

Pillar III Disclosures and Market Discipline for the year ended 31 December 2018

IC MARKETS (EU) LTD



May 2019

Regulated by the Cyprus Securities and Exchange Commission (License. No. 362/18)

This report has been prepared based on the Audited Financial Statements of 2018; under Directive DI144-2014-14 and DI144-2014-15 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms

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Introduction

1.1 Corporate information

These disclosures relate to IC Markets (EU) Ltd (the “Company”), which is authorized and regulated by the Cyprus Securities and Exchange Commission (the Commission” or “CySEC”) as a Cyprus Investment Firm (“CIF”) to offer Investment and Ancillary Services in accordance to the Investment Services and Activities and Regulated Markets Law of 2017 (hereinafter, the “Law”), under license number 362/18 dated 25 June 2018.

The Company has the license to provide the following investment and ancillary services, in the financial instruments outlined below:

Investment Services and Activities:

- (a) Reception and transmission of orders in relation to one or more financial instruments;
- (b) Execution of orders on behalf of clients;
- (c) Dealing on own account

Ancillary Services:

- (a) Safekeeping and administration of financial instruments, including custodianship and related services;
- (b) Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction; and
- (c) Foreign exchange services where these are connected to the provision of investment services.

Financial Instruments:

- 9) Financial contracts for differences

1.2 Basis of preparation (Pillar III Regulatory Framework)

The current EU Capital Requirements Directive 2013/36/EU (“CRDIV”) and 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 (the “Regulation” or “CRR”) set out the regulatory framework (commonly known as Basel III) that governs the amount of capital EU investment firms and banks are required to maintain. This is achieved through the application of common capital adequacy methodologies and by enforcing standardized disclosure requirements that ensure transparency and enable the comparability of solvency results across the region.

The Basel III framework consists of three Pillars:

- Pillar I set out the minimum capital requirements firms are required to meet;
- Pillar II requires firms to assess their capital requirements in light of any specific risks not captured in the Pillar I calculations; and

- Pillar III seeks to improve market discipline by requiring firms to publicly disclose certain details of their risks, capital and risk management.

According to Directives DI144-2014-14, DI144-2014-14(A) and DI144-2014-15 of the Commission and Part Eight of the Regulation for the prudential supervision of investment firms, the Company prepared these disclosures (hereinafter the “Pillar III disclosures”) to demonstrate that it has successfully implemented the prudential provisions and to fully comply with the current legislature.

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 said year.

1.3 Reporting Frequency

The Company’s policy is to publish the disclosures required on an annual basis. Should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements, the frequency of disclosure will be reviewed.

This report is published and will be available on the Company’s website at www.icmarkets.eu.

1.4 Verification

The Company’s Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board of Directors (the “Board”) for approval.

The Company’s Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures as detailed in Section 6 of this document have been reviewed by the Board which has responsibility of the Remuneration Policy in absence of a Remuneration Committee.

1.5 Reporting details

The Company reports on a Solo basis and the reporting currency is EUR.

1.6 Return on Assets

The Company’s return on assets (ROA) for financial year ending 31 December 2018 was (64.80)% due to the losses incurred during the year; (2017: (4.22)%).

1.7 Non-Material, Proprietary or Confidential Information

This document has been prepared to satisfy the Pillar III disclosure requirements set out in the CRR. The Company does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

2 Risk Governance – Board and Committees

2.1 Board of Directors

The Board has overall responsibility for the business. It sets the strategic aims for the business, in line with delegated authority from the shareholders and in some circumstances subject to shareholders approval, within a control framework, which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are robust.

The Board of Directors, as at the reference date, consists of two executive and two non-executive members, of which they are also independent.

Table 1: Board of Directors structure

Full name of Director	Position/Title	Capacity	Country
Andrew Budzinski	Chief Executive Officer/ Executive Director	Executive Director, “4 eyes”	Cyprus
Sophie Louise Stabler ⁽¹⁾	Chief Financial Officer/ Executive Director/ General Manager	Executive Director, “4 eyes”	Cyprus
Agathoclis Agathocleous	Non-executive Director	Non-Exe. Director, Independent	Cyprus
Zacharias Georgeou	Non-executive Director	Non-Exe. Director, Independent	Cyprus

Note:

(1) Resigned on 10 January 2019 and replaced by Sotiris Lambrou who was appointed on 12 March 2019

2.1.1 Board of Directors responsibilities

The Board shall be responsible for ensuring that the Company complies with its obligations under the Law. The Board assesses and periodically reviews the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law and takes appropriate measures to address any deficiencies. In general, the Board shall:

- a) Determination of the Company’s strategy;

The Board of Directors is responsible for determining the Company’s strategy. The Board of Directors must from time to time determine and explicitly state the goals that the Company is aiming to achieve. It is then the Board of Director’s responsibility to monitor the Company’s progress towards the achievement of its strategic goals and to identify and work towards the removal of any obstacles. The Board of Directors shall meet at least twice a year, and whenever the need arises, to discuss strategic issues and to reformulate strategy where this is necessary on account of changes and developments, whether internal to the Company or external in its market environment. Any changes in the Company’s strategy can be brought about only as a result of a decision of its Board of Directors.

- b) Determination of the Company’s structure and hierarchy;

The Board of Directors is responsible for determining the internal structure of the Company, by

creating the appropriate departments and officers, each assigned with specific duties and responsibilities and endowed with the powers necessary for effectively carrying them out. The Board of Directors shall also determine the hierarchy within which departments will be placed, the lines of communication and accountability between departments and within departments and the tasks which each department and each employee is to perform. It is the responsibility of the Board of Directors to ensure that the structure of the Company is such that will further the achievement of the strategic goals of the Company. In particular it defines the scope and assesses the operations of Internal Audit department, Compliance function, Anti-money laundering function, Risk Management department, IT department and the various operations departments such as RTO/Execution department, Dealing on Own account department, Safekeeping department etc.

c) Company's policy and internal operations manual;

Having set the Company's strategic goals and structure, the Board of Directors is responsible for leading the Company towards their achievement through the creation of appropriate policies, procedures and rules for the Company's internal operations. These are described in great detail in this Manual, instructing the Company's employees on how each is expected to perform his or her duties. The suitability of the policies, rules and procedures described in this Manual is reviewed by the Board at least once a year.

d) Supervision of the Company's policies and procedures and their effectiveness;

The Board of Directors shall meet at least once a year to determine, record and approve the general policy principles of the Company in relation to the prevention of money laundering and terrorist financing and communicates them to the compliance officer.

e) Supervision of the Company's policies and procedures in its treatment of risk;

Approves and periodically reviews the strategies and policies for taking up, managing, monitoring and mitigating the risks the Company is or might be exposed to, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle. Moreover, it is actively involved in and ensure that adequate resources are allocated to the management of all material risks addressed in Directive DI144-2014-14 and in Regulation (EU) No 575/2013 as well as in the valuation of assets, the use of external credit ratings and internal models relating to those risks. To this end the Company established a permanent risk management function independent from the operational functions and which has sufficient authority, stature, resources and access to the board of directors via direct reporting lines and escalation procedures.

