

ICFD Limited

RISK MANAGEMENT DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2020

Under Directives DI144-2014-14 and DI144-2014-15 of the Cyprus Securities & Exchange Commission and Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 and amending Regulation (EU) No 648/2012

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1 Scope of Application

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

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

The Company offers the following investment and ancillary services:

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

The information provided in this report is based on procedures followed by the Management to identify and manage risks for the year ended 31 December 2020 and on reports submitted to CySEC for the year under review.

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

Recent Developments

With the recent and rapid developments of the Coronavirus disease (COVID-19) pandemic the world economy entered a period of unprecedented health care crisis that has caused considerable global disruption in business activities and everyday life.

The Council of Ministers considered that Cyprus was entering a state of emergency and to this end, certain measures have been taken by the Republic of Cyprus since then including new entry regulations which tightened the entry of individuals to the island, the closing of a considerable number of private businesses operating in various sectors of the economy, while a number of

lockdown measures, such as the prohibition of unnecessary movements and the suspension of operations of retail companies were applied throughout the year.

Management has considered the unique circumstances and the risk exposures of the Company and has concluded that there is no impact in the Company's profitability position and in the operational activities.

Recent Developments - Framework

CRDIV prudential framework, will be replaced by amended prudential rules established by the EU Regulation 2019/2033 (“Investment Firm Regulation” or “IFR”) and the EU Directive 2019/2034 (“Investment Firm Directive” or “IFD”), which shall become applicable on 26th of June 2021.

The new rules introduce changes in the methodologies that EU investment firms are required to apply for calculating their exposures to risk and their capital adequacy ratio and in this respect, the Company is in the process of assessing the impact that these changes are expected to have on its solvency position, in order to take timely action and be in a position to adopt the new rules.

2 Governance – Board and Committees

The Board

During the year 2020, the Board consisted of two Executive and three Non Executive Directors. As at 31 December 2020 the Board consisted of two Executive and two Non-Executive Directors following the resignation of one Non Executive Director in December.

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

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

Board - Recruitment and Diversity Policy

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

Furthermore, in selecting the members of its Board, the Company aims at achieving a diverse pool of members, with a broad set of qualities, competencies and skills, to achieve a variety of views and experiences and to facilitate independent opinions, so as to be able to apply a well-rounded approach to the issues facing the Company, understand the risks arising from its various activities and operations and take proper strategic decisions, in a manner that promotes the integrity of the market and the interest of clients.

Board Committees

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

Furthermore, the Company maintains a ‘Senior Management - “4-Eyes”’ structure, which is responsible to ensure compliance with its obligations under the applicable legislation, to assess

and periodically review the effectiveness of the policies, arrangements and procedures put in place and to take appropriate measures to address any deficiencies.

Risk Management Committee

The Company maintains a Risk Management Committee, which is formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment and ancillary services to clients, as well as the risks underlying the operation of the Company, in general.

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

As at 31 December 2020 the Risk Management Committee was comprised of two Executive Directors, one Non-Executive Director and the Risk Manager of the Company (ex officio and without any voting rights). During 2020, the Risk Management Committee met 3 times.

Investment Committee

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

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

As at 31 December 2020 the Investment Committee comprised of two Executive Directors (one of whom was also the Head of the Dealing on Own Account Department), and the Head of Investment Research Department. During the year under review the Investment Committee met 4 times.

Risk Management Function

The Board appointed a Risk Manager to ensure that all the different types of risks assumed by the Company are in compliance with the relevant and applicable legislation, and that all the necessary procedures relating to risk management are in place and are functional on an operational level and on a day to day basis. The Risk Manager reports directly to the Senior Management of the Company.

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 include, inter alia:

- The design of the overall risk management system of the Company
- The preparation of the Risk Management policies and procedures
- The identification of all risks faced by the Company
- The establishment of methods for risk monitoring and measurement
- The provision of assistance to the relevant persons responsible for carrying out investment services and activities to comply with their obligations under the Law and the Directives issued pursuant to the Law;
- The provision of training to the personnel of the Company on risk related issues; and
- The evaluation and provision of assurance that risk management control and governance systems are functioning as intended and will enable the Company's objectives and goals to be met.

