iCFD Limited

RISK MANAGEMENT DISCLOSURES

YEAR ENDED 31 DECEMBER 2016

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

Contents

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 CIF 143/11, to act as a Cyprus Investment Firm, on 23 May 2011.

The Company currently offers the following investment and ancillary services:

Investment Services
Reception and transmission of orders in relation to one or more financial instruments
Execution of orders on behalf of clients
Dealing on own account

Ancillary Services
Safekeeping and administration of financial instruments, including custodianship and related services
Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
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 2016 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

The Board currently consists of two Executive and two Independent, 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 on at least annually, written reports regarding Compliance, Internal Audit, Money Laundering & Terrorist Financing and Risk Management 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 adequately 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 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.

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 measures taken to address any deficiencies with respect with those policies and procedures, including failures by the Company's relevant persons to comply with them.

The Risk Management Committee is comprised of two executive directors (members of the "4 eyes"), one non-executive director, and the Risk Manager of the Company.

During 2016, the Risk Management Committee held four regular meetings.

Number of directorships held by members of the Board

The table below provides the number of directorships a 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, the Company is not considered significant in terms of its size, internal organization and the nature, scope and complexity of its activities.

Name of Director	Position within iCFD Limited	Directorships – Executive	Directorships – Non-Executive
Or Kapelinsky	Executive Director	2	0
Yogev Mines appointed on 18/4/2016	Executive Director	2	0
Christakis Taoushanis	Non – Executive Director	0	4
Pavlos Nacouzi	Non – Executive Director	2	1

Governance Committees

In order to support effective governance and management of the wide range of responsibilities the Board has established a Risk Management Committee and also an Investment Committee, which is formed in order to ensure 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 Function

The Risk Management Function of the Company (the Risk Manager and the Risk Management Committee) 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.

Further to the formation of the overall framework, it should be noted that the Board appointed a Risk Manager to ensure that all the different types of risks taken by the Company are compliant with the Law and the obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place and are functional on an operational level 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 144(I)/2007 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.

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 Internal Auditor, the Compliance Officer and the Money Laundering Compliance Officer, which are prepared at least annually and indicate, in particular, any risks identified and any remedy measures taken;
- 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 to the core of the Company's operations, by comprising as well as aligning 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 regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

5 Board Risk Statement

The Company's risk statement is provided in Appendix I. 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 Capital Requirements Regulation (the "Regulation" or "Regulation (EU) 575/2012") and the Capital Requirements Directive as this is transposed by the CySEC (the "Directive" or "DI 144-2014-14"). Together the Regulation and Directive, referred to as the CRDIV package, consist of an EU legislative package covering prudential rules for banks and investment firms and through a transitional period starting from 2014, will bring into force the regulatory provisions of Basel III.

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 exposure 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 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 of the Company communicates to the personnel of the Company its commitment in cultivating a risk-averse culture within the organization.

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 2016.

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.

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 capital to risk weighted assets 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 2016, the Company was subject to a minimum Pillar I capital adequacy ratio of 8% plus a capital conservation buffer of 0,625%, according to the relevant transitional implementation provisions, resulting to an overall minimum of 8,625%. 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 2016 comprised solely of Common Equity Tier 1 (CET1) items and is presented in the table below:

	2016 €000
Eligible Own Funds	
Share capital	1.120
Retained Earnings	109
Audited profit/(loss) for the period	300
Total CET1 capital before deductions	***1.529***
Deductions from Own Funds	
CYSEC Investor Compensation Fund	(59)
Total CET1 capital after deductions	***1.470***
Capital Requirements	
Credit risk	334
CVA Risk	-
Foreign Exchange Risk	8
Equity Market Risk	-
Commodity Risk	-
Interest rate risk in the Trading Book	-
Operational Risk	475
Additional capital requirements for the large exposure excess in the Trading Book	-
Total Capital Requirements	***817***
Capital Adequacy Ratio	***14,39%***

On 7 July 2011 the authorised share capital of the Company was increased from 1.000.000 shares of €1 each to 1.120.000 shares of €1 each. There were no changes in the authorized share capital of the Company since then. As at 31 December 2016 the issued and fully paid share capital also amounted to 1.120.000 shares of €1 each.