The Board of Directors shall receive at least annually written reports on the policies and procedures designed to detect any risks associated with:

- Failure of the Company to comply with the Law
- Deficiencies in the Company's activities, processes and systems
- Effectiveness of the Company's internal control mechanisms

The report should also include measures to address any deficiencies in these policies and measures.

The Board of directors shall establish a clear and quick reporting chain based on which information regarding suspicious transactions is passed without delay to the compliance officer. The Board of

Directors shall consider the Internal Auditor, the Compliance Officer’s and Risk Manager’s suggestions for improvements in the Company’s audit and compliance and the overall risk management framework and procedures and, where appropriate, accept these suggestions and amend these policies and procedures and the appropriate sections of the Internal Operations Manual. The minutes of the annual meeting of the Board of Directors on Internal Audit , Compliance and Risk Management procedures are submitted to the Commission within 20 days from the day on which the meeting took place.

2.1.2 Board of Directors meetings and quorum

The Board of Directors meets regularly at least 4 times a year. Furthermore, extraordinary meetings can be called by any member of the Board. The Chairman of the Board was the General Manager of the Company, Mrs Sophie Louise Stabler.

The Chairman of the meeting and three other members present at the meeting shall constitute a quorum. The decisions shall be taken by a majority vote and in case of a tied vote the chairman shall have the casting vote.

Members of the Board may, in case of their absence abroad, participate in a meeting of the Board through the use of telephone or television or other communication systems, provided that each one of the persons participating in the meeting can hear all the other participants at all material time. Any meeting carried out as above shall be deemed to form a legal meeting of the Board and each member participating in a meeting in this manner shall be deemed to be present in person thereat and shall be entitled to vote and counted in the quorum. This meeting shall be deemed to be held at the offices of the Company.

The agenda of the board meetings as well as and all relevant documentation will be delivered to the members of the Board of Directors at least three days before the meeting. Minutes will be taken during the meetings and will be signed by all members of the Board present. Minutes of all meetings will be kept in writing and on file by the Compliance Officer.

2.1.3 Number of Directorships held by the Board members

Directorships in organizations which do not pursue predominantly commercial objectives, such as nonprofit-making or charitable organizations, are not taken into account for the purposes of the below.

The table below provides the number of directorships that each member of the management body of the Company holds at the same time in other entities, including the one in IC Markets (EU) Ltd:

Table 2: Directorships of Board Members

Full name of Director	Position/Title	Executive	Non-Executive
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Andrew Budzinski	Chief Executive Officer/ Executive Director	1	-
Sophie Louise Stabler	Chief Financial Officer/ Executive Director/ General Manager	1	-
Agathoclis Agathocleous	Non-executive Director	1	2
Zacharias Georgeou	Non-executive Director	-	1

2.2 Board recruitment policy

Recruitment of Board members combines an assessment of both technical capability and competency skills referenced against the Company's regulatory and operational framework.

The persons proposed for appointment to the Board should commit the necessary time and effort to fulfill their obligations. Prior to their appointment, the proposed persons should obtain the approval of the Commission.

Main factors influencing the decision to propose the appointment of potential Directors include:

- Integrity and honesty
- High business acumen and judgment
- Knowledge of financial matters including understanding of financial statements and important financial ratios
- Knowledge and experience relevant to financial institutions.
- Risk Management experience
- Skills and knowledge in finance, accounting, law, or related subject.

2.3 Governance Committees

The Company has formed the below governance committees based on its current scale and complexity of its operations and the necessary level of elaborate governance oversight to adequately monitor its operational effectiveness and its potential risks.

2.3.1 Risk Management Committee

The Risk Management Committee is formed with the view to ensure the efficient management of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general.

Towards this direction, the Company shall adopt and maintain risk management policies, which identify the risks relating to the Company's activities, processes and systems and sets the level of risk tolerated by the Company.

Also, 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 that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

The Risk Management Committee reports directly to the Board and will consist of:

- Agathoclis Agathocleous – Independent, Non-Executive Director (Chairman)
- Zacharias Georgiou – Independent, Non-Executive Director
- Christodoulos Psomas - Risk Manager

The Risk Management Committee formally meets at least annually. Furthermore, extraordinary meetings can be called by any member of the Risk Management Committee. Minutes of all meetings will be kept in writing and on file by the General Manager who will be responsible to inform the Board about the activities of the Risk Management Committee.

2.3.2 Investment Committee

The Investment Committee comprises of Agathoclis Agathocleous (Independent Non-executive Director), Zacharias Georgiou (Independent Non-executive Director) and Nikoletta Panteli (Head of Dealing on Own Account). Its core function is to identify global trends in markets, risks and decide upon broad recommendations leading to investment services provided by the Company. The minutes of the Investment Committee meetings and supporting research for fund recommendations are maintained.

The Investment Committee responsibilities are to:

- discuss, evaluate and identify country or corporate default, operational, systemic, systematic, unsystematic, credit, interest rate, currency and market risks in general,
- establish procedures for assessing investment risk tolerance for clients
- after taking all the risks into consideration, and combining this with appropriate research from reputable and well-established and trust-worthy institutions identify the general direction of markets and issue basic guidelines of investment parameters for the Dealing on Own account department

2.3.3 Remuneration Committee

CIFs which are significant in terms of their size, internal organization and the nature, the scope and the complexity of their activities, must establish a remuneration committee. The Remuneration Committee is constituted in such a way as to enable it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity.

The Company has established a Remuneration Committee which is comprised exclusively of non-executive directors and it is responsible for reviewing and determining the Company's remuneration policy (the "RP") and practices. The Remuneration Committee is also responsible to monitor the Company's compliance towards the approved policy and to identify and work towards

any deficiencies. The Remuneration Committee meets at least once a year, and whenever the need arises, to discuss issues and to reformulate the policy where this is necessary on account of changes and developments, whether internal to the Company or external in its market environment. Any changes in the Company’s remuneration policy can be brought about only as a result of a decision of its Board of Directors that has the power to approve and implement the Remuneration Committee’s proposed remuneration policy.

The Remuneration and Nomination Committee comprises of the two independent non-executive directors, Agathoclis Agathocleous and Zacharias Georgiou.

