

**Initial Merit Secure Ltd  
Disclosure and Market Discipline Report  
For the Year 2021**

## Table of Contents

1. Introduction.....	2
2. Governance .....	7
3. Organizational Structure .....	10
4. Risk Appetite.....	13
5. Internal Capital Adequacy Assessment Process (ICAAP) .....	14
6. Own Funds and Capital Requirements .....	15
7. Board of Directors and Senior Management Recruitment .....	32
8. Remuneration.....	32

## **1. Introduction**

### **1.1 The Company**

Initial Merit Secure Ltd (hereinafter the “Company”, “We” or “Us”) is a Cyprus Investment Firm (hereinafter the “CIF”) authorised and regulated by the Cyprus Securities and Exchange Commission (hereinafter the “CySEC”) under the license number 229/14 and operates under the Markets in Financial Instruments Directive (MIFID II).

The Company provides to its Clients the investment services of Reception and transmission of orders in relation to one or more financial instruments, Execution of orders on behalf of Clients in Financial Contracts for Differences (hereinafter “CFDs”) on commodities, foreign exchange and other MiFID II financial instruments using Metatrader 4 trading platform.

The online trading platform delivers real time quotes and prices, ensures that the Clients receive flows of prices on the various financial instruments that the Company trades. Orders are executed as principal (through the Brokerage Department). The Company is risk averse and conservative in terms of its overall risk appetite.

The Company, as a CIF, operates in European countries, where eligible to do so, and has 4 employees all of which are located in Cyprus.

The Company has a stable business model, and this is reflected in;

- A well-balanced capital allocation between the Company’s operations,
- A geographically balanced model.

The Company’s growth strategy focuses on its existing areas of expertise and the quality of its customer base. The Company strives for sustainable profitability consistent with its cost of capital and a balanced business model. To this end, the Company;

- Calibrates its capital ratio to ensure a significant safety margin relative to the minimum regulatory requirements,
- Monitors the stability and diversification of its funding sources,
- Ensures enough resilience in scenarios of liquidity shortages, and
- Tightly controls its foreign-exchange risks.

The Company ensures that compliance rules are rigorously respected, especially in the area of anti-money laundering and counterterrorism financing. The Company monitors the loyalty of the behaviour of its employees about customers and all its stakeholders, as well as the integrity of its investment and financial practices.

The Company’s business effectiveness is based on the guidelines of the risk management policies and procedures put in place. The Board of Directors, Internal Audit, Risk Manager, Compliance and Anti-Money Laundering Officer control and supervise the overall risk system so that all units

charged with risk management perform their roles effectively on a continuous basis. The Company is exposed to a variety of risks, particularly credit risk, market risk and operational risk. More information can be found in the sections below.

The Company considers its reputation to be an asset of great value that must be protected to ensure its sustainable development. The prevention and detection of the risk of harm to its reputation are integrated within all the Company’s operating practices. The Company’s reputation is protected by making its employees aware of the values of responsibility, ethical behaviour and commitment.

## 1.2 Company Information

The Company is regulated and licensed by CySEC to operate as a Cyprus Investment Firm, with license number 229/14. The Company obtained the license on the 21<sup>st</sup> March 2014. The Company’s details are the following:

<b>Initial Merit Secure Ltd</b>		
<b>License Number:</b> 229/14	<b>License Date:</b> 21/03/2014	<b>Registration Number:</b> HE 291905
<b>Telephone:</b> +357 25 057 221	<b>Fax:</b> +357 25 754 323	<b>Web sites:</b> <a href="http://www.imsmarkets.com">www.imsmarkets.com</a>
<b>Address:</b> 3, Pythagoras Street, Pythagoras Court, 4 <sup>st</sup> Floor, 3027 Limassol, Cyprus		
<b>Investment Services</b>		
Reception and transmission of orders in relation to one or more financial instruments Execution of orders on behalf of clients		
<b>Ancillary Services</b>		
Safekeeping and administration of financial instruments, including custodianship and related services Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction Foreign exchange services where these are connected to the provision of investment services Investment research and financial analysis or other forms		

The following table provides the financial instruments in which the Company can provide investment and ancillary services.