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 exposure (pre and after Credit risk mitigation - CRM), average exposure, risk weighted assets ("RWA") and minimum capital requirement as at 31 December 2016, broken down by exposure class:

Asset Class	Original Exposure	Exposure amount after CRM	Average exposure	Risk weighted assets	Capital Requirements
	€000				
Public Sector Entity	-	-	30	-	-
Institutions	6.206	6.206	5.785	1.446	116
Corporates	5.252	2.026	5.012	2.048	164
Other Items	92	92	133	91	7
Retail	1.000	787	983	590	47 51
Total	**12.550**	**9.111**	**11.943**	**4.175**	**334**

The table below illustrates the geographic distribution of the Company's original exposures.

	Cyprus	Luxembourg	BVI	Spain	United Kingdom	Hungary	Other Coun tries	Total
Asset Class	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Institutions	1.585	2.080	-	127	1.173	1.097	144	**6.206**
Corporates	538	-	2.849	740	-	-	1.125	**5.252**
Other Items	92	-	-	-	-	-	-	**92**
Retail	-	3	-	214	-	-	783	**1.000**
Total	**2.215**	**2.083**	**2.849**	**1.081**	**1.173**	**1.097**	**2.052**	**12.550**

The table below provides a breakdown of the original exposures per residual maturity and per asset class:

	≤3 months	>3 months or Not Applicable	Total
Asset Class	**€000**	**€000**	**€000**
Institutions	5.858	348	**6.206**
Corporates	5.212	40	**5.252**
Other Items	-	92	**92**

Retail	1.000	-	**1.000**
Total	**12.070**	**480**	**12.550**

The following table illustrates the original exposures per industry sector per asset class:

	Financial sector	**Other**	**Total**
Asset Class	**€000**	**€000**	**€000**
Institutions	6.206	**-**	**6.206**
Corporates	2.849	2.403	**5.252**
Other Items	**-**	92	**92**
Retail	**-**	1.000	**1.000**
Total	**9.055**	**3.495**	**12.550**

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 exposure 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 CRR. 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 CRR. 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

Exposures before and after credit risk mitigation by credit quality step:

Credit Quality Step	Exposure amount before credit risk mitigation	Exposure amount after credit risk mitigation
	€000	€000
1	-	-
2	1.254	1.254
3	1.097	1.097
4	-	-
5	12	12
6	778	778
Unrated/Not Applicable	9.409	5.970
Total	**12.550**	**9.111**

Counterparty Credit Risk

The 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 for 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 €5,7 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 31/12/2016 is presented in the following table:

Type of exposure	Positive Fair Value	Negative Fair Value	Nominal Value	Exposure Amount before CRM	Exposure Amount After CRM	Risk Weighted Assets	Capital Requir.
	€000						
FX Derivatives	16	-16	128.787	1.304	498	454	36
Derivatives on Gold	8	-8	46.277	471	184	171	14
Derivatives on Precious Metals	1	-1	5.431	381	185	171	14

Commodity Derivatives	0	0	8.245	825	384	344	27
Equity Derivatives	3	-3	45.507	2.733	1.023	959	77
Total	**28**	**-28**	**234.247**	**5.714**	**2.274**	**2.099**	**168**

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 Credit Risk Mitigation (CRM) purposes.

The table below provides separately for each exposure 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.

Asset Class	**Funded Credit Protection**	**Unfunded Credit Protection**
	€000	**€000**
Institutions	-	-
Corporates	(3.226)	-
Other Items	-	-
Retail	(213)	-
Total	**(3.439)**	-

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 credit risk mitigation.

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 (PD) 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.

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.

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 Capital Requirements for Foreign Exchange Risk as at 31/12/2016 were Euro 8 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 31/12/2016 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. For the period under review the Company did not appear to be exposed to liquidity risk. However, the Company has procedures with the object of minimizing such losses, such as maintaining sufficient cash and other highly liquid current assets.

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:

	2014	**2015**	**2016**	**Average**
	€000	**€000**	**€000**	**€000**
Total Net Income from Activities	2.552	2.769	4.184	3.169

Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15% of the above relevant indicator, resulting to an operational risk capital requirement of Euro 475 thousand.

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.

However, 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

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts is conducted with a view to minimize the Company’s exposure to business risk. These are analyzed and taken into consideration when implementing the Company’s strategy.

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 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

During 2016 the following was applicable with regards to the Company's remuneration system:

The Company's remuneration system and policy are concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management, members of the Board of Directors and the Heads of the departments; and also for all of the Company's staff. The said practices are established to ensure that the rewards for the 'executive management' are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance, whilst ensuring base salaries are not set at artificially low levels. The Company operates a discretionary bonus policy directly correlated to the annual profitability of the Company.

