoring is part of the Company's credit risk management framework. The key monitoring focus is on concentrations of counterparty and product specific risks to avoid excessive concentrations of credit risk.

Cash balances during the period under review were held with financial institutions both in Cyprus and abroad. The Company has policies to limit the amount of credit exposure to any financial institution.

### Exposure to credit risk

The following table represents the Company's credit risk exposures and minimum capital requirement as at 31 December 2018, broken down by asset class.

Asset Class	Net value of exposures at the end of the period	Minimum capital requirement
Central governments or central banks	0	0
Public sector entities	0	0
Institutions	1.838	147
Corporates	600	48
<i>Of which: SMEs</i>		
Retail	0	0
<i>Of which: SMEs</i>		
Equity exposures	0	0
Other exposures	48	4
Total risk weighted assets	2.486	
<i>Total Credit Risk Capital Requirements</i>		199

*Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Exposure Class, € thousands*

Asset class	Exposure before CRM	Exposure after CRM
Central governments or central banks	0	0

Public sector entities	0	0
Institutions	1.838	1.838
Corporates	600	600
<i>Of which: SMEs</i>		
Retail	0	0
<i>Of which: SMEs</i>		
Equity exposures	0	0
Other exposures	48	48
Total risk weighted assets	2.486	
<i>Total Credit Risk Capital Requirements</i>		199

*Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Significant Geographic Area and Material Exposure Class, € thousands*

<b>Asset class</b>	<b>Cyprus</b>	<b>United Kingdom</b>	<b>Greece</b>	<b>Luxemburg</b>	<b>Other</b>	<b>Total</b>
Central governments or central banks	0	0	0	0	0	0
Public sector entities	0	0	0	0	0	0
Institutions	467	427	330	432	182	1.838
Corporates	600	0	0	0	0	600
<i>Of which: SMEs</i>						
Retail	0	0	0	0	0	0
<i>Of which: SMEs</i>						
Equity exposures	0	0	0	0	0	0
Other exposures	48	0	0	0	0	48
Total risk weighted assets		0	0	0	0	2.486
<i>Total Credit Risk Capital Requirements</i>	89	34	26	35	15	199

*Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Industry and Exposure Class, € thousands*

<b>Asset class</b>	<b>Financial Services</b>	<b>Payment Processors</b>	<b>Not Applicable</b>	<b>Total</b>
Central governments or central banks	0	0	0	<b>0</b>
Public sector entities	0	0	0	<b>0</b>
Institutions	1.838	269	0	<b>1.838</b>
Corporates	0	0	600	<b>600</b>
<i>Of which: SMEs</i>				

Retail	0	0	0	<b>0</b>
<i>Of which: SMEs</i>				
Equity exposures	0	0	0	<b>0</b>
Other exposures	0	0	48	<b>48</b>
Total risk weighted assets	1.569	269	648	<b>2.486</b>
<i>Total Credit Risk Capital Requirements</i>	125	22	52	<b>199</b>

*Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by Residual Maturity and by Material Exposure Class, € thousands*

<b>Asset class</b>	<b>Up to 3 months</b>	<b>More than 3 months</b>	<b>Total</b>
Central governments or central banks	0	0	0
Public sector entities	0	0	0
Institutions	1.562	276	1.838
Corporates	565	35	600
<i>Of which: SMEs</i>			
Retail	0	0	0
<i>Of which: SMEs</i>			
Equity exposures	0	0	0
Other exposures	0	48	48
Total risk weighted assets	2.127	359	2.486
<i>Total Credit Risk Capital Requirements</i>	170	29	199

*Credit Quality Concentration, € thousands*

<b>Credit Quality Step</b>	<b>Exposure before CRM</b>	<b>Exposure after CRM</b>
1	615	615
2	0	0
3	1.115	1.115
4	0	0
5	330	330
6	0	0
<i>Unrated</i>	426	426
<b>Total</b>	<b>2.486</b>	<b>2.486</b>

### **Use of External Credit Assessments Institutions' ("ECAI") Credit Assessments for the determination of Risk Weights**

The Company uses external credit ratings from Fitch, Moody's and Standard & Poor's. These ratings are used for all relevant asset classes.

In the cases where the three credit ratings differ, the Company takes the two credit assessments generating the two lowest risk weights and then it uses the credit assessment that corresponds to the higher risk weight.