		Investment services and activities									Ancillary services						
		1	2	3	4	5	6	7	8	9	1	2	3	4	5	6	7
Financial Instruments	1	√	√	-	-	-	-	-	-	-	√	√	-	√	√	-	-
	2	√	√	-	-	-	-	-	-	-	√	√	-		√	-	-
	3	√	√	-	-	-	-	-	-	-	√	√	-		√	-	-
	4	√	√	-	-	-	-	-	-	-	√	√	-		√	-	-
	5	√	√	-	-	-	-	-	-	-	√	√	-		√	-	-
	6	√	√	-	-	-	-	-	-	-	√	√	-		√	-	-
	7	√	√	-	-	-	-	-	-	-	√	√	-		√	-	-
	8	√	√	-	-	-	-	-	-	-	√	√	-		√	-	-
	9	√	√	-	-	-	-	-	-	-	√	√	-		√	-	-
	10	√	√	-	-	-	-	-	-	-	√	√	-		√	-	-
	11	-	-	-	-	-	-	-	-	-	-	-	-		-	-	-

### Financial Instruments

1. Transferable securities
2. Money-market instruments
3. Units in collective investment undertakings
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event)
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in paragraph (f) above and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls
8. Derivative instruments for the transfer of credit risk
9. Financial contracts for differences
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are

traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

### **1.3 Regulatory Framework**

On 7 June 2019, the EU banking reform package has been published in the Official Journal of the European Union which includes the Directive (EU) 2019/878 (hereinafter the “CRD V”) and the Regulation (EU) No 2019/876 (hereinafter the “CRR II”), entered into force on 27 June 2019.

The CRR II includes several amendments regarding the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, among others. The majority of CRR II provisions are applicable from 28 June 2021.

This was an amending regulation therefore the existing provisions of CRR apply, unless they are amended by CRR II. The CRD V amends the CRD IV as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

The report has been prepared in accordance with the national Law 165(I)/2021 on the prudential supervision of investment firms (hereinafter the “Law”), the amended CRR II and CRD V, the European prudential requirements for Investment Firms Regulation (EU) 2019/2033 (hereinafter the “IFR”) and Investment Firms Directive (EU) 2019/2034 (hereinafter the “IFD”).

In a constantly changing and evolving monitoring and regulatory environment it is of the utmost importance to ensure that risks are monitored on an ongoing basis and in cases of any deficiencies and that such are addressed as soon as possible in order to avoid any negative effects on the operations of the Company during the provision of investment services to its clients.

### **1.4 Scope of this Report**

The scope of this report is to promote market discipline and to improve transparency of market participants as per the provisions of the Article 49 of the IFR. In accordance with the IFR, the Company is required to disclose information relating to its risk management, capital structure and capital adequacy as well as the most important characteristics of the Company’s corporate governance.

The Risk Management Committee along with the Risk Manager manages the identification, assessment and mitigation of the risks faced by the Company. The Company’s approach to identification and assessment aims to ensure the management mitigates the impact of those risks.

The report provides qualitative and quantitative disclosures related to credit risk, market risk, operational risk and other significant risks faced by the Company.

The Company introduces the “three Pillar concepts”

- **Pillar 1** - Minimum Capital Requirements: as per L. 165(I)/2021 on the prudential supervision of investment firms and the European prudential requirements for Investment Firms; Regulation (EU) 2019/2033 and Directive (EU) 2019/2034.
- **Pillar 2** - Supervisory Review Process: the key principles of supervisory review, transparency and risk management are discussed, with emphasis to be given to the development of an internal capital adequacy assessment process for ensuring compliance with regulatory requirements regarding capital adequacy, and
- **Pillar 3** - Market Discipline: the introduction of disclosure requirements and recommendations enhances comparability through the dissemination of information to the market that enables better assessment of the financial strength of investment firms.

Under Pillar III, the Company is required to publicly disclose information about the capital it holds and each material category of risk it faces, including the strategies and processes it has in place in order to manage and monitor these risks. Disclosures are made regarding the risks referred to under Part 6 of the IFR, and these are required to be published at the same date as they publish their annual financial statements. The aforesaid disclosures aim to strengthen market discipline and encourage transparency. Specifically, public disclosures are required in respect of:

- risk management objectives and policies as per the Article 47 of the IFR
- internal governance arrangements as per the Article 48 of the IFR
- own funds requirements as per the Article 49 and 50 of the IFR
- remuneration policy and practices as per the Article 51 of the IFR
- investment policy as per the Article 52 of the IFR
- environmental, social and governance risk as per the Article 53 of the IFR

The disclosures in this report are verified by the external auditor of Initial Merit Secure Ltd, AGH Audit LTD. The Company is making the disclosures on a solo basis. The Company endeavor to publish the Pillar III disclosures more frequently if there are significant changes to the business operations or other activities.