2.4 Information flow on risk to the Board of Directors

The flow of risk-related information to the management body of the Company, is presented in the table below:

Table 3: Information flow on risk to Board

No.	Report Description	Responsible Officer	Frequency
1	Risk Management Report	Risk Manager	Annually
2	Pillar I (CySEC F061 template)	Risk Manager	Quarterly
3	ICAAP (Pillar 2) Report	Risk Manager	Annually
4	Pillar 3 Disclosures	Risk Manager	Annually
5	Escalation of key risk (when applicable)	Risk Manager	Ad hoc
6	Internal Audit Report	Internal Auditor	Annually
7	Compliance Report	Compliance Officer	Annually
8	Suitability Report	Compliance Officer	Annually
9	AMLCO Report	AMLCO	Annually
10	Suspicious transactions involving money laundering and terrorist financing	AMLCO	Ad hoc

3 Risk Management Objectives and Policies

3.1 Approach to Risk Management

There is a formal structure for monitoring and managing risks across the Company comprising of detailed risk management frameworks (including policies and supporting documentation) and independent governance and oversight of risk.

First line of defense - Managers are responsible for establishing an effective control framework within their area of operations and identifying and controlling all risks so that they are operating within the organizational risk appetite and are fully compliant with Company policies and where appropriate defined thresholds.

Second line of defense - the Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company's risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. Risk will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them.

Third line of defense comprises the Internal Audit Function which is responsible for providing assurance to the Board and senior management on the adequacy of design and operational effectiveness of the systems of internal controls.

3.2 Risk Appetite

Risk Appetite limits the risks which the business can accept in pursuit of its strategic objectives. Risk Appetite is formally reviewed annually and is monitored on an ongoing basis for adherence. The Company's strategy, business plan and capital and liquidity plans are set with reference to Risk Appetite.

The Board approves the Risk Appetite, which defines the level of risk that the Company is prepared to accept to achieve its strategic objectives and is translated into specific risk measures that are tracked, monitored and reported to the Board. The Risk Appetite framework has been designed to create clear links to the strategic long-term plan, capital planning, stress testing and the Company's risk management framework. The review and approval process are undertaken at least annually.

The Company's Risk Appetite covers three core areas, financial risk, reputational risk and operational risk. The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

3.3 Risk Management Function

The Risk Management function is independent from other operational functions, possesses the necessary authority for the fulfilment of relevant duties and responsibilities, as well as direct access to the Company's Board of Directors. As mentioned in section 2.3.1, the Risk Management Committee has been formed which governs the overall operations of the Risk Management Function.

The Risk Management Function operates under the leadership of the Risk Manager who reports directly to the Senior Management and the Board. The Risk Management function is maintained in-house with specific expertise and structured to provide analysis, challenge, understanding and oversight of each of the principal risks faced by the Company.

The Risk Manager is responsible to apply risk management procedures and ensure compliance with the Company's policy and internal regulation as well as for implementing the relevant provisions of the Law, relating to risk management issues:

- Development of policy regarding the assumption, follow up and management of risk which will include guidelines regarding possible risk exposure and acceptable risk levels
- Development of risk management policy for credit risk, liquidity risk and market risk which will cover:
 - a) Defining acceptable risk limits for each type of risk
 - b) The further break down of the above risk limits, where such breakdown is deemed necessary as, for example, per class of investment service or financial instrument or customer, or market etc.
 - c) The implementation of stop loss control limits
 - d) Procedure for following up and monitoring Company's open positions in relation to approved limits (if applicable)
- Continuous monitoring and assessment of the risks of the Dealing on Own Account Department
- Reviewing the capital adequacy and the exposures of the Company
- Performance of periodic assessments of the pricing policy with respect to all offered services taking into account the factors having an impact on cost, competitor's pricing policy and cost- benefit analysis
- Credit assessment: Quality and financial analysis of Company's clients when opening a new client account and classification of clients according to Company's risk criteria and limits. Maintaining relevant record. Monitoring, periodic review and updating of Credit assessment.
- Credit assessment: Quality and financial analysis of counterparties when signing a counterparty agreement and classification of the counterparty according to Company's risk criteria and limits. Maintaining relevant record. Monitoring, periodic review and updating of Credit assessment.
- Review of pro-forma agreements between Company and clients or counterparties
- Review the information provided to Clients regarding the nature and risks of financial instruments according to the Client classification
- Evaluation of risks associated with transactions executed on behalf of Company's clients
- Compliance with stop loss control limits
- Monitoring of investment risk undertaken by the Company for each client, counterparty and as a whole
- Estimating risk of Company's clients and counterparties participation in money laundering and/or terrorist funding
- Monitoring of deals executed with counterparties in relation with securities' market prices
- Monitoring of brokerage and dealing on own account transactions as regards adherence to established risk limits
- Monitoring compliance of established limits set by the Company
- Monitoring risk associated with margin trading clients (if applicable)
- Recalculation and monitoring of market risks parameters on all target financial instruments
- Modelling and evaluation of influence of changes in parameters of market risks in relation to Company's controls and management of critical situations
- Handling customer complaints/grievances associated with breach of contract terms
- Monitoring day-to-day operational risks
- Building a risk aware culture within the organization and providing the relevant training
- Maintenance of appropriate internal control systems designed to manage key risk areas

- Assessment of the risk involved in potential new investment services and/or financial instruments and preparation of report to be reviewed and approved by the Risk Management Committee
- Systematic follow up of the effectiveness and management of the risks assumed by the Company
- Scrutiny of the Company's compliance with the arrangements, processes and mechanisms adopted to manage the risks relating to the Company's activities processes and systems in light of that level of risk tolerance
- Scrutiny of the adequacy and effectiveness of measures taken to address any deficiencies in policies, procedures, arrangements, processes and mechanisms, for managing risks relating to Company's activities, processes and systems, including failures by the relevant persons of the Company to comply with such arrangements, processes and mechanisms or follow such policies and procedures.
- Tracking down and scrutiny of important abrupt changes in the Company's financial results, procedures or personnel, as well as the regular control of the volume and causes underlying deviations between predictions and corporate end results, as submitted to the Company's board of directors or to any other competent bodies thereof, so as to render possible the assessment of the performance of each of the Company's departments by reference to the goals set.
- Training Company's personnel on risk-related issues
- Prepare and present to senior management and the Board of Directors report regarding the risk management functions at least once a year. The report shall contain the work performed and conclusions reached, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies, evaluate the compliance to prior recommendations made, and make additional recommendations based on the findings.

3.4 Risk Management Framework

The Company' aim is to embed explicit and robust risk management practices across its entire business operations, in order to ensure that the level of risk it faces is consistent with its corporate objectives and its level of risk tolerance. This is achieved through the implementation of a comprehensive risk management framework for the identification, assessment, monitoring and control of all relevant risks. The framework also enables the Company to continually align its business objectives against a background of changing risks and uncertainty.

The risk management framework:

- Enables the Company to proactively manage its risks in a systematic manner;
- Ensures that appropriate measures are in place to mitigate risks;
- Creates a culture of risk awareness within the Company; and
- Ensures that risk management is an integral part of the Company's decision-making process.