Exposures to rated institutions are risk weighted based on the credit assessment of the institution itself and the residual maturity of the exposure as per Article 120 of the Regulation. Exposures to unrated institutions are assigned a risk weight according to the Credit Quality Step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned, as specified in Article 121 of the Regulation. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favorable risk weight of 20% if specific conditions are met.

Exposures to unrated corporate clients were risk weighted by 100% or 150% based on the country of incorporation of the counterparty.

The Other Items category includes property, plant and equipment and cash in hand. A risk weight of 100% was applied to Other Items, with the exception of cash at hand, for which a 0% risk weight factor was assigned.

The Company has used the credit step mapping table below to map the credit assessment to Credit Quality Steps:

Credit Quality Step	Fitch	Moody's	S&Ps
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

**Counterparty Credit Risk**

Counterparty Credit Risk is the risk that the counterparty to a commercial transaction could default or deteriorate in creditworthiness before the final settlement of a transaction, or project.

The Company's products are margin-traded. If the market moves adversely by more than the client's maintenance margin, the Company is exposed to Counterparty Credit Risk. In order to monitor and manage the credit risk arising from the client's positions, the client receives a margin call and if client funds are below the required margin level, client positions will be liquidated. The Company is exposed to Counterparty Credit Risk also from its open positions with a related company. The relevant trade exposure is reduced/mitigated via a Risk Mitigation agreement signed between the two parties.

The Company's total trade exposure in derivatives before any form of credit protection amounts to €15,1 million. The trade exposure in derivatives is calculated using the "Mark-To-Market Method" as the sum of the current replacement cost and potential future credit exposure.

The minimum capital requirement calculated for the Company's open derivative positions as at 31 December 2017 is presented in the following table:

31 Dec 2018	Nominal Value	Exposure Amount before CRM	Exposure Amount After CRM	RWAs	Capital Req.
Type of exposure	€000				
FX Derivatives	52,261	535	10	9	0.759
Derivatives on Crypto currencies	767	79	0.2	0.17	0.014
Derivatives on Gold	7,773	81	0.9	0.9	0.074
Derivatives on Precious Metals	1,050	74	0.3	0.245	0.020
Commodity Derivatives	18,491	1.873	90	69	6
Equity Derivatives	37,182	2.263	165	135	11
<b>Total</b>	<b>117,524</b>	<b>4.905</b>	<b>266</b>	<b>214</b>	<b>17</b>

### Funded Credit Protection

The Company mitigates its Counterparty Credit Risk exposure by recognising the deposits/margin of its counterparties as eligible funded credit protection.

The Company applies the Comprehensive Method for CRM purposes.

The table below provides separately for each asset class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral.

31 Dec 2017	Funded Credit Protection	Unfunded Credit Protection
Asset Class	€000	€000
Institutions	(663)	-
Corporates	(3.394)	-
Other Items	-	-
Retail	(852)	-
<b>Total</b>	<b>(4.639)</b>	<b>-</b>

We note that the Company's eligible funded credit protection, is in the form of cash. No guarantees or credit derivatives or on-balance sheet netting agreements are recognised for the purposes of CRM.

### Policies with respect to wrong-way risk

Wrong way risk occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty, i.e. changes in market rates have an adverse impact on the probability of default of a counterparty.

This risk is not currently measured as it is not anticipated to be significant given the existence of cash collateral/margin for almost all derivative transactions, which significantly reduces Counterparty Credit Risk.

### **Impaired and Past due exposures**

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

The Company reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record and the customer's overall financial position. If indications of non-recoverability exist, the recoverable amount is estimated and a respective provision for bad and doubtful debts is made. The amount of the provision is charged through the profit or loss.

The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

The Company's experience in the collection of trade receivables has never caused debts which are past due and have to be impaired. Due to these factors, management believes that no additional credit risk beyond any amounts provided for collection losses is inherent in the Company's trade receivables.

As of the 31<sup>st</sup> of December 2018, the Company had no impaired and past due exposures.

## **8 Market Risk**

The Company has an agreement with its related company to economically hedge all CFD transactions entered with its customers. Therefore, the Company is not materially exposed to market risk because each transaction with the client is fully hedged with corresponding transactions with the related company.