Where the Company has considered a disclosure to be immaterial or omitted information by reason of confidentiality or proprietary it has been stated as such within this document then such disclosure or information was not included in this report. Additionally, disclosures and/or information not applicable based on the Company’s business and activities has been excluded from this report.

The disclosures are reviewed and approved by the Board of Directors (hereinafter the “Board”) before the publication to the Company’s [website](#).

## 2. Governance

The Company is committed to having corporate governance, risk management and a control framework appropriate to the size of its business. To achieve this, a comprehensive risk management framework for the identification, assessment, monitoring and control of risks has been implemented.

### 2.1 Responsibilities of the Board of Directors

The Company's Board defines, oversees and is accountable for the implementation of the governance arrangements that ensure effective and prudent management of the Company including but not limited to the segregation of duties in the organisation and the prevention of conflicts of interest.

The Board has the overall responsibility for the Company, to approve and oversee the implementation of the Company's strategic objectives, risk mitigation strategy and internal governance. The Board must ensure the integrity of the accounting and financial reporting systems, including but not limited to financial and operational controls and compliance with the Law.

More specifically, when managing and/or assessing risks, the responsibilities of the Board are summarized as follows:

- approves and periodically reviews risk strategy and policies,
- approves the risk appetite annually and monitors the Company's risk profile against this appetite,
- ensures that management takes steps necessary to monitor and control risks,
- ensures that management maintains an appropriate system of internal control and reviews its effectiveness,
- ensures that the Company's overall Credit Risk exposure is maintained at prudent levels and is consistent with the available capital,
- reviews and approves changes/amendments to the risk management framework,
- reviews and approves risk management procedures and controls for new products and activities,
- periodically receives risk reports from the management highlighting key risk areas, controls failures and remedial action steps taken by the Management (this is to be done at least once every quarter),
- ensures that the Management as well as individuals responsible for credit risk management possess the requisite expertise and knowledge to accomplish the risk management function,
- ensures that the Company implements a sound methodology that facilitates the identification, measurement, monitoring and control of risk,



- ensures that detailed policies and procedures for risk exposure creation, management and recovery are in place.

The Risk Manager monitors the Company's risk exposure on a continuous basis, identifying the key risks faced and reports them to the Board, which then determines the Company's risk appetite and ensures that an appropriate amount of capital is maintained.

### **2.1.1 Board of Directors Declaration**

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

The Board of Directors approves in full the adequacy of Risk Management arrangements of the institution providing assurance that the risk management systems in place are adequate with regards to the institutions profile and strategy.

This declaration has been signed by the Board of Directors on 31.05.2022

## **2.2 Responsibilities of the Risk Management Committee**

The Risk Management Committee as an additional control advises the Board on the overall strategy and the appetite to all kinds of risks, both current and future, and helps the Board when it verifies that this strategy is implemented and to ensure the efficient monitoring 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.

The Risk Management Committee is responsible for;

- Reviewing the risk control procedures and is consulted about setting overall risk limits,
- Reviewing on a regular basis the strategies, policies, procedures and systems used to detect, manage and monitor the liquidity risk and submitting its conclusions to the Board,
- Reviewing the policies in place and the reports prepared to comply with the regulations on internal control, and
- Reviewing the policy concerning risk management and the monitoring of off-balance sheet commitments, especially considering the memoranda drafted to this end by the without prejudice to the Compensation Committee's missions, reviewing whether the incentives provided by the compensation policy and practices are compatible with the Company's situation with regard to the risks it is exposed to, its share capital, its liquidity and the probability and timing of expected benefits.

It is noted that the members of the risk committee are the same as Board members. The Board met two (2) times during the year of 2021.