Furthermore, the Risk Management Function of the Company bears the responsibility to supervise the construction of 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 present the Company's ICAAP Report to the Board, on an annual basis.

Number of directorships held by members of the Board

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

It shall be noted that, based on its internal assessment, the Company did not consider itself to be significant in terms of its size, internal organization and the nature, scope and complexity of its activities for the year ended 31st December 2020.

Name of Director	Position within iCFD Limited	Directorships – Executive	Directorships – Non-Executive
Theodotos Choraitis	Executive Director	-	-
Nicolas Mbakallouris	Executive Director	-	-
Pavlos Nacouzi	Non-Executive Director	1	-
Itai Sadeh	Non-Executive Director	1	-
Christakis Taoushanis	Non-Executive Director	-	6

1. Where a director holds executive and non-executive directorships in entities of the same group, this was reflected as one executive position in the table above.

2. Mr. Nicolas Mbakallouris was appointed on 14/1/2020

3. Mr Itai Sadeh resigned on 24/12/2020.

3 Information flow on risk to the management body

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

- The reports of the Risk Manager, the Compliance Officer, the Money Laundering Compliance Officer and the Internal Auditor which are prepared at least annually and indicate, in particular, any risks identified and any remedial measures taken;
- The audited financial statements provided on an annual basis by the Company's External Auditors;
- The Suitability Report on the adequacy of the measures taken for the safeguarding of clients' assets, provided annually by the External Auditors;
- The minutes of the Risk Management Committee meetings; and
- The Company's Internal Capital Adequacy Assessment Process (ICAAP) Report, which is a process embedded at the core of the Company's operations, and discusses the Company's overall Risk Management System, Governance Framework, Internal Control system, the definition of its financial budget and corporate strategy, and the alignment with the Company's available capital and risks faced.

4 Board Declaration – Adequacy of risk management arrangements

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

5 Board Risk Statement

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

6 Capital Management

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

The Basel III framework consists of three pillars:

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

Pillar I – Minimum Capital Requirements

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

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

The Standardised approach for the capital requirement for Market risk adds together the long and short Market risk positions according to predefined methods to determine the capital requirement.

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

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

The Supervisory Review Process ("SREP") provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risks not fully addressed in Pillar I, such as specific types of 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 internal risk management tool which ensures that the Company's Risk Management framework receives the necessary attention from all the related functions of the Company. Through the ICAAP, the Board communicates to the personnel its commitment in cultivating a risk-averse culture within the Company.

In performing its ICAAP, the Company has adopted the "Pillar I Plus" approach. In particular, the Company uses simple methods to quantify the capital requirements, over and above the Pillar I minimum requirement, as more advanced approaches are considered unsuitable for the size and complexity of the Company and require extensive use of resources and time to produce. The

allocation of capital for Pillar II takes into consideration the risks that have been assessed internally by the Company as “material”, through the risk assessment as well as the stress tests performed. All risks falling outside the Company’s risk appetite are considered to be threats to the Company and are covered with additional capital or additional controls.

The Company’s most recent ICAAP report has been prepared based on audited accounts as at 31 December 2019.

Pillar III – Market Discipline

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

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

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

Own Funds and Capital Adequacy Ratio

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

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

The CySEC requires each investment firm to maintain a minimum ratio of Own Funds to Risk Weighted Assets (“RWAs”) of 8% for Pillar I risks, plus the relevant capital buffers, as applicable. In addition, the CySEC may impose additional capital requirements for risks not covered by Pillar I. For 2020, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus a capital conservation buffer of 2,5%, plus a countercyclical capital buffer of 0,0005%, according to the relevant transitional implementation provisions, resulting to an overall minimum of 10,5%. The capital conservation buffer has to be met entirely out of Common Equity Tier 1 capital.