3.4.1 Risk Identification

The Risk Identification process provides guidance on the sources to investigate and research in order to identify new and emerging risks and sets out consistent principles, which should be applied.

The risk manager maintains a risk register which documents and categorizes all risks that the Company is or could be exposed to in the future. The risk registry will include an indication of the severity of the risks identified and the adverse impact they could have on the Company had they remained unidentified and crystalized.

3.4.2 Risk Assessment

The Risk Assessment process is the means through which the Company understands and estimates the effect of risk on the business and the processes, systems and controls that mitigate those risks to an acceptable level.

3.4.3 Risk monitoring and control

Based on the Risk Assessment findings and having the Risk Appetite as a benchmark the Company decides to eliminate, mitigate or tolerate the risks faced and accordingly takes appropriate actions and measures to achieve the decision being made. The actions and measures are monitored for performance and change achievement.

3.4.4 Stress Testing

The risk manager will employ stress tests to obtain an overview of the Company's exposure to the various risks the Company faces. Stress tests will be used to assess all material risks, as listed in the risk registry, in a comprehensive, integrated and forward-looking manner while considering the impact of all market, economic, institutional and political risk factors which may have a substantial impact on the prudent and solvent operation of the Company.

The risk manager of the Company will perform sensitivity analysis tests, scenario tests and reverse stress testing. The results of these tests will be included in the ICAAP Report to the Board of Directors. Measures and recommendations relating to the findings of the stress tests will be included as part of the report. After the assessment of the impact of the stress testing scenarios, the Board of Directors, in coordination with the risk management function, will define the management actions and the responsible people/departments for their implementation. Following the application of any mitigants, the risk manager will run the scenario again to observe the net impact of the measures/actions taken on the stress scenario.

1. Additional stress tests will be performed whenever the risk manager deems appropriate (i.e. when there is a significant change in the risk factors).
2. The principle of proportionality applies to the extent and depth of the stress test. However, the stress testing methodology must be sufficiently sophisticated in light of the Company's size, activities, risk appetite and quality of risk management.
3. Methods and techniques used can be either qualitative (i.e. expert estimates) or quantitative (i.e. statistical models).

4. Stress tests should not only take into consideration the current position of the Company but also any future strategic developments as they reflected in the budget and capital planning of the Company.

3.5 Internal Capital Adequacy Assessment Process

The Company has established an Internal Capital Adequacy Assessment Process which it has documented in an ICAAP Report and a relevant policy manual. Currently the Company is in the process of producing its updated ICAAP Report for financial year 2018, as per the Guidelines GD-IF-02 & GD-IF-03. Upon CySEC's request the ICAAP Report shall be submitted to CySEC.

The ICAAP report describes how the Company has implemented and embedded the management of the various risks to which it is subject, within its business. The ICAAP also describes the Company's Risk Management framework, which includes - among others – its risk profile and the extent of risk appetite, the risk management limits where relevant, as well as the measures that need to be taken and, if necessary, the Pillar II capital to be held for the most material risks (including risks other than the Pillar I risks) faced by the Company.

In performing its ICAAP, the Company has adopted the "Pillar I" 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 capital planning and stress test exercises performed. All risks falling outside the Company's risk appetite are considered to be threats to the Company and are covered with additional capital and/or additional controls.

Based on the assessment of risks and all internal and risk external factors, the main deficiencies and weaknesses found by the application of the ICAAP should be summarized and, if found to be significant, an action plan should be put together and presented as part of the ICAAP report by the risk manager. This action plan may include, inter alia, the following measures:

- Modification of the Company's risk profile- reduction of a certain activity or activities, application of new risk mitigation techniques, revision of limits, etc.
- Improvements in internal governance and internal organization as well as improvements in risk management and internal control.
- Modification of the own funds target, stating the related adaptation period, if appropriate.

3.6 Board Declaration - Adequacy of the Risk Management arrangements

The Board of Directors is ultimately responsible for the risk management framework of the Company. The risk management framework is the totality of systems, structures, policies, processes and people within the Company that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the Company's operations.

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 minimize loss. The Risk Manager is responsible to prepare a Risk Management report at least annually which is submitted to the BoD for review and approval. The members of the BoD are responsible to review the issues identified and see that the senior management take mitigating actions where necessary by taking into account the principle of proportionality.

3.7 Board Risk Statement

Considering its current nature, scale and complexity of operations, the Company has developed a policy that establishes and applies processes and mechanisms that are most appropriate and effective in monitoring activities.

The aim is to promptly identify, measure, manage, report and monitor risks that interfere with the achievement of the Company's strategic, operational and financial objectives. The policy includes adjusting the risk profile in line with the Company's stated risk tolerance to respond to new threats and opportunities in order to minimize risks and optimize returns.

Risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached. Risks are assessed systematically and evaluated as to the probability of a risk scenario occurring, as well as the severity of the consequences should they occur.

The following table sets out a number of key measures used to monitor the Company's risk profile:

Table 4: Key Risk Measures

Risk Area	Metrics	Comment	Measure as at 31/12/18
Capital risk	Core Equity Tier1 (CET1), Tier 1, Total capital ratio, Capital Conservation buffer (CCB), Institution specific countercyclical buffer	The Company's objective is to maintain regulatory ratios well above the minimum thresholds set by CySEC. It therefore aims to maintain its capital ratios at least 2% points above the required level (4.5% CET1, 6% T1, 8% TCR and 1.875% CCB and 0.0% Institution Specific CCyB).	CET1: 28.12% Tier 1: 28.12% Total capital ratio: 28.12%
Liquidity risk	Cash Ratio	The Company aims to keep its Cash Ratio i.e. (Cash & Cash Equivalents)/Current Liabilities at values exceeding 1.0.	Cash Ratio: 3.39x
Credit risk	Exposure to single financial institution	The Company's objective is to minimize the potential loss from counterparties. It thus limits its exposure to a single financial institution at levels of 100% of its overall cash positions or less and maintains exposure to any one institution at levels of 100% of its own funds or less.	As at year end 2018, the Company maintained its entire cash positions in a single credit institution. Following the year end and by February 2019, the Company diversified to more credit institutions and is in compliance to the set out Key Risk Measure.

4 Pillar I Risks and Minimum Capital Requirements

4.1 Capital Management

This is the risk that the Company will not comply with capital adequacy requirements. The Company has a regulatory obligation to monitor and implement policies and procedures for capital

risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company.

The Company is further required to report on its capital adequacy on a regular basis and has to maintain at all times a minimum capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of Company’s Management Accounts to monitor the financial and capital position of the Company.

In addition, the Company needs to maintain the Capital Conservation Buffer (“CCB”). The CCB is designed to ensure that CIFs build up capital buffers outside periods of stress which can be drawn down as losses are incurred. It needs to be maintained at all times and only utilized in exceptional circumstances. The CCB is set to 1.875% of the total risk exposure amount calculated in accordance with Article 92(3) of the Regulation (par. 52 of the Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms).