## **2.3 Responsibilities of the Risk Manager**

The positioning of the business in terms of risk/return ratio as well as the Company's risk profile by type of risk are analysed and approved by the Board. The Company's risk appetite strategy is led by the Risk Manager to ensure that all different types of risks assumed by the Company are in compliance with the applicable regulatory framework and the obligations of the Company under that framework and that all the necessary procedures relating to risk management are in place.

The Risk Manager is responsible for;

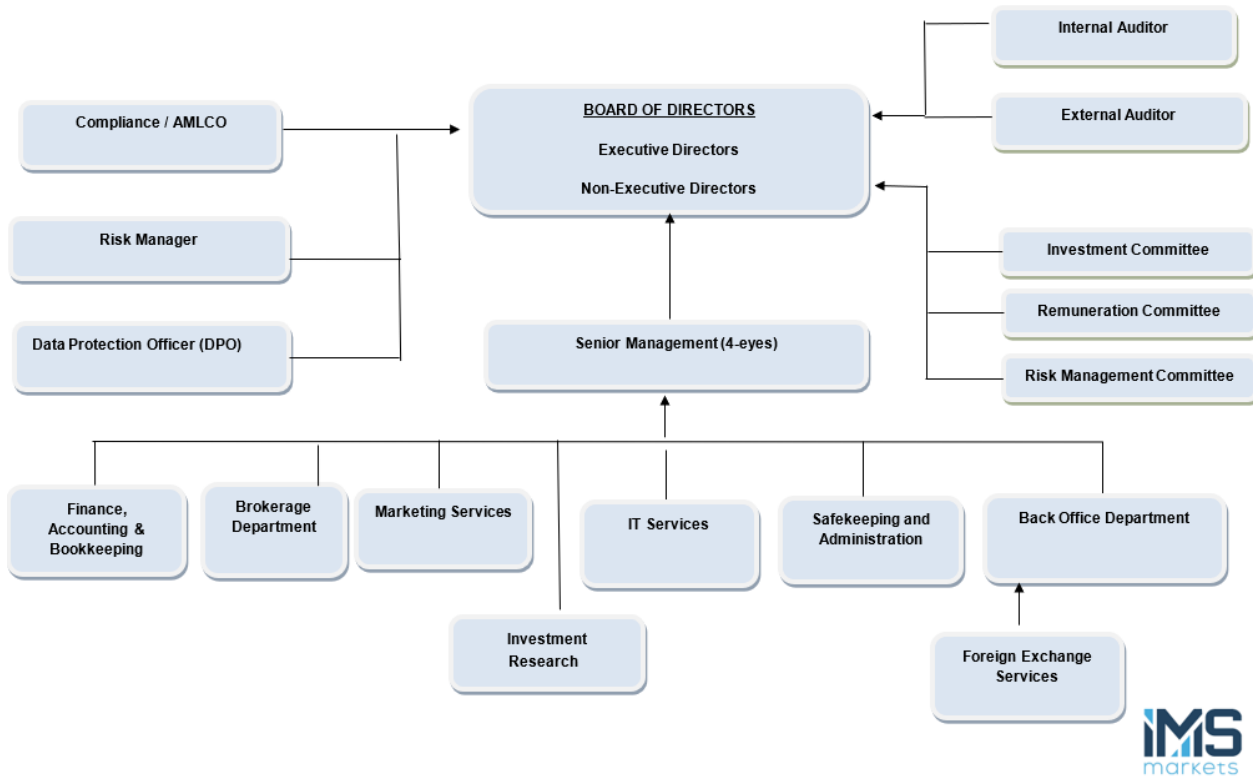
- Governance (decision-making, management and supervisory bodies),
- Ensuring compliance with relevant provisions of the applicable legislation relating to risk management issues,
- Management (identification of risk areas, authorisation and risk-taking processes, risk management policies using limits and guidelines, resource management),
- Examining the capital adequacy and the exposure of the Company,
- Analysing the market and its trends,
- Recommending, providing and supervising guidelines on information systems,
- Supervision (budgetary monitoring, reporting, leading risk indicators, permanent controls and internal audits),
- Examining the financial results of the Company, and
- Drafting reports and making recommendations to the Board at least annually.

## **2.4 Internal Audit**

The Internal Audit function performs regular reviews to ensure that the Company maintains an independent Risk Management function and that appropriate policies and procedures relating to risk management are in place.