It should be noted that investment firms that are authorized to provide the investment services of dealing on own account and/or underwriting are subject, in addition to the capital conservation buffer, to a countercyclical capital buffer. For the year under review the Company is obliged to maintain an institution specific countercyclical capital buffer as the Macropudential Authority after its latest assessment has decided not to exempt small and medium sized CIFs.

The Own Funds/capital base of the Company as at 31 December 2020 comprised solely of Common Equity Tier 1 (CET1) items and is presented in the table below:

Own Funds and Minimum Capital Requirements	31 Dec 2020 €000
<i>Own Funds</i>	
Share capital	1.295
Share premium	1.575
Retained Earnings from previous years	704
Audited profit for the year	104
Total CET1 Capital before deductions	3.678
Deductions from CET1 Capital	
CySEC Investor Compensation Fund	(71)
Additional Valuation Adjustment (“AVA”)	(11)
Total CET1 Capital after deductions	3.596
Additional Tier 1 Capital	-
Tier 2 Capital	-
Total Own Funds	3.596
<i>Minimum Capital Requirements</i>	
Credit risk	445
CVA Risk	18
Market Foreign Exchange Risk 0.0.	-
Market Equity Risk	
Market Commodity Risk	
Market Interest rate risk in the Trading Book	
Operational Risk	375
Additional capital requirements for the large exposure excess in the Trading Book	-
Total Minimum Capital Requirements	838
Capital Adequacy Ratio	34,33%

Balance Sheet Reconciliation

Balance Sheet Description, as per published Financial Statements	31 Dec 2020
	€000
Share capital	1.295
Share premium	1.575
Retained earnings	704
Profit for the year	104
Total Equity as per published Financial Statements	3.678
(Less: CySEC Investor Compensation Fund)	(71)
(Less: Additional Valuation Adjustment (“AVA”))	(11)
Total Own Funds	3.596

Own Funds under the Transitional and Fully-Phased In definition

31 Dec 2020	Transitional Definition	Fully-phased in Definition
	€'000	€'000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	2.870	2.870
Retained earnings	808	808
Common Equity Tier 1 (CET1) capital before regulatory adjustments	3.678	3.678
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
CySEC Investor Compensation Fund	(71)	(71)
Additional Valuation Adjustment (“AVA”)	(11)	(11)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(82)	(82)
Common Equity Tier 1 (CET1) capital	3.596	3.596
Additional Tier 1 (AT1) capital		
Tier 1 capital (T1 = CET1 + AT1)	3.596	3.596
Tier 2 (T2) capital		
Total capital (TC = T1 + T2)	3.596	3.596
Total Risk Weighted Assets	10.475	10.475
Capital ratios and buffers		
Common Equity Tier 1 ratio	34,33%	34,33%
Tier 1 ratio	34,33%	34,33%
Total Capital ratio	34,33%	34,33%

Definitions:

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

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

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

7 Credit Risk

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

The Company has no significant concentration of Credit risk. 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 (before and after Credit Risk Mitigation – CRM), average exposure, RWAs and minimum capital requirement as at 31 December 2020, broken down by asset class:

31 Dec 2020	Original Exposure	Exposure amount after CRM	Average exposure	RWAs	Capital Requirements
Asset Class	€000				
Institutions	3.964	2.955	5.756	739	59
Corporates	9.964	4.384	9.856	4.384	351
Other Items	79	79	72	78	6
Retail	1.216	484	1.172	363	29
Total	15.223	7.902	16.856	5.564	445

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

31 Dec 2020	Cyprus	Poland	BVI	United Kingdom	Italy	Spain	Netherlands	Other Countries	Total
Asset Class	€000	€000	€000	€000	€000	€000	€000	€000	€000
Institutions	684	0	-	2.932	0	0	50	298	3.964
Corporates	2.066	412	3.865	-	339	210	2.598	474	9.964
Other Items	79	-	-	-	-	-	-	-	79
Retail	-	242	-	-	196	240	260	278	1.216
Total	2.829	654	3.865	2.932	535	450	2.908	1.050	15.223