Furthermore as per par 53 and 56 of Directive DI144-2014-14, the Company is required to maintain an institution-specific countercyclical capital buffer equivalent to their total risk exposure amount multiplied by the weighted average of the countercyclical buffer rates to that apply in the jurisdictions where the relevant credit exposures of the Company are located. To this respect, the Company has credit exposures derived from positions in two UK based financial institution which total to €1 thousand. The CCB rate set by the FCA (UK Designated authority) for 2018 is 1%. All remaining exposures are Cyprus based which carry a zero CCB rate.

4.1.1 Capital Base

The own funds/capital base of the Company as at 31 December 2018 comprised solely of Common Equity Tier 1 (CET1), as shown in the table below.

Under the Law, Own Funds consists mainly of paid up share capital, share premium, retained earnings less any proposed dividends, translation differences and un-audited current year losses. The Company as per the Law is obliged to deduct the Investor Compensation Fund amount held as an asset on its balance sheet. Profit attributable to current year is not included in the capital base calculation unless it has been audited.

Table 5: Composition of Capital Base

Capital Base	2018
--------------	------

	€000
Share Capital	13
Share premium	1,182
Other reserves	466
Accumulated losses	(784)
Total Common Equity Tier 1 Capital	877
Additional Tier 1 Capital	-
Tier 2 Capital	-
Adjustment to CET1 due to prudential filters	
(-) Additional deductions of CET1 Capital due to Article 3 CRR (ICF)	(60)
Total Own Funds & Eligible capital	817

4.1.2 Capital Requirements and Capital Adequacy

The Company's objectives when managing capital are:

- to comply with the capital requirements set by the CySEC;
- to safeguard its ability to continue as a going concern; and
- to maintain a strong capital base to support the development of its business.

The Company's policy on capital management is focused on maintaining the capital base sufficient in order to keep the confidence of customers, creditors and other market participants at satisfactory levels and to secure the future development of the Company. Capital adequacy and the use of the regulatory capital are monitored by the Company's management through its Internal Capital Adequacy Assessment Process as analyzed in section 3.5. The Company is further required to report on its capital adequacy quarterly. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. All reports are regularly submitted to the Regulator as required.

Based on the Company's authorization, quarterly Capital Adequacy Reports are prepared and submitted to Cyprus Securities and Exchange Commission. The Capital Adequacy Reports is prepared on a solo basis and the reporting currency is Euro.

According to the Regulation and the Law the minimum capital adequacy ratio is 8% and the minimum own capital is €730,000. The CySEC is also required to maintain a Capital Conservation Buffer of 1.875% for the period on the total exposure amount bringing the total capital ratio requirement to 9.875%. Moreover, due to exposures to the UK at the reference date, the Company is also required to maintain an additional institution specific countercyclical capital buffer of

0.00%. As at 31 December 2018, the Company's total risk exposure amount was €2,906,000 resulting in a total capital ratio of 28.12%, considerably higher than the minimum required of 9.875%. Moreover, the Company's total eligible capital of €817,000 is well above the minimum capital threshold required based on the services it is authorized to provide.

Table 6: Own Funds and Capital Adequacy Ratio

Own Funds and Capital Adequacy Ratio	2018
	€000
Total Capital (Own Funds) & Total Eligible Capital	817
<i>Risk Weighted Exposures</i>	
Credit Risk	271
Market risk – FX risk	824
Operational risk	1,810
Total Risk Exposure Amount	2,906
<i>CET1 Capital ratio</i>	28.12%
<i>T1 Capital ratio</i>	28.12%
<i>Total capital ratio</i>	28.12%

Publication of disclosures

According to the CySEC Directive, 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. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures have been made by the external auditors and sent to CySEC.

4.2 Market Risk

Market risk is the risk associated with the Company's balance sheet positions where the value or cash flow depends on financial markets. Fluctuating risk drivers resulting in market risk include:

4.2.1 Securities market prices

Risks arising from equity, debt, money market or derivative securities and real estate could affect the Company's liquidity, reported income, surplus and regulatory capital position. Such exposure may include, but is not limited to, common stocks, debt assets, deposits, option contracts, direct holdings in real estate, or listed real estate company shares and funds.

It noted that, when the Company is authorized to perform Dealing on Own Account however no trades were performed during the year that made use of this license. Consequently, as at 31 December 2018 there were no positions open that would expose the Company to market risk arising from trading on its own book.

4.2.2 Interest rates

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.

As at 31 December 2018 and 2017, the Company did not have any borrowings. At 31 December 2018, the Company had no other interest-bearing financial assets or liabilities other than cash at bank.

The Company does not have any significant own position in securities meaning that its income and operating cash flows are substantially independent of changes in market interest rates.

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

4.2.3 Currency exchange rates

The Company is exposed to Foreign Exchange Risk. Foreign Exchange Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign Exchange Risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency (Euro).

At the year-end the Company had certain cash balances denominated in foreign currencies. The main currency, whose fluctuations may have an impact on the results of the Company, is the US Dollar and to a much lesser extent the British Pound. The table below shows the Company's exposure to Foreign Exchange Risk.

Table 7: Exposures to foreign exchange risk

Exposure to currency risk	Net Position		
	Assets (Long)	Liabilities (Short)	Overall Net FX Position
2018	€000	€000	€000
Euro	253	253	-
Pound Sterling	-	7	7
US Dollar	835	11	824
Total currency positions	1,088	270	831
Total Foreign Exchange Risk - Risk Exposure Amount			824
<i>Market Risk (8% of total foreign exchange risk)</i>			<i>66</i>

4.3 Credit Risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. Generally, credit risk can be derived from the following areas:

- Cash and cash equivalents
- Debt instruments
- Receivables
- Other Assets

The Company's objective in managing credit risk exposures is to maintain them within parameters that reflect the strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Company has policies to manage the specific risks within the various subcategories of credit risk.

For calculating its Credit risk capital requirement, the Company uses the Standardized Approach. The following table represents the Company's RWAs and minimum capital requirement for Credit risk as at 31 December 2018, broken down by asset class:

Table 8: Credit risk summary table: by asset class

Asset classes as at 31 December 2018	Total Exposure Amounts	Risk Weighted Exposure
	2018	2018
	€000	€000
Institutions	1,015	203
Corporate	5	5
Other items	63	63
Total	1,083	271

Table 9: Credit risk summary table: by residual maturity

Residual maturity as at 31 December 2018	Up to 3 months	More than 3 months	Total
	2018	2018	2018
	€000	€000	€000
Institutions	1,015	-	1,015
Corporate	5	-	5
Other items	31	32	63
Total	1,051	28	1,083

Table 10: Credit risk summary table: by country distribution of exposure

Country Distribution of Exposures as at 31 December 2018	Cyprus	UK	Total
	2018	2018	2018
	€000	€000	€000
Institutions	1,014	1	1,015
Corporate	5	-	5
Other items	63	-	63
Total	1,082	1	1,083

4.3.1 Exposures to institutions

The Company's Credit risk stems mainly from its cash balances with banks and credit institutions. To minimize potential risks the Company was holding its cash balances with nine (9) separate financial institutions located in Republic of Cyprus, United Kingdom and Germany and had policies in place to diversify risks and to limit the amount of credit exposure to any particular financial institution in compliance with the requirements of the Directive. The Company is allowed to keep in one institution not more than 80% of its own funds, and this limit was never exceeded. In addition, the Company reviews a list of acceptable cash counterparties based on current ratings and outlook, taking into account analysis of fundamentals and market indicators.