Essential indicators for determining the Risk Appetite and their adaptations are regularly supervised over the year to detect any events that may result in unfavourable developments on the Company's risk profile. Such events may give rise to remedial action, up to the deployment of the recovery plan in the most severe cases.

### 3. Organizational Structure



#### 3.1 Directorships held by Members of the Management Body

In 2021, the members of the Management body of the Company, given their industry experience, have been taking seats in other Company boards. In line with this, the following table indicates the number of positions that each member holds:

*Table 1: Directorships held by Members of the Management Body*

Name	Position in the CIF	Directorships (Executive)	Directorships (Non-Executive)
Savvas Menoikou	Executive Director	1	1
Stavri Antoniou	Executive Director	1	0
Charis Charalampides	Independent Non-Executive Director	0	2
Marios Zantis	Independent Non-Executive Director	0	2
Lijun Zhu	Non-Executive Director	0	1

## 3.2 Reporting and Control

In line with the requirements set out in the Cyprus Investment Firms Law and subsequent Directives, the Company has been able to maintain a good information flow to the Management body, as it can be seen below:

*Table 2: Periodic Reporting Summary*

Report Area	Report Description	Owner	Recipient	Frequency	Deadline	Extended Deadline
<b>Annual Anti-Money Laundering Report</b>	To present the work undertaken by the AMLCO during the year.	Anti-Money Laundering Compliance Officer	Senior Management, BoD, CySEC	Annual	30/03/2021	31/03/2021
<b>Annual Compliance Report</b>	To present the work undertaken by the Compliance Officer during the year.	Compliance Officer	Senior Management, BoD, CySEC	Annual	30/04/2021	30/04/2021
<b>Annual Risk Management Report</b>	To present the work undertaken by the Risk Manager during the year.	Risk Manager	Senior Management, BoD, CySEC	Annual	30/04/2021	30/04/2021
<b>Annual Internal Audit Report</b>	To present the work undertaken by the Internal Auditor during the year.	Internal Auditor	Senior Management, BoD, CySEC	Annual	30/04/2021	30/04/2021
<b>Annual External Audit Report</b>	To present the work undertaken by the External Auditor during the year.	Internal Auditor	Senior Management, BoD, CySEC	Annual	30/04/2021	30/06/2021

<b>Pillar III Disclosures (Market Discipline and Disclosure)</b>	To disclose information regarding Company's risk management, capital structure, capital adequacy and risk exposures.	Senior Management	BoD, Public	Annual	30/04/2021	30/06/2021
<b>Pillar III Disclosures (Market Discipline and Disclosure) based on the Audited figures</b>	To disclose information regarding Company's risk management, capital structure, capital adequacy and risk exposures based on its Audited statements.	Senior Management	BoD, CySEC, Public	Annual	31/05/2021	31/07/2021
<b>Prudential Supervision (Capital Adequacy) Reporting</b>	A measure of the CIF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of global financial systems.	Risk Management Function/ Financial Department	Senior Management, CySEC	1st Quarter	12/05/2021	12/05/2021 (CRR)
				Ad-hoc Classification exercise		21/05/2021
				2nd Quarter	11/08/2021	11/10/2021 (IFR test)
				3rd Quarter	11/11/2021	11/11/2021 (FormZZ)
				4th Quarter	11/02/2022	11/02/2022 (Form165)
				Audited	31/05/2021	31/07/2021 (CRR)
<b>Prudential Supervision Form 165-03</b>	To present information in relation to the Company's ICAAP, its	Risk Management Function/ Financial Department	Senior Management, CySEC	Annual	30/06/2021	30/07/2021

	Audited Financial Statements and the safeguarding of clients' money.					
--	--	--	--	--	--	--

## 4. Risk Appetite

The Company defines Risk Appetite as the level of risk, by type and by business that the Company is prepared to incur given its strategic targets. Risk Appetite is defined using both quantitative and qualitative criteria.

The Risk Appetite Framework considers earnings sensitivities to business cycles and credit, market and operational events. The Risk Appetite is one of the strategic oversight tools available to the Management bodies. It underpins the budgeting process and draws on the ICAAP, which is also used to ensure capital adequacy under stressed economic scenarios.

The different type of risks is identified and analysed within the report, along with the risk mitigation applied for each risk.