### **Equity Risk**

Equity risk is the risk of loss resulting from fluctuations in the price of stocks or changes that relate to the issuer of a share or the stock market in general.

## **Commodity Risk**

Commodity risk arises from the positions of the Company in derivative contracts for which the underlying instruments are commodities.

The Company monitors and fully hedges its exposure. As at 31 December 2018 the Company was not exposed to Market Equity Risk and Commodity Risk (minimum capital requirement for both risks was zero).

## **Foreign Exchange Risk**

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's reporting currency. The Company's reporting currency is the Euro. The main currencies, whose fluctuations may have an impact on the results of the Company, are the US Dollar, the British Pound, the Zloty, Israeli Shekel and the Swiss Franc. Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Company's minimum capital requirements for Foreign Exchange Risk as at 31 December 2018 were €6 thousand.

## **Interest Rate Risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. At the reporting date the Company did not have significant interest-bearing financial instruments.

The Company's notional positions arising from its open FX CFD positions with its counterparties are subject to market interest rate risk. The notional positions of the Company's open FX CFD transactions are treated as zero-specific risk securities and receive 0% general risk charge. Therefore, the capital requirement for interest rate risk as at 31 December 2018 was zero.

The Company's management monitors interest rate fluctuations on a continuous basis and acts accordingly.

## **Liquidity Risk**

Liquidity risk is defined as the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimizing such losses, such as maintaining sufficient cash and other highly liquid current assets. Thus, the Company, also taking

into account the nature of this risk, implements the following mitigating actions/controls, without allocating additional capital under Pillar 2, a fact that lowers the rating of this risk:

- Increase capital when prompted to;
- Ensure that utilizing another liquidity provider is always an option;
- Perform daily review of Company equity v/s clients' equity;
- Assess day-to-day cash flow under different market scenarios;
- Carry out regular review of credit ratings of counterparties and liquidity providers.

## 9 Operational Risk

Operational risk is the risk that derives from the deficiencies relating to the Company's information technology and control systems as well as the risk of human error and natural disasters. The Company's systems are evaluated, maintained and upgraded continuously.

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by a program of audits undertaken by the Internal Auditors of the Company and by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

The Company calculates its operational risk using the Basic Indicator approach and takes the average over three years of the sum of its net income.

The table below shows the Company's exposure to Operational Risk as at 31 December 2017:

31 Dec 2017	2015	2016	2017	Average
	€000	€000	€000	€000
Total Net Income from Activities	2.769	4.184	3.559	<b>3.504</b>
<b>Minimum Capital Requirement (15% of Average Net Income)</b>	<b>526</b>			

## 10 Other Risks

### Concentration Risk

This includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type, etc.

Due to the fact that the Company only uses one liquidity provider to hedge its open positions with the clients, there is significant exposure to that particular entity deriving from counterparty credit risk. This exposure is calculated based on the Mark-to-Market method. However, the Company has entered into a bilateral netting agreement with that counterparty under which all exposures to that counterparty are fully collateralised with cash.

### Reputation Risk

The risk of loss of reputation arising from the negative publicity relating to the Company's operations (whether true or false) may result to a reduction of its clientele, reduction in revenue and legal cases against the Company.

The Company is aware that, operating in a demanding industry, with many competitors, who may also act in unethical ways, could introduce risks of reputational nature. The possibility of having to deal with serious incidents is limited as the Company exerts its best efforts in providing high quality services to its clients. In addition, the Company's Board members and Senior Management comprise of experienced professionals who are recognized in the industry for their integrity and ethos, and, as such, add value to the Company.

### **Strategic Risk**

This could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

### **Business Risk**

Business Risk arises due to probable losses that might be incurred by the Company during unfavorable market conditions, thus having a current and/or future possible impact on earnings or capital from adverse business decisions and/or lack of responses to industry changes by the Company.

### **Regulatory Risk**

Regulatory risk is the risk the Company faces by not complying with relevant laws and directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant laws and directives issued by the CySEC. Compliance with these procedures and policies is further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's internal control framework at least annually.

### **Compliance Risk**

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

### **IT Risk**

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. Specifically, policies have been implemented regarding back-up procedures, software

maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest degree possible.

## 11 Remuneration policy

The principles employed within the Company's Remuneration Policy shall be appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities, whilst adhering to the provisions of the Regulation.