The Company uses external credit ratings from reputable external credit rating institutions. 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.

According to Article 119 of the CRR, exposures to institutions of a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight that is one category less favorable than the preferential risk weight, as described in Article 114(4) to (7) of the CRR, assigned to exposures to the central government in which the institution is incorporated in accordance with the table below:

Article 114 (2) - Table 1						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	0%	20%	50%	100%	100%	150%

Exposures to Member States' central governments, and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk weight of 0%.

Until 31 December 2017, the same risk weight shall be assigned in relation to exposures to the central governments or central banks of Member States denominated and funded in the domestic currency of any Member State as would be applied to such exposures denominated and funded in their domestic currency. However, in 2018, the calculated risk weighted exposure amounts shall be 20 % of the risk weight assigned to these exposures in accordance with Article 114(2).

According to Article 119 of the CRR, exposures to institutions for which a credit assessment by a nominated ECAI is available shall be risk-weighted in accordance with the tables below.

Article 120 (1) - Table 3						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	50%	50%	100%	100%	150%

Article 120 (2) - Table 4						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	20%	20%	50%	50%	150%

Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be 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 in accordance with the table below.

Article 121 (1) - Table 4						
Credit Quality Step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	100%	150%

Given the above, the Company uses a nominated ECAI to derive to the following Risk weighted exposure to institutions of residual maturity of less than 3 months and of residual maturity of more than 3 months (both rated and unrated). The summary is provided in table 11 below.

Table 11: Credit risk summary table: exposures to institutions

Credit Quality Steps	Risk Weight			Moody's Credit Rating	Exposure amount			Risk weighted
					2018			2018
					€000	€000	€000	€000
	Less than 3 months maturity	More than 3 months Rated	More than 3 months Unrated		Less than 3 months maturity	More than 3 months Rated	More than 3 months Unrated	
CQS1	0%	20%	20%	Aaa to Aa3	-	-	-	-
CQS2	20%	50%	50%	A1 to A3	1,015	-	-	203
CQS3	50%	50%	100%	Baa1 to Baa3	-	-	-	-
CQS4	100%	100%	100%	Ba1 to Ba3	-	-	-	-
CQS5	100%	100%	100%	B1 to B3	-	-	-	-
CQS6	150%	150%	150%	Caa1 and below	-	-	-	-
<i>Total risk weighted cash exposure</i>								203

4.3.2 Corporate exposures

As described in Article 122 (2), exposures to corporate entities for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight of 100%. As at 31 December 2018, the Company had €5 thousand of such exposures on which a risk weight of 100% has been assigned.

4.3.3 Other exposures

As described in Article 134 (1), tangible assets within the meaning of Article 4(10) of Directive 86/635/EEC shall be assigned a risk weight of 100%. As at 31 December 2018, the Company had

€32 thousand of exposure to furniture, fixtures, office equipment and computer hardware. Risk weight of 100% has been assigned to the above exposures.

As described in Article 134 (2), prepayments and accrued income for which an institution is unable to determine the counterparty in accordance to Directive 86/635/EEC, shall be assigned a risk weight of 100%. As at 31 December 2018, the Company had €31 thousand of such exposures on which a risk weight of 100% has been assigned.

4.4 Operational Risk

Operational risk is defined by the Basel Committee for Banking Supervision as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. Major sources of Operational risk include inadequate operational processes, IT security, dependence on key service providers and implementation of strategic change, fraud, human error, recruitment training and retention of staff. The Company’s systems and controls are evaluated, maintained and upgraded continuously. Furthermore, the Company has a “four-eye” structure and board oversight ensuring the separation of power and authority regarding vital functions of the Company.

The Company has implemented an Operational risk management framework designed to ensure that Operational risks are identified, assessed, mitigated and reported in a consistent manner consisting of, inter alia, the following components:

- Reviewing risks and controls as part of the Internal Audit function; Regular review and updating of policies;
- Monitoring of the effectiveness of policies, procedures and controls by Internal Audit;
- Maintaining Risk Registers by following the risk monitoring program in order to ensure that past failures are not repeated;
- Maintaining a four-eye structure and implementing board oversight over the strategic decisions made by the heads of departments;
- Access to the Company’s systems (client administration) is limited and the end-users are properly authorized. The system is in a network protected by firewalls and other hardware and software intrusion security tools to block any external intruders from accessing it;
- The Company has performed due-diligence on its system providers and has ensured that their service can be delivered uninterrupted. The due diligence performed covered the areas of a business continuity policy, acceptable downtime, accessibility, security features, and server location(s). The provider is a reputable software developer with years of experience in system provision for the financial industry;
- A Disaster Recovery Plan has been designed in order to be used in the event of a force majeure affecting the Company’s internal systems and databases. This plan is structured around departments, with each having a set of specific responsibilities; and

- A Business Continuity Policy has been implemented which helps protect all of the Company’s information databases including data, records and facilities.

In addition to its overall framework, in order to mitigate operational risks, the Company has specific processes and systems in place to focus continuously on high priority operational matters such as information security, managing business continuity and combating fraud.

Following the implementation of the Regulation 575/2013 on prudential requirements for credit institutions and investment firms and the amending Regulation (EU) No. 648/2012 (‘the Regulation’), the amendments in the Investment Services and Activities and Regulated Markets Law (December 19, 2014) and the issuance of Directives DI2014-144-14 and DI2014-144-15, the Company has been categorized as an investment firm that falls under Article 95(1) of the CRR. Given its categorization, the Company compulsorily adopted the provisions of Article 92(3) as the calculation method to calculate its total risk exposure amount.

Under the Basic Indicator approach, the own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator as set out in Article 316 of the Regulation. The Regulation requires that institutions calculate the average over three years of the relevant indicator on the basis of the last three twelve-monthly observations at the end of the financial year. Moreover, only audited observations are included in the Basic Indicator approach therefore the 2018 results have not been included in the analysis as of yet.