It is noted that the Company is frequently reviewing its policies, procedures and controls with respect to the applicable legislations and ensure compliance with respect to capital adequacy and market discipline, as per the below legal framework:

- Law 87(I)/2017 regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets (“the Law”)
- Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (“MiFIR”)
- Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (“MiFID II”)
- Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTV derivatives, central counterparties and trade repositories (“EMIR”)
- Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (the “IFR”)
- The Law 165(I)/2021 on the prudential supervision of investment firms (the ‘Law’) which transposes the Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (the “IFD”)

- Regulation (EU) 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (“MAR”)
- Market Abuse Law 102(I)/2016

## **5. Internal Capital Adequacy Assessment Process (ICAAP)**

The Internal Capital Adequacy Assessment Process (ICAAP) falls within the scope of Pillar II and main objective is to enhance the company’s risk profile, risk mitigation and its capital. The ICAAP requires institutions to identify and assess risks not adequately covered in Pillar I, maintain sufficient capital to face these risks and apply appropriate risk management techniques to maintain adequate capitalization on an ongoing and forward-looking basis. Additionally, the ICAAP is used to promote a dialogue between CySEC and the company, as CySEC assess the ICAAP through the Supervisory Review and Evaluation Process (SREP).

The responsibility of the overall risk management and assessment lies with the Board, while the Risk Manager supervises the implementation of the ICAAP and reports directly to the Board the risks identified, how they assessed, how they are monitored and any issues or shortfalls arose. These may vary depending on the circumstances and include one or more of the following:

- Review the overall business strategy, risk appetite, capital and liquidity planning,
- Review limits,
- Reduce underlying risk positions through risk mitigation strategies,
- Consider an increase in capital,
- Enhance contingency planning.

Furthermore, the Board reviews and approves the annual report which describes the process created by the Risk Manager and approved by the Risk Management Committee.

### **5.1 Stress Tests**

Stress testing is a key risk management tool employed by the Risk Manager to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- understanding the Company’s risk profile,
- evaluating the Company’s capital adequacy and whether can absorb potential losses under the stressed conditions,
- evaluating the Company’s strategy; the Senior Management takes into consideration the stress test results against the approved business plans in order determine whether any corrective actions are necessary.

- the establishment or revision of limits; the stress test results are integral part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

Overall, stress testing allows the senior management to determine whether the Company’s exposures correspond to its risk appetite. The Company aims to perform financial modelling and stress analysis on a frequent basis especially when year-end financial results will be available or when it revises its business plan.

## 6. Own Funds and Capital Requirements

The Company’s management must ensure that always holds adequate capital and the Company complies with the capital requirements of the Law. The Company’s own funds must be disclosed as the amount of original own funds with separate disclosures of all positive items (share capital, reserves brought forward, less any proposed dividends, translation differences and unaudited current period losses, as applicable).

The Company must adhere to minimum capital requirements and proceeds to disclose such information.

As per the article 11 of the IFR, the Company shall always maintain, own funds of at least the highest of

- The **fixed overheads requirement**, which shall amount to at least one quarter of the fixed overheads of the preceding year.
- The **permanent minimum capital requirement**, which is equal to 125,000 EUR following the transitional requirement as per Article 57 of the IFR.
- The **K-factor requirement**, which shall amount to the sum of
  - Risk-to-client (“RtC”)
  - Risk-to-market (“RtM”)
  - Risk-to-firm (“RtF”)

### 6.1 Regulatory Capital

As per the article 9 of the IFR, the Company shall have own funds consisting of the sum of their Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, and shall meet all the following conditions, at all times.

$$\frac{\text{Common Equity Tier 1 Capital}}{\text{Max (fixed overheads, minimum capital requirement, K-factor)}} \geq 56\%$$

$$\frac{\text{Common Equity Tier 1 Capital + Additional Tier 1 Capital}}{\text{Max (fixed overheads, minimum capital requirement, K-factor)}} \geq 75\%$$



$$\frac{\text{Common Equity Tier 1 Capital} + \text{Additional Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Max (fixed overheads, minimum capital requirement, K-factor)}} \geq 100\%$$

The below table illustrates the Company's own funds, capital requirements and capital adequacy ratio as of 31<sup>st</sup> December 2021. It is worth mentioning the permanent minimum capital requirement was greater than the fixed overheads requirements and the K-factor requirement. Therefore, the own funds ratio is the total own funds against the total own funds' requirement amount of the minimum capital 125,000 EUR (142,000 USD).