The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to its short and long term success.

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 the 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.

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. Fixed remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

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 is mainly awarded in the form of addition money companion on top of the base salary.

    The Company's variable remuneration is approved by the Board of Directors for the employees of the compliance department and by the Senior Management for the employees of the back office department, dealing department and customer support department.

    Variable remuneration is set to incorporate the following principles:
    - Promote sound and effective risk management, avoid excessive risk taking and protect the long-term interests of the Company;
    - Avoid conflicts of interest between the staff and the Company's clients;
    - Ensure alignment with the Company's compliance, profitability, cost of capital and risk tolerance;
    - Element of long term commitment to the Company;
    - Remuneration is directly linked to the performance of the staff and as a result, no guaranteed variable remuneration is promised or unconditionally awarded to the staff;
    - Remuneration of staff in control functions is based on the successful performance of the specific objectives of their functions (Key Performance Indicators) and is independent of the performance of the business units they control.

c. **Provident Fund (Pensions Scheme):** Provident and Pension schemes guarantee employees a basic cover in the event of illness or death, and a suitable pension payment on retirement. In general, from the 7th month of employment, employees shall be entitled to be covered by defined contribution plans with a pension insurance company and the company typically pays 5% of the pension contributions.

d. Other Benefits: Other benefits (company phone, company car, coupons, etc.) are awarded on the basis of individual employment contracts and local market practice.

e. 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 2016 was in the form of cash.

Performance Appraisal

The Company implements a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit. The appraisal is being performed as follows:

a. 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.
b. 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.
c. Annual performance evaluation: takes place annually, usually at the end of each year.

Remuneration of Key Management Personnel and Directors

The remuneration of material risk takers and employees in control functions is subject to stricter conditions. Once a year, the Board of Directors identifies employees who may take material risks on behalf of the Group:

- employees dealing in and approving financial instruments
- employees who monitor compliance with risk taking limits

Other employees with a material impact on the Company’s risk profile are also subject to the stricter remuneration conditions.

Employees in control functions, including Internal Audit, Compliance, Finance and Risk Management are eligible for performance-based pay; however such pay must be approved by the Board of Directors on a case by case basis and must be related to the achievement of the function of the relevant employee.

The remuneration of the key management personnel of the Company, including Executive Members of the Board of Directors in 2016, is shown in the following tables:

Remuneration Broken down by Management area	Number of Beneficiaries	Fixed Remuneration	Variable Remuneration	Total Remuneration
		€000		
Senior management (Payroll Directors)	3	65	64	129
Members of staff whose actions have a material impact on the risk profile of the institution (Heads of departments, including CFO, Risk manager, Compliance officer, etc.)	9	312	60	372
Total	**12**	**377**	**124**	**501**

Business Area	Aggregate quantitative information on remuneration €000
Reception & Transmission and Execution Departments	32
Accounting, Back Office and Control functions	236
Dealing on Own Account and Customer Support Department	105
Total	**373**

The total staff cost for the financial year 2016 can be found in Note 7 of the Company's audited financial statements.

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.

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 Regulation (EU) No 575/2013 of the European Parliament and of the Council with regards to the leverage ratio. It is noted that the final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar I minimum capital requirement on 1 January 2018. 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 2016 is 11,71%.

The table below, provides a reconciliation of accounting assets and leverage ratio exposures:

	Applicable Amounts €'000s
Total assets as per published financial statements	6.892
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
Adjustments for derivative financial instruments	5.686
Adjustments for securities financing transactions "SFTs"	-
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
Other adjustments	(27)
Total leverage ratio exposure	**12.551**

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

	CRR leverage ratio exposures €'000s
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	6.895
(Asset amounts deducted in determining Tier 1 capital)	(58)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**6.837**
Derivative exposures	
Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	28
Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	5.686
Total derivative exposures	**5.714**
Securities financing transaction exposures	
Total securities financing transaction exposures	-
Other off-balance sheet exposures	
Other off-balance sheet exposures	-
Capital and total exposures	
Tier 1 capital	**1.470**
Total leverage ratio exposures	**12.551**
Leverage ratio	**11,71%**

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

	CRR leverage ratio exposures €'000s
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**6.837**
Trading book exposures	**-**
Banking book exposures, of which:	6.837
Exposures treated as sovereigns	**-**
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	**-**
Institutions	6.207
Retail exposures	**-**
Corporate	538
Exposures in default	**-**
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	92

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. When the Risk Manager and the CFO propose transactions or movements in capital or assets, the impact on the leverage ratio is taken into account.