The Operational Risk component was calculated based on the Basic Indicator approach and the following were considered in the calculation as per Article 316 of the Regulation:

- Commissions/fees receivable
- Commissions/fees payable
- Interest receivable and similar income
- Interest payable and similar charges

Table 12 – Relevant Indicator requirement calculation:

Total Operational Risk Exposures	2017	2016	2015
	€000	€000	€000
Relevant Indicator Amount	1,302	930	664
Total risk exposure amount for operational risk			
	1,810		
Own fund requirements for operations risk			
	145		

4.5 Other Risks

4.5.1 Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due or would have to incur excessive costs to do so. The

Company's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions.

To achieve this, the Company monitors and manages its liquidity needs on an ongoing basis. The Company also ensures that it has sufficient accessible cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Currently the Company is not subject to any liquidity risk as it maintains own funds in cash deposits with reputable institutions and its liquidity and own fund ratios are at a satisfactory level.

4.5.2 Strategic Risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy. A strategy is a long-term plan of action designed to allow the Company to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans
- Improper implementation of strategic plans
- Unexpected changes to assumptions underlying strategic plans

Risk considerations are a key element in the strategic decision-making process. The Company assesses the implications of strategic decisions on risk-based return measures and risk-based capital in order to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

4.5.3 Reputation Risk

Risks to the Company's reputation include the risk that an act or omission by the Company or any of its employees could result in damage to the reputation or loss of trust among its stakeholders. Every risk type has potential consequences for the Company's reputation, and therefore, effectively managing each type of risk helps reduce threats to its reputation.

The Company strives to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of the Company, which includes integrity and good business practice. The Company centrally manages certain aspects of reputation risk, for example external communications, through functions with the appropriate expertise. It also places great emphasis on the information technology security which is one of the main causes of such reputational risk manifestation.

4.5.4 Business Risk

Business risk 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 are conducted with a view to minimize the Company's exposure to business risk. Additionally, reports from external providers are constantly reviewed. All these are analyzed and taken into consideration when implementing the Company's strategy.

The Company's Board regularly reviews the economic and market conditions and responds to any changes.

4.5.5 Regulatory non-compliance 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 structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Internal Operations Manual. Compliance with these procedures and policies are 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. Therefore, the risk of non-compliance is minimized within acceptable limits.

4.5.6 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.

During 2018 and as at 31 December 2018 the Company had not onboarded any client, therefore it is not subject to concentration risk arising due to high share of income generated by a few clients.

The Company faced significant concentration risk arising from its exposure to a credit institution where the significant majority of its funds (cash and cash equivalents) were held. The exposure value was above the maximum allowable limit which is calculated in accordance to CRR - Article 395. The Company has mitigated the above risk following the year end (February 2019) by opening more accounts to additional credit institutions that enabled the diversification of its funds.

5 Leverage Ratio

The leverage ratio is a monitoring tool which will allow the competent authorities to assess the risk of excessive leverage in their respective institutions. According to the CRR, the investment firms have to report all necessary information on the leverage ratio and its components.

According to the CRR, the requirement for institutions to start disclosing the leverage ratio (Form 144-14-07) from 1 January 2016, depends on the category of the institution as detailed in the table below extracted from the relevant CySEC Circular by which the Company is classified in the ‘Full scope’ category. According to Article 429(2) of the CRR, the leverage ratio shall be calculated as an institution's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage. The Leverage Ratio for the period was 75.45%.

ANNEX VI – Summary of reporting requirements

Category	Minimum initial capital	Form 144-14-06.1	Form 144-14-07	Form 144-14-08.1	Form 144-14-08.2	Form 144-14-08.3	Form 144-14-09
Full scope ¹	€730.000	submit	submit	submit	submit	submit	Submit
Under art. 95(1) of CRR ²	€125.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	exempted
Under art. 95(2) of CRR ³	€50.000	Submit (calculation based on FOH)	exempted	exempted	exempted	exempted	exempted
Under art. 96(1) (a) of CRR	€730.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	submit
Under art. 96(1) (b) of CRR	€730.000	Submit (calculation based on FOH)	exempted	exempted	submit	submit	submit
Exempted under art. 4(1) (2) of CRR ⁴	€50.000	exempted	exempted	exempted	exempted	exempted	exempted

6 Remuneration Policy and Practices

The Company has established a remuneration policy (the “RP”). The purpose of the RP is to set out the remuneration practices of the Company taking into consideration the salaries and benefits for certain categories of employees, in accordance with the provisions of CySEC’s Directive DI144-2014-14, for the prudential supervision of Investment Firms, Circulars 031, C138 and C145, as well as with ESMA/2016/904 where these shall comply with specific principles in a way and to the extent that is appropriate to their size, internal organization

and the nature, the scope and the complexity of their activities. The RP is presented by the Company’s compliance department to the Board of Directors for approval. The applicability of the Company’s RP, as well as the performance of employees, is reviewed regularly, at least annually, by the Board of Directors, in the context of an internal review for compliance with the relevant legislation as well as to confirm applicability, viability and alignment with the industry’s remuneration standards. The Board of Directors shall also review the Policy in the context of the business and conflict of interest requirements of the Law 87(I)2017.

The Company considers all relevant factors such as, but not limited to, the role performed by the employees, the type of products offered, and the methods of distribution (e.g. advised or non-advised, face-to-face or thought telecommunications) in order to prevent potential conduct of business and conflict of interest risks from adversely affecting the interests of their clients and to ensure that the Company adequately manages any related residual risk.

The Company's RP is in line with its business strategy, objectives, values and long-term interests and incorporate measures to avoid conflict of interest (e.g. when it comes to the remuneration of its employees, having directly or indirectly an impact on client's best interests) and to promote code of conduct requirements as well as promote investor protection and serve client's best interest.

Moreover, the Company's RP is consistent with sound and effective risk management and does not encourage risk-taking at the "management" and/or "own trading" levels, which exceeds the thresholds of risk appetite and tolerated risk. Furthermore, staff engaged in control functions is only remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control. The employees are informed at the outset of criteria used to determine the amount of their remuneration the steps and timing of performance review.

The Company ensures that the organizational measures they adopt regarding the launch of new products or services appropriately take into account the RP and the risks that these products or services may pose. In particular, before launching a new product, the Company shall assess whether the remuneration features related to the distribution of that product comply with the Company's RP and therefore do not pose conduct of business and conflicts of interest risks, as applicable.

The Company shall set up adequate controls for compliance with the RP and to ensure that they deliver the intended outcomes. The controls shall be implemented throughout the Company and be subject to periodic review. Such controls shall include assessing the quality of the service provided to the client – for example, monitoring calls for telephone sales, sampling client portfolios provided to check suitability, or going through other client documentation on a regular basis.

Where potential or actual client detriment might arise as a result of specific features in the RP, the Company shall take appropriate steps to manage potential conduct of business and conflict of interest risks by reviewing and/or amending these specific features and set up appropriate controls and reporting mechanisms for taking appropriate action to mitigate potential conduct of business and conflict of interest risks.