### Remuneration System

The Company's remuneration system and policy adopts best market practice established to ensure that the rewards of both the executive management and other employees are linked to the Company's performance and to encourage the above individuals to achieve the key business aims. One of the key factors considered is the existence of an appropriate link between bonus reward and performance-based remuneration, whilst ensuring base salary levels are not set at artificially low levels.

The remuneration mechanisms employed are well known management and human resources tools that take into account the staff's skills, experience and performance, whilst supporting at the same time long-term business objectives.

The Company's remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

It is noted that the Company has taken into account its size, internal organization and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific Remuneration Committee. Decision on these matters is taken at the Board level, while the remuneration policy is reviewed periodically.

The total remuneration of staff consists of fixed and variable components. Fixed and variable components are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration. More specifically and as per Company's Remuneration Policy the variable component shall not exceed 100% of the fixed component of the total annual remuneration for each employee (unless a lower percentage is specified in the Remuneration Policy). Shareholders of the Company may approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided the overall level of the variable component shall not exceed 200% of the fixed component of the total annual remuneration for each individual.

The various remuneration components are:

- a. **Base Salaries (Fixed Remuneration):** Fixed remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability and responsibility needed for an employee to perform each position/role. In order to ensure that the Company's Remuneration Policy is in line with the business strategy, objectives, values and long-term interests of the Company and that it is consistent with and promotes sound and effective risk

management, the Company distinguishes between three categories of staff remuneration: Top Earners, Medium Earners and Normal Earners as below:

- **Top Earners:** Includes the Senior Management (the Executive and the Managing Directors), and risk takers, whose professional activities have a material impact on their risk profile (the Head of the Compliance Function and Risk Management Function and the Chief Financial Officer).
  - **Medium Earners:** Includes the Heads of each Department and Senior Employees, who are classified as senior due to their seniority, knowledge and experience on the duties assigned.
  - **Normal Earners:** Includes all other staff.
- b. Performance-based Bonus Scheme & Commissions (Variable Remuneration):** Variable remuneration is designed to ensure that the total remuneration remains at competitive levels and to reward the staff for its performance whilst remaining aligned with the department's and/or the Company's performance. Other factors taken into account are the following:
- The financial viability of the Company;
  - The general financial situation of the state in which the Company operates; and
  - The employee's personal objectives (such as personal development, compliance with the Company's systems and controls, commitment and work ethics).

The variable remuneration component shall be mainly awarded in the form of addition money layer on top of the base salary, while no remuneration is payable under deferral arrangements (with vested or unvested portions).

The Company acknowledges that the nature of the qualitative criteria used in order to decide on the eligibility of an employee to a variable remuneration, varies depending on the function an employee holds and more specifically, depending on the contact the employee has with the Company's customers.

As such the Company:

- Has produced certain variable remuneration schemes for the employees working in the Front Office (Sales and Retention) Department. Due to the higher risk of occurrence of a conflict of risk to the potential detriment of the Company's clients, specific guidelines are issued for the positions of the Front Office.
- Has decided that Employees working in any other functions (e.g. Compliance, Accounting, HR etc.) will only be entitled to variable remuneration on extraordinary performance based on the below principles:
  - Shall be exceptional and cannot exceed the 25% of the total annual salary;
  - Shall be suggested by the Senior Management and reviewed by the Compliance Officer;
  - Shall be granted upon the overall performance of the employee during a specific period of time, which in exceptional cases shall be monthly and in regular cases annually;
  - Shall not in any case create any conflict of interest against the employee and the Company or the Company's clients and shall not incentivize the employee to act outside its duties and responsibilities.

- c. Severance payment:** Severance payments are payable in accordance with relevant employment laws.

No remuneration is payable under deferral arrangements (with vested or unvested portions), nor were there any severance or sign-on payments during the current year. In addition, all variable remuneration paid during 2018 was in the form of cash.

### **Performance Appraisal**

The Company by its Compliance Department and HR Department shall implement a performance appraisal method, which is based on a set of both measurable quantitative indicators and qualitative indicators, developed for each business unit.

The appraisal is being performed as follows:

- Quantitative and qualitative objectives are set in the beginning of each month, quarter and/or year (each department is being appraised on different periods) defining what the Company functions, departments and individuals are expected to achieve over an upcoming period of time;
- Performance checks and feedbacks: Managers provide support and feedback to the concerned staff during the time periods decided, during the daily activities or during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.