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

31 Dec 2020	≤3 months	>3 months or Not Applicable	Total
Asset Class	€000	€000	€000
Institutions	3.697	267	3.964
Corporates	9.929	35	9.964
Other Items	-	79	79
Retail	1.216	-	1.216
Total	14.842	381	15.223

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

31 Dec 2020	Financial sector	Other	Total
Asset Class	€000	€000	€000
Institutions	3.964	-	3.964
Corporates	3.877	6.087	9.964
Other Items	-	79	79
Retail	-	1.216	1.216
Total	7.841	7.382	15.223

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

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

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

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

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

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

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

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

Exposures before and after Credit Risk Mitigation by Credit Quality Step:

31 Dec 2020	Exposure amount before Credit Risk Mitigation	Exposure amount after Credit Risk Mitigation
Credit Quality Step	€000	€000
1	-	-
2	1.042	1.042
3	-	-
4	-	-
5	285	285
6	128	128
Unrated/Not Applicable	13.768	6.447
Total	15.223	7.902

Counterparty Credit Risk

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

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

The Company's total trade exposure in derivatives before any form of credit protection amounts to €10,9 million. The trade exposure in derivatives is calculated using the "Mark-To-Market Method" as the sum of the current replacement cost and the potential future credit exposure.

The minimum capital requirement calculated for the Company's open derivative positions as at 31 December 2020 is presented in the following table:

31 Dec 2020	Positive Fair Value	Negative Fair Value	Nominal Value	Exposure Amount before CRM	Exposure Amount After CRM	RWAs	Capital Req.
Type of exposure	€000						
FX Derivatives	746	(746)	35.079	1.097	433	346	28
Derivatives on Crypto currencies	160	(160)	644	224	35	33	3
Derivatives on Gold	318	(318)	7.662	395	207	82	7
Derivatives on Precious Metals	63	(63)	1.169	145	52	44	4
Commodity Derivatives	1.172	(1.172)	15.324	2.705	1.186	1.042	83
Equity Derivatives	3.104	(3.104)	54.170	6.353	1.685	1.293	102
Total	5.563	(5.563)	114.048	10.919	3.598	2.840	227

Funded Credit Protection

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

The Company applies the Comprehensive Method for CRM purposes.

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

31 Dec 2020	Funded Credit Protection	Unfunded Credit Protection
Asset Class	€000	€000
Institutions	(1.009)	-
Corporates	(5.580)	-
Other Items	-	-
Retail	(732)	-
Total	(7.321)	-

We note that the Company's eligible funded credit protection, is in the form of cash. No guarantees or credit derivatives are in place for the purposes of CRM however the Company has

an on balance sheet netting agreement with its parent company. As a result ICFD is allowed to take any liability it has with its parent company and net it with any asset (exposure) maintained with this parent company.

Policies with respect to wrong-way risk

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

This risk is not considered material given the existence of cash collateral/margin for almost all derivative transactions, which significantly reduces Counterparty Credit Risk and wrong-way risk.

Impairment of financial assets

IFRS 9 recognises loss allowances for 'expected credit loss' (ECL) model.

The impairment model applies to:

- Financial assets measured at amortised cost;
- Debt investments measured at Fair Value through Other Comprehensive Income;
- Contract assets;
- Lease receivables; and
- Loan commitments and financial guarantee contracts issues.

The impairment model does not apply to investments in equity instruments.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9 impairment requirements at 1 January 2018 does not result in an additional allowance for impairment.

8 Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

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.

The objective of Market risk management is to manage and control Market risk exposures within acceptable parameters, while optimizing the return.

Equity Risk

Equity risk is the risk of loss resulting from fluctuations in the price of stocks or changes that relate to the issuer of a share or the stock market in general. As at 31 December 2020 the Company was not exposed to Market Equity Risk.

Commodity Risk

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

The Company monitors and fully hedges its exposure to commodity derivatives. As at 31 December 2020 the Company was not exposed to Commodity Risk.