The Total Own Funds Ratio of the Company stood at 104.58% and well above the regulatory requirements of 100%, as at 31<sup>st</sup> December 2021.

*Table 3: Own Funds Requirements and Own Funds Ratio*

OWN FUNDS REQUIREMENTS	USD Thousands
<b>Eligible Funds</b>	
Common Equity Tier 1 Capital	148
Tier 1 Capital	148
<b>Total Own Funds</b>	<b>148</b>
<b>Own Funds Requirements</b>	
Permanent minimum capital requirement	142
Fixed overhead requirement	87
Total K-Factor Requirement	0
<b>Total Own Funds Requirements</b>	<b>142</b>
CET 1 Ratio	104.58%
Tier 1 Ratio	104.58%
<b>Own Funds Ratio</b>	<b>104.58%</b>

Capital management is monitored and implemented by the Risk Manager and the Senior Management. As part of managing its capital, the Company ensures that its solvency level is always compatible with the following objectives:

- Maintaining its financial solidity and respecting the Risk Appetite targets,
- Preserving its financial flexibility to finance organic growth,
- Allocating capital among the various business lines according to the Company's strategic objectives,
- Maintaining the Company's resilience in the event of stress scenarios, and
- Meeting the expectations of its various stakeholders: supervisors, debt and equity investors, rating agencies, and shareholders.

### 6.1.1 *Composition of regulatory own funds*

The below table illustrates the composition of the Company's own funds, as of 31<sup>st</sup> December 2021, which is made up primarily of the following:

- Ordinary shares (net of repurchased shares and treasury shares)
- Share premium
- Retained earnings and other reserves

Deductions from Common Equity Tier 1 capital:

- CET1: Other capital elements, deductions and adjustments such as the Investors Compensation Fund contribution and as per circular 162.

*Table 4: EU IF CC1.01 - Composition of regulatory own funds (Investment firms other than small and non-interconnected)*

Ref	Common Equity Tier 1 (CET1) capital: instruments and reserves	USD Amounts in Thousands	Source based on the balance sheet in the audited financial statements
<b>1</b>	<b>OWN FUNDS</b>	148	N/A
<b>2</b>	<b>TIER 1 CAPITAL</b>	148	N/A
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	148	N/A
<b>4</b>	Fully paid up capital instruments	3	Issued share capital
<b>5</b>	Share premium	274	issue share premium
<b>6</b>	Retained earnings	-1,881	Accumulated Losses
<b>7</b>	Accumulated other comprehensive income	0	N/A
<b>8</b>	Other reserves	1,811	other reserves
<b>9</b>	Minority interest given recognition in CET1 capital	0	N/A
<b>10</b>	Adjustments to CET1 due to prudential filters	0	N/A
<b>11</b>	Other funds	0	N/A
<b>12</b>	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-59	N/A
<b>13</b>	(-) Own CET1 instruments	0	N/A
<b>14</b>	(-) Direct holdings of CET1 instruments	0	N/A
<b>15</b>	(-) Indirect holdings of CET1 instruments	0	N/A
<b>16</b>	(-) Synthetic holdings of CET1 instruments	0	N/A
<b>17</b>	(-) Losses for the current financial year	0	N/A
<b>18</b>	(-) Goodwill	0	N/A
<b>19</b>	(-) Other intangible assets	0	N/A
<b>20</b>	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	0	N/A
<b>21</b>	(-) Qualifying holding outside the financial sector which exceeds 15% of own funds	0	N/A