### **Remuneration of Key Management Personnel and Directors**

The remuneration of material risk takers and employees in control functions is subject to approval by the Board of Directors, who at least annually shall identify employees who may take material risks on behalf of the Company:

- Employees dealing in and approving financial instruments;
- Employees who monitor compliance with risk taking limits;
- Senior Officers in the Risk Management and Compliance Function;
- Other employees with a material impact on the Company's risk profile.

The remuneration of the key management personnel of the Company, including Executive Members of the Board of Directors in 2018, is shown in the following tables:

31 Dec 2018	Number of Beneficiaries	Fixed Remuneration	Variable Remuneration	Total Remuneration
		€000		
Senior management (Payroll Directors)	2	108	1	109
Members of staff whose actions have a material impact on the risk profile of the institution (heads of departments)	13	302	53	355

<b>Total</b>	<b>15</b>	<b>410</b>	<b>55</b>	<b>465</b>
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<b>31 Dec 2018</b>	<b>Aggregate quantitative information on remuneration</b>
<b>Business Area</b>	<b>€000</b>
Control Departments	156
Reception and Transmission & Execution Department	22
Dealing on Own Account, Customer Support and Back Office Departments	27
Sales, IT and HR Departments	150
<b>Total</b>	<b>356</b>

## 12 Leverage Ratio

An underlying cause of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the financial system. In many cases, institutions built up excessive leverage while apparently maintaining strong risk-based capital ratios. At the height of the crisis, financial markets forced the banking and financial services sector to reduce its leverage in a manner that amplified downward pressures on asset prices. This deleveraging process exacerbated the feedback loop between losses, falling bank capital and shrinking credit availability.

The Basel III framework introduced a simple, transparent, non-risk based Leverage Ratio to act as a credible supplementary measure to the risk-based capital requirements.

The Leverage Ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014 amending the Regulation with regards to the Leverage Ratio. The institution calculates its Leverage Ratio at the end of each quarter.

The recommended minimum for the purposes of the Leverage Ratio is currently set to 3%. The Company's Leverage Ratio as at 31 December 2018 was 23,38%.

The following table provides a breakdown of the Leverage Ratio exposure measure by exposure type:

<b>31 Dec 2018</b>	<b>Leverage Ratio exposures</b>
<b>Breakdown of Leverage Ratio exposure measure by exposure type</b>	<b>€000</b>
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	8.781

(Asset amounts deducted in determining Tier 1 capital)	-61
<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)</b>	<b>8.720</b>
<b>Derivative exposures</b>	
Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)	75
Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	4.831
<b>Total derivative exposures</b>	<b>4.906</b>
<b>Securities financing transaction exposures</b>	
<b>Total securities financing transaction exposures</b>	-
<b>Other off-balance sheet exposures</b>	
<b>Other off-balance sheet exposures</b>	-
<b>Capital and total exposures</b>	
<b>Tier 1 capital</b>	<b>3.185</b>
<b>Total Leverage Ratio exposures</b>	<b>13.624</b>
<b>Leverage Ratio</b>	<b>23,38%</b>

The table below provides a breakdown of total on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by asset class:

<b>31 Dec 2017</b>	<b>Leverage Ratio exposures</b>
<b>Breakdown of total on balance sheet exposures by asset class</b>	<b>€000</b>
<b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	<b>8.719</b>
Trading book exposures	-
Banking book exposures, of which:	8.719
Exposures treated as sovereigns	-
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
Institutions	8.070
Retail exposures	-
Corporate	600
Exposures in default	-
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	49

### **Description of the processes used to manage the risk of excessive leverage**

The Company's capital and exposures are monitored on a daily basis which covers both a historical and a forward-looking viewpoint.

The Leverage Ratio is determined and monitored on a quarterly basis based on the calculations under Pillar I. If such monitoring triggers the need for certain actions (an increase in Tier 1 capital and/or a reduction in exposure amounts), these decisions – including the time line – are prepared by a dedicated cross-functional team consisting of representatives from Finance, Risk and Compliance (this is the same process that is in place for all other capital requirements).

Furthermore, it is the Company’s intention to consider the impact on the Leverage Ratio while making relevant capital adequacy calculations under Pillar II.