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 functional currency. The Company's reporting currency is the Euro. The main currencies to which the Company was exposed at 31st December 2020 were the US Dollar, the British Pound and the Swiss Franc. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Company's does not have any minimum capital requirements for Foreign Exchange Risk as at 31 December 2020.

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 only general risk charge. However, due to their short term nature, the general risk charge is 0%, resulting to a capital requirement for interest rate risk of zero, as at 31 December 2020.

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

9 Operational Risk

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

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

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

The table below shows the Company's exposure to Operational Risk as at 31 December 2020:

31 Dec 2020	2018	2019	2020	Average
	€000	€000	€000	€000
Total Net Income from Activities	3.010	2.463	2.023	2.499
Minimum Capital Requirement (15% of Average Net Income)	375			

10 Other Risks

Liquidity Risk

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

Concentration Risk

This risk represents the risk of being exposed, through a single exposure or a group of similar/connected exposures, to a specific country/region and its economy, an industry sector, an instrument type, etc., whose likelihood of default is driven by common underlying factors with the potential to produce losses which are large enough to threaten the Company's ability to maintain its core operations or result to a material change in the Company's risk profile.

In order to mitigate Concentration risk and remain in line with the Company's risk appetite, the Company diversifies its funds by holding them with a number of institutions. In particular, the Company uses financial institutions to deposit significant amounts of corporate and client funds, which are highly reputable in their respective countries and own significant amount of total assets. The Company also cooperates with several other financial institutions in order to diversify its funds even further for the purposes of mitigating Concentration risk. At the same time the Company closely monitors a) its clients' balances, b) the balances of the Banking Book to remain below the allowable limits and c) the exposures arising from the Trading and Banking Book in relation to corporate clients.

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. However, the Company acknowledges the need of appointing an alternative/backup solution of a liquidity/feed provider that is regulated and supervised within the EU, or at least a backup feed provider.

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 and its revenue and legal cases against the Company.

The Company is aware that, operating in a demanding industry, with many competitors, 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.

Furthermore, the Company has policies and procedures in place when dealing with possible Client complaints in order to handle the issue in a timely manner and provide the best possible assistance and service under the specific circumstances.

Strategic Risk

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

Business Risk

Business Risk arises due to probable losses that might be incurred by the Company during unfavorable market conditions, thus having a current and/or future possible impact on earnings or capital from adverse business decisions and/or lack of responses to industry changes by the Company. The Company has taken into consideration Business Risk when preparing its financial projections and when conducting its stress testing. Also, in order to avoid any potential damage to the Company's financial position, the Company continuously evaluates (and redesigns if and when necessary) its business plans taking into account changing economic conditions. Moreover, the Company has policies and procedures in place when dealing with possible Client complaints in order to provide the best possible assistance and service under such circumstances.

Regulatory Risk

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

Compliance Risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. Compliance risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls implemented by the Company. Furthermore, the Company's Compliance Officer has initiated a program to supervise and examine in detail the level of compliance of certain areas of the Company with the relevant legislation, propose remedy measures/actions, and provide relevant training to the Company's personnel.

IT Risk

IT risk could occur as a result of inadequate information technology and processing, inadequate IT strategy and policy or from 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 processes while this risk is constantly monitored by the IT department of the Company. An added layer of security is established by certain elements of the information security policy of the Company which deals with the use of the Company's hardware.

11 Remuneration policy

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

Remuneration System

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

The remuneration mechanisms employed are well known management and human resources tools that take into account the staff's skills, experience and performance, whilst supporting at the same time long-term business objectives. Furthermore, the Company's remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

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

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

The various remuneration components are:

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

- Top Earners: Include the Senior Management (the Executive and the Managing Directors), and risk takers whose professional activities have a material impact on the risk profile of the Company (the Head of the Compliance, AML and Risk Management Functions and the Chief Financial Officer)

- Medium Earners: Includes the Heads of each Department and Senior Employees, who are classified as senior due to their seniority, knowledge and experience on the duties assigned
- Normal Earners: Includes all other staff.

b. Performance-based Bonus Scheme & Commissions (Variable Remuneration): Variable remuneration is designed to ensure that the total remuneration remains at competitive levels and to reward the staff for its performance whilst remaining aligned with the department's and/or the Company's performance. Other factors taken into account are the following:

- The financial viability of the Company
- The general financial situation of the state in which the Company operates, and
- The employee's personal objectives (such as personal development, compliance with the Company's systems and controls, commitment and work ethics).