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 include 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 2016 ranged between 7,42% to 12,88%. The Leverage ratio as at 31/12/2016 was 11,71% compared to the 10,84% of December 2015. The reason of this fluctuation is mainly due to the increase in Tier 1 capital (due to recognition of profit for the period).

13 Appendix

I. 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 imposing 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:

Risk Type	Risk sub-type	Specific Risk Description	Controls already in place	Extra Controls/Mitigation/add on Capital as per latest ICAAP	Quantification method/ Stress Testing
Credit Risk	Credit Risk (Pillar I)	Counterparty Risk from current banking accounts	Diversification of deposits with banks	Pillar I capital plus additional capital	Quantification with standardized approach as well as Internal Risk Assessment
	Other Credit Risks (Pillar I)	Tangible Fixed Assets		Pillar I capital	Quantification with standardized approach as well as Internal Risk Assessment

	Other Credit Risks (Pillar I)	Investor Compensation Fund		Pillar I capital plus additional capital	Quantification with standardized approach as well as Internal Risk Assessment
	Collateral Risk (Not covered in Pillar 1)	Financial Collateral excess exposure on open transactions		Pillar 1 Capital	Quantification with standardised approach as well as Internal Risk Assessment
Market Risk	Market Risk (Pillar I)	Foreign Exchange/ Currency Risk	Limits on exposure per currency pair	Pillar I capital	Quantification with standardized approach as well as Internal Risk Assessment
Operational Risk	General Operational Risk (Pillar I)	Considered to combine all operational risks	Written policies related to Information Security communicated to all employees	Pillar I capital	Quantification with basic indicator approach as well as Internal Risk Assessment
Additional Risks under Pillar II	Liquidity risk	Arising either via extreme market conditions and/or failures of designated counterparties associated with the day to day operations of the Company.	• Identify unusual market conditions • Explore alternative funding sources • Diversify liquidity providers	• Choice of increase of share capital if needed • Ensure that utilizing another liquidity provider is always an option • Ensure liquidity providers are active • Daily review of Company equity v/s	Internal Risk Assessment

				Clients' equity • Assess day-to day cash flow under different market scenarios • Regular review of credit ratings of counterparties and liquidity providers.	
	Business Risk/losses during unfavorable market conditions	Current and future possible impact on earnings or capital from adverse business decisions and/or lack of responses to industry changes.	Constant attention of the Company's Board and Senior Management who have the knowledge and expertise to implement strategic initiatives.	Add on capital	Internal Risk Assessment
	Compliance risk/Regulatory breaches leading to fines		Dedicated compliance function utilizing expert advice from external consultants	Add on capital	Internal Risk Assessment
	Reputational Risk			Add on capital	Internal Risk Assessment
	Litigation/ expenses due to Client complaints			Add on capital	Internal Risk Assessment

II. Balance sheet reconciliation

Balance Sheet Description, as per published financial statements	Amounts €000
Share Capital	1.120
Retained Earnings	109
Profit & Loss	300
Total Equity as per Audited Financial Statements	**1.529**
Contribution to the Investors Compensation Fund	(59)
Other Adjustments	-
Total as per Regulatory Capital	**1.470**

III. Own funds disclosure template under the Transitional and fully phased in definition

At 31 December 2016	Transitional Definition	Full - phased in Definition
	€'000	**€'000**
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	1.120	1.120
Retained earnings	409	409
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)		
Funds for general banking risk		
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1.529**	**1.529**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
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)		
Investors Compensation Fund	(59)	(59)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(59)**	**(59)**
Common Equity Tier 1 (CET1) capital	**1.470**	**1.470**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**1.470**	**1.470**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**1.470**	**1.470**
Total risk weighted assets	**10.213**	**10.213**
Capital ratios and buffers		
Common Equity Tier 1	14,39%	14,39%
Tier 1	14,39%	14,39%
Total capital	**14,39%**	**14,39%**

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

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total risk weighted assets for covering Pillar I risks.
The Total Capital ratio is the own funds of the Company expressed as a percentage of the total risk weighted assets for covering Pillar I risks.