In addition to the above, the Company has adopted a stricter limit compared to the current 3% limit for monitoring Leverage Ratio. The internal limit is set at 6%.

**Factors that had an impact on the Leverage Ratio during the period**

The regulatory Leverage Ratio of the Company over the financial year 2018 ranged between 9.19% on 31 March 2018 to 23.38% on 31 December 2018 due to the increase in Tier 1 capital.

**13 Appendix**

**Board Approved Risk Statement**

Risks in the Company are adequately managed through the Company’s Internal Capital Adequacy Process which in a holistic manner encompasses, inter alia, the Company’s Risk management framework. This is summarized as follows:

The Company, having applied the principle of proportionality, has adopted a relatively risk-averse approach to risk despite considering itself as non-complex. The Company’s Risk Management framework is built following the Pillar I plus, minimum capital requirement approach, i.e. the minimum capital calculated under Pillar I is internally assessed and challenged to identify and quantify uncontrolled/material risks. Thereafter, the allocation of additional capital or the imposition of additional controls is decided.

The Risk Tolerance of the Company is being determined by the Risk Management Committee. Then the Company’s Risk Manager identifies the risks the Company faces and records them in a Risk Register; he/she also details the controls already in place as regards to each risk. Thereafter, each risk in the said register is rated in terms of its potential financial impact and its probability of occurrence, then, following calculation as per the latest ICAAP report the category of each risk is being determined. In such cases, further analysis is undertaken, on whether additional capital or controls are more appropriate to be added, so as for the risk to be mitigated and returned into the Company’s Risk Tolerance.

The following table illustrates how the Company interacts with its key risks, as per the latest ICAAP report:

<b>Risk Type</b>	<b>Risk sub-type</b>	<b>Specific Risk Description</b>	<b>Qualitative mitigation technique and controls</b>	<b>Extra controls/ Quantitative Mitigation/ add on capital</b>
<b>Credit Risk</b>	Credit Risk (Pillar 1)	Counterparty Risk from current banking accounts. Liquid funds impacted by bank or bank systems failure	<ol style="list-style-type: none"> <li>1. Diversification of deposits with more than one credit institution.</li> <li>2. Cooperation with highly reputable and rated credit institutions.</li> </ol>	Pillar 1 capital:  No additional capital requirements required for Pillar 2 risks
	Credit Risk (Pillar 1)	Counterparty Risk arising from a failure of liquidity provider or possible occurrence of debt to Liquidity providers.	<ol style="list-style-type: none"> <li>1. Cooperation with highly reputable liquidity provider.</li> </ol>	Pillar 1 capital:  No additional capital requirements required for Pillar 2 risks
	Credit Risk (Pillar 1)	Credit Risk from Fixed Assets	-	Pillar 1 capital plus additional capital
	Credit Risk (Pillar 1)	Counterparty Risk from exposures related to CFD instruments  Retail client cannot honour margin call (i.e. client credit risk).	<ol style="list-style-type: none"> <li>1. Stop out limits at the level of 50% of the required margin for retail clients.</li> <li>2. Closely monitor client's balances.</li> </ol>	Pillar 1 capital  No additional capital requirements required for Pillar 2 risks
	Other Credit Risks (Pillar 1)	Counterparty Risk from Corporates	<ol style="list-style-type: none"> <li>1. The Company reviews its corporates' balances on a monthly basis.</li> </ol>	Pillar 1 capital

				No additional capital requirements required for Pillar 2 risks
	Other Credit Risks (Pillar 1)	Counterparty Risk from Retails	1 The Company reviews its balances with retail counterparties on a monthly basis.	Pillar 1 capital No additional capital requirements required for Pillar 2 risks
	Concentration Risk (Not covered in Pillar 1)	Concentration risk arises through an uneven distribution of exposures to individual issuers or counterparties (single name concentration) or within industry sectors and geographical regions (sectorial concentration)	<ol style="list-style-type: none"> <li>1. Closely monitor the client's balances.</li> <li>2. Closely monitor the balances of the banking book to remain below the allowable limits.</li> <li>3. The company is monitoring the exposures arising from trading and banking book in relation to corporate clients.</li> </ol>	Add on capital
<b>Market Risk</b>	Market Risk (Pillar 1)	Foreign Exchange/ Currency Risk/Different currencies	<ol style="list-style-type: none"> <li>1. Limits on exposure per currency pair.</li> <li>2. Regular sensitivity analysis.</li> <li>3. The Company's leverage limits is in accordance with the Article 40 of Markets in Financial Instruments Regulation</li> </ol>	Pillar 1 capital plus additional capital