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

The Company acknowledges that the nature of the qualitative criteria used in order to decide on the eligibility of an employee to a variable remuneration, varies depending on the function an employee holds.

To this respect, the Company:

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

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

No remuneration is payable under deferral arrangements (with vested or unvested portions), nor were there any severance or sign-on payments during the current year. In addition, all variable remuneration paid during 2020 was in the form of cash.

Performance Appraisal

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

The appraisal is performed as follows:

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

Remuneration of Key Management Personnel and Directors

The Board of Directors, shall at least annually identify employees who may take material risks on behalf of the Company, considering the following criteria:

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

The remuneration to Company staff whose actions had a material impact on the Company's risk profile for the year ended 31st December 2020, is analysed in the following tables:

31 Dec 2020	Number of Beneficiaries	Fixed Remuneration	Variable Remuneration	Total Remuneration
		€000		
Senior management*	4	163	9	172
Members of staff whose actions have a material impact on the risk profile of the institution (heads of departments)	7	337	69	406
Total	11	500	78	578

*Senior management includes executive and non-executive directors

*Two directors are not remunerated by the Company

31 Dec 2020	Total Remuneration
Business Area	€000
Control Functions	175
Investment Services (including Dealing on Own account, Back Office, Customer Support and Sales, Reception, Transmission and Execution, Investment Research)	230
Operations (including HR, Accounting, Data Protection & IT)	173
Total	578

During 2020, no non-cash remuneration benefits have been awarded and no outstanding deferred remuneration nor sign-on payments have been awarded.

12 Leverage Ratio

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

The minimum requirement for the purposes of the Leverage Ratio is currently set to 3%. The Company's Leverage Ratio as at 31 December 2020 was 23,62%

The table below provides a reconciliation between accounting assets and Leverage Ratio exposures:

31 Dec 2020	Applicable Amounts
Reconciliation between accounting assets and Leverage Ratio exposures	€000
Total assets as per published financial statements	4.363
Adjustments for derivative financial instruments	5.356
Other adjustments	5.504
Total Leverage Ratio exposure	15.223

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

31 Dec 2020	Leverage Ratio exposures
Breakdown of Leverage Ratio exposure measure by exposure type	€000
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	4.386
(Asset amounts deducted in determining Tier 1 capital)	(82)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	4.304
Derivative exposures	
Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)	5.563
Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	5.356
Total derivative exposures	10.919
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	3.596
Total Leverage Ratio exposures	15.223
Leverage Ratio	23,62%

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

31 Dec 2020	Leverage Ratio exposures
Breakdown of total on balance sheet exposures by asset class	€000
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	4.304
Trading book exposures	-
Banking book exposures, of which:	4.304
Exposures treated as sovereigns	-
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
Institutions	2.159
Retail exposures	-
Corporate	2.066
Exposures in default	-
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	79

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

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 the minimum capital requirements).

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

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

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

The regulatory Leverage Ratio of the Company over the financial year 2020 ranged between 14,06% recorded on 31 March 2020 and 23,62% on 31 December 2020, with an average ratio of 18,84%. The reason for this fluctuation is the increase in the Company's exposure measure from March to December 2020, while at the same time the Company's Tier 1 capital remained relatively stable.

13 Appendix

Board Approved Risk Statement

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

The Company, having applied the principle of proportionality, has adopted a relatively risk-averse approach to risk despite considering itself as non-complex. The Company's Risk Management framework is built following the Pillar I plus 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 and/or imposition of additional controls is decided.

The Risk Tolerance of the Company is being determined by the Risk Management Committee. Then the Company's Risk Manager identifies the risks that 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.