The Company's remuneration system inevitably 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. Thus, the Company considers remuneration as a significant method of attracting in each member of the staff. Thus, the Company considers remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long terms success, whilst simultaneously ensuring that Clients' interests will not be impaired by the remuneration policies and practices adopted by the Company in the short, medium and long term.

6.1 Design and Structure of Remuneration

The Remuneration that employees receive for their professional activities at the Company must be stipulated definitively in their employment contracts. The employment contract and any subsequent amendments must be in written form. The Board of Directors drafts and organizes the regular review of the RP and the relevant departments if required. The RP becomes effective upon approval by the Board of Directors. The RP is reviewed by the Board of Directors on a regular basis, at least once a year.

The Policy applies to those categories of staff whose professional activities have a material impact on the risk profile of the Company, i.e. the Senior Management, the Members of the Board of Directors, the Control functions, the Head of the Departments (i.e. key management personnel). Moreover, the Policy also applies to persons who can have a material impact on the service provided and/or corporate behaviour of the Company, including persons who are in the provision of investment and/or ancillary services. In general, the remuneration policy applies to all “relevant persons” which is defined as follows:

- Relevant Person(s) means the persons who can have a material impact on the service provided and/or corporate behaviour of the Company, including persons who are client/facing front office/staff, sales force staff, and/or other staff indirectly involved in the provision of investment and/or ancillary services whose remuneration may create inappropriate incentives to act against the best interest of their clients. This includes persons who oversee the sales force (such as line managers) who may be incentivised to pressurise sales staff, or financial analysts whose literature may be used by sales staff to induce clients to make investment decisions. Persons involved in complaints handling, claims processing, client retention and in product design and development are other examples of relevant persons. Relevant persons also include tied agents of the Company.
- the RP applies also to third parties which perform outsourced critical operational functions. The policy aims to provide transparency in the procedure for payment of additional remuneration, to motivate staff and provide for sufficient incentives so as for the key personnel of the Company to achieve the business targets, to increase productivity and competitiveness, to deliver an appropriate link between reward and performance whilst at the same time consisting of a comprehensive, consistent and effective risk management tool that prevents excessive risk taking and/or mis-selling practices in light of financial incentives schemes, which could lead to compliance risks for the Company in the long-run.
- Remuneration means all forms of payment or benefits provided directly or indirectly by the Company to the above-discussed persons. The remuneration could be:
 - Financial (cash)
 - Non-financial (such as career progression, health insurance, discounts or special allowances for car or mobile phone, generous expenses accounts, etc.)

Fixed remuneration:

The employee's total remuneration currently consists of a fixed component. Fixed remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at level which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role.

The RP is also set in comparison with standard market practices employed by the other market participants /competitors. The Company's policy is to provide attractive fixed remuneration to its employees so to ensure good and stable performance.

The Company's fixed remuneration is approved by the Board of Directors for all the relevant employees. Benefits provided to the Company's employees, such as medical, indemnity & insurance protection, card and rent allowances are not employee performance-related and are considered part of the Fixed Remuneration.

The Company determines only fixed remuneration for third parties which provide MiFID II services, Compliance, AML and Internal Audit as well as IT support services based on the work performed and market conditions.

The fixed remuneration of third parties, for whom this policy is of concern, is determined in an individual service contract with the service provider. The size of the remuneration shall be determined by the current market conditions. The fixed remuneration is not performance-related. Total remuneration and scope of services are negotiated by the Company and service provider before signing the service contract and commencing duties under the contract.

Variable remuneration:

It is intended to motivate and reward high performers who strengthen long-term customer relations and generate income and shareholder value. Performance is assessed using a set of both qualitative and quantitative criteria that differ according to the position and responsibilities of the employee concerned and as per the relevant employment agreement and Cyprus labour law and regulations.

Moreover, the factors taken into account for the variable remuneration of the Company's employees are the following:

- The financial viability of the Company
- The general financial situation and the state in which Company operates
- Each employee's personal objectives (such as personal development, compliance with the Company's systems and controls, compliance with regulatory requirements, commitment and work ethics).
- Each employee's professional conduct with clients (such as acting in the best interest of the client, fair treatment of clients and inducing client satisfaction), as applicable.

Further to the above, the RP of the Company is not designed so as to, inter alia:

- Give incentives that might influence the Company's relevant employees to sell one product or category of product, instead of another

- Achieve a quota of minimum sales level across a range of products in order to earn any bonus this might also impair the duty to act in the best interest of clients
- Create disproportionate return for marginal sales, where relevant persons need to achieve a minimum level of sales before bonus payments can be earned, or incentives are increased
- Increase the relevant employee’s focus on short-term gains rather than the client’s best interest.

6.2 Link between Pay and Performance

Remuneration policies and practices implemented by the Company were intentionally simplified to the basic requirements of recruiting and maintaining high level professional personnel. The Board of Directors considers such approach as the most practical at this stage as it corresponds to the scale and complexity of the Company’s operations. To this respect, the Company has decided to follow fixed remuneration scales for all employees including top Management.

Total staff costs for the year ending 2018 was €520,544 (2017: nil) and it was payable to 2 directors and 18 employees. Key management compensation (executive and non-executive directors) for the year ending 2018 €61,665 (2017: nil) and included social insurance and other contributions for executive directors.

It is highlighted that members of staff and particularly those whose actions have a material impact on the risk profile of the Company (i.e. Heads of Departments) have received variable remuneration in compliance to the Company’s RP. All variable remuneration was in the form of discretionary bonus payments. The ratio between fixed and variable remuneration for 2018 was 1:0.06 (2017: n/a). No severance payments and deferred remuneration have been awarded during the year.

Table 13: Quantitative information on remuneration

Description	No. of beneficiaries	Fixed remuneration	No. of beneficiaries	Variable remuneration	Total remuneration
Senior Management – Directors	2	52,498	-	5,000	57,498
Non-executive directors	2	4,167	-	-	4,167

7 Conclusion

It can be concluded that the Company has a comprehensive, effective risk management that meets its requirements. Specifically, it warns the management in due time of risks as they arise and enables timely and appropriate risk control measures to be taken. The Company understands the necessity of further improvement of the existing policies for capital management and continually assesses the appropriateness of its disclosures. Moreover, the Company has a clear remuneration system which is effectively risk-based managed. The Company is not disclosing in this report all

information and certain detailed data which considers immaterial or confidential. The Company through its Management is always willing to discuss these issues in more detail with any interested party upon written request.

The Company has included its risk management disclosures as required by the Directive on its website (www.icmarkets.eu). The Company has appointed its independent auditors ASG Premier Audit Services Limited to verify its disclosures. The Company is required according to the Directive to provide a copy of the auditor's verification report to CySEC five months after the end of each financial year, at the latest.