	Market Risk(Pillar 1)	Foreign Exchange Risk related to FX CfDs traded and various currency exposures in the banking book.	<p>1.Limits on exposure per account and exposure per financial instrument on the trading book.</p> <p>2. Regular sensitivity analysis.</p>	Pillar 1 capital plus additional capital
Operational Risks	General Operational Risk (Pillar 1)	Considered to combine all the below risks		<p>Pillar 1 capital</p> <p>No additional capital requirements required for Pillar 2 risks</p>
	Business continuity Risk/ Systems Failure Risk	Business Continuity plan overly optimistic and not effective.	<p>1. The Company has in place a well-documented policy to mitigate any Business Continuity and/or systems failure risks arising.</p> <p>2. Strong IT systems and back-ups.</p> <p>3. Elements of Business Continuity plans and Disaster Recovery plans regularly tested and staff is required to read and attest.</p> <p>4. The Business Continuity plan and the Disaster Recovery plan are annually reviewed and updated.</p>	
	Failure of Service Risk	Cyber-attack or other IT failure rendering service unreachable by clients.	<p>1. Strong IT systems and back-ups in place.</p> <p>2. Data centre has defence mechanisms in place to respond to majority of attacks.</p>	
	Internal or external Fraud Risk	1. Rogue Employee that uses Company's resources and position to	<p>1. All staff is required to complete AML, Anti-Bribery and Market Abuse training on a regular basis.</p> <p>2. Corporate activity is monitored and Personal</p>	

		<p>carry out criminal financial activities.</p> <p>2. Action or inaction leading to legal proceedings.</p>	<p>Account dealing is heavily controlled.</p> <p>3. Continued staff education, constant monitoring of clients satisfaction and robust client take-on procedures.</p>	
	Insurance Risk			
	Terrorism Risk			
	Policy Violation Risk			
	Third Party dependency Risk (e.g. internet provider)			
	Outsourcing Risk			
	Information & Technology Risk	<p>1. Competitor develops market leading new technology.</p> <p>2. Failure of software or hardware.</p> <p>3. Poor planning leading to low resourcing and low system robustness.</p>	<p>1. IT business plan reviewed annually.</p> <p>2. IT functions are well developed and all staff is required to complete training courses on systems on joining the firm.</p>	

		4. Poor training leadings to system compromise through poor operation.		
	Physical Security Risk	1.Equipme nt Theft	1.Office is physically secured	
	Personnel issues/ loss of key employees	Loss of senior members of staff or significant members of junior staff	1. The corporate culture has been established via the regular staff evaluation and motivation through performance linked salaries. 2. The company is committed to providing staff with a pleasant work environment.	
	Loss of data Risk	1. Loss of staff, company, supplier or client data  2. Client confidentiality breach	1. Strict privacy and security policies in place and tracked staff training.  2. Systems are backed-up on a daily basis.	
	External events (e.g. power-cut, flood, fire)	Circumstances leading to denial of access to business premises such as fire, flood, power outage etc.	1. Business Continuity and Disaster Recovery Plans are reviewed and updated on an annual basis.  2. All staff is required to attest the plans and relevant training is performed.	
<b>Additional Risks</b>	Liquidity risk	Arising either via extreme market conditions and/or failures of designated counterpart ies	1. Identify unusual market conditions,  2. Explore alternative funding sources,	1. Increase capital when prompted to,  2. Assess day-to-day cash flow under different market scenarios  3. Daily monitoring of the Company's exposures

		associated with.		and/or available margin with its LP  Add on capital
Conduct Risk	<p>1. Risk of failure or insolvency of the liquidity providers of the Company that are not situated in the European Union</p> <p>2. Inadequate agreements with the Liquidity Providers leading to debt.</p> <p>3. Inadequate agreements with the third party that holds clients' funds.</p>	1. Cooperation with highly reputable liquidity providers.		Add on capital
Business Risk /losses during unfavourable market conditions	<p>(a) Current and future possible impact on earnings or capital from adverse business decisions and/or lack of responses to industry changes.</p> <p>(b) Arising from the</p>	<p>1. The Company's Board and Senior Management have demonstrated its ability and technical expertise to implement goals and objectives, as well as to successfully implement its strategic initiatives. Further, it also has a reasonable record in decision making and controls.</p> <p>2. Regular monitoring of market activity.</p> <p>3. Process to evaluate business impact for new business initiatives.</p>		Add on capital

		<p>probability of inadequate profits due to changes in the regulation (decrease of leverage limits – Article 40 of Markets in Financial Instruments Regulation)</p> <p>(c) Arising from the probability of inadequate profits due to changes in third country's government policy or increased competition in the third country.</p> <p>(d) Probability of inadequate profits or losses due to unavailability of Liquidity provider to execute transactions</p>	3.Weekly monitoring of liquidity and balance sheet	
	Compliance risk/Regulatory breaches leading to fines	(a)The possibility of not having enough arrangement in place	1. Dedicated compliance function utilising expert advice from external consultants. The Company has in place measures in order to remain compliant with CySEC's requirement in relation to Cryptocurrencies.	Add on capital

		<p>as per CySEC's request in relation to Cryptocurrencies (Circular 268).</p> <p>(b) Arising from the probability of not complying with the regulatory requirements of the third country. (Circular 256)</p> <p>(c) Arising from inadequate arrangements to comply with the requirements of the product governance requirements under MiFID II.</p> <p>(d) Arising from inadequate arrangements to comply with the requirements regarding the</p>	<p>2. The Company has in place all documents needed and is fully compliant with the requirement for providing investment and ancillary services and investment activities in third country.</p> <p>3. The Company maintains the relevant arrangements to comply with the product governance requirements.</p> <p>4. The Company has in place all the relevant arrangements to comply with the Commission Delegated Regulation, GDPR requirements and the 4<sup>th</sup> and 5<sup>th</sup> AML Directives.</p> <p>5. The Company's profits/losses is monitored on a monthly basis since the Company's management accounts are prepared on a monthly basis.</p> <p>6. Dedicated Compliance function utilising expert advice from external consultants.</p>	
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		<p>Commission Delegated Regulation 2017/575, the General Data Protection Regulation and the 4<sup>th</sup> and 5<sup>th</sup> AML Directives.</p> <p>(e) Regulatory breach leading to a financial penalty or Competent authority's inspection</p>		
	Reputational Risk	<p>(a) Arising from damages to firm's reputation due to capital loss as a result of inadequate arrangements for negative balance protection.</p> <p>(b) Arising from the probability a new product to be launched by a competitor.</p>	<p>1. The Company has applied a stop out loss in order to protect the clients' accounts to become negative.</p> <p>2. The Company cooperates with highly reputable Liquidity providers and agreements are reviewed regularly.</p>	Add on capital

		(c) Arising from damages to firm's reputation due to adverse publicity as a result of a no longer acceptable Liquidity Providers.		
	Strategic Risk	<p>Poor decisions of the senior management through inactivity or error, fails to run the firm successfully.</p> <p>2. Market downturn lead the industry to suffer a decline in attracting new customers.</p>	<p>1. Covered through the controls established within the Business Risk category.</p> <p>2. The firm is confident that it has employed staff of the highest calibre.</p> <p>3. Robust and challenge mechanisms</p> <p>4. Strategic decisions to monitor revenue.</p>	
	AML Risk/ weakness in KYC	Inadequate arrangements with respect to the KYC procedures may lead the Company to be used as a vehicle for money laundering and terrorism financing.		Add on capital

	Conflicts of Interest Risks	N/A		
	Legal Risk	Arising from regulatory requirements emanating from MiFID II, 4 <sup>th</sup> and 5 <sup>th</sup> AML Directive, GDPR etc.		Add on capital
	Group Risk	Arising from the risks that emanate from the relationship that the CIF has with other group entities.		Add on capital
	Excessive Leverage Risk	Resulting from vulnerability due to financial leverage or conditional leverage that may require unintended corrective actions of business plans, including emergency sale of assets which could result in losses or result in the need for valuation		Add on capital

		adjustments of other assets.		
	Political Risk	Brexit may affect the political stability in the countries that the Company operates.		