22	(-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds	0	N/A
23	(-) CET1 instruments of financial sector entities where the institution does not have a significant investment	0	N/A
24	(-) CET1 instruments of financial sector entities where the institution has a significant investment	0	N/A
25	(-) Defined benefit pension fund assets	0	N/A
26	(-) Other deductions	0	N/A
27	CET1: Other capital elements, deductions and adjustments	-59	ICF
28	<b>ADDITIONAL TIER 1 CAPITAL</b>	0	N/A
29	Fully paid up, directly issued capital instruments	0	N/A
30	Share premium	0	N/A
31	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	N/A
32	(-) Own AT1 instruments	0	N/A
33	(-) Direct holdings of AT1 instruments	0	N/A
34	(-) Indirect holdings of AT1 instruments	0	N/A
35	(-) Synthetic holdings of AT1 instruments	0	N/A
36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	0	N/A
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment	0	N/A
38	(-) Other deductions	0	N/A
39	Additional Tier 1: Other capital elements, deductions and adjustments	0	N/A
40	<b>TIER 2 CAPITAL</b>	0	N/A
41	Fully paid up, directly issued capital instruments	0	N/A
42	Share premium	0	N/A
43	(-) TOTAL DEDUCTIONS FROM TIER 2	0	N/A
44	(-) Own T2 instruments	0	N/A
45	(-) Direct holdings of T2 instruments	0	N/A
46	(-) Indirect holdings of T2 instruments	0	N/A
47	(-) Synthetic holdings of T2 instruments	0	N/A
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	0	N/A
49	(-) T2 instruments of financial sector entities where the institution has a significant investment	0	N/A
50	Tier 2: Other capital elements, deductions and adjustments	0	N/A

### 6.1.2 Reconciliation of regulatory own funds

The below table illustrates the Company's reconciliation of regulatory own funds, as of 31st December 2021.

Table 5: EU IFCC2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements

Ref	EU IFCC2: Own funds: reconciliation of regulatory own funds2	Balance sheet as in audited financial statements in USD	Under regulatory scope of consolidation	Cross reference to EU IF CC1
<b>As at 31/12/2021</b>				
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>				
1	Property, plant and equipment	3,266	N/A	
2	Other non-current assets	14,637	N/A	
3	Receivables	59,160	N/A	
4	Cash at Bank and in hand	153,173	N/A	
	<b>Total Assets</b>	<b>230,236</b>	<b>N/A</b>	
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements</b>				
1	Trade and other payables	23,014	N/A	
	<b>Total Liabilities</b>	<b>23,014</b>	<b>N/A</b>	
<b>Shareholders' Equity</b>				
1	Ordinary share capital	2,614	N/A	Ref 4
2	Share premium	274,443	N/A	Ref 5
3	Retained earnings	-1,880,820	N/A	Ref 6
4	Other reserve	1,810,985	N/A	Ref 17
	<b>Total Shareholders' equity</b>	<b>207,222</b>	<b>N/A</b>	

### 6.1.3 Main features of own instruments issued by the firm

The below table illustrates the Company's main features of own instruments issued by the firm, as of 31st December 2021.

Table 6: EU IF CCA: Own funds: main features of own instruments issued by the firm

Ref	EU IF CCA: Own funds: main features of own instruments issued by the firm	Information
1	Issuer	Company
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A

3	Public or private placement	Private
4	Governing law(s) of the instrument	Cyprus Companies Law
5	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	USD 2.614 thousand
7	Nominal amount of instrument	USD 2.614 thousand
8	Issue price	EUR 1 per share
9	Redemption price	N/A
10	Accounting classification	Ordinary Share Capital
11	Original date of issuance	09/08/2011
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
17	<i>Coupons / dividends</i>	N/A
18	Fixed or floating dividend/coupon	N/A
19	Coupon rate and any related index	N/A
20	Existence of a dividend stopper	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
22	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
23	Existence of step up or other incentive to redeem	N/A
24	Noncumulative or cumulative	N/A
25	Convertible or non-convertible	N/A
26	If convertible, conversion trigger(s)	N/A
27	If convertible, fully or partially	N/A
28	If convertible, conversion rate	N/A
29	If convertible, mandatory or optional conversion	N/A
30	If convertible, specify instrument type convertible into	N/A
31	If convertible, specify issuer of instrument it converts into	N/A
32	Write-down features	N/A
33	If write-down, write-down trigger(s)	N/A
34	If write-down, full or partial	N/A
35	If write-down, permanent or temporary	N/A
36	If temporary write-down, description of write-up mechanism	N/A
37	Non-compliant transitioned features	N/A
38	If yes, specify non-compliant features	N/A
39	Link to the full term and conditions of the instrument (signposting)	N/A

## 6.2 K-Factor Requirements

As per the article 15 of the IFR, the Company's K-factors requirements are quantitative indicators that reflect the risk that the new prudential regime intends to address. The K-factors aim to

capture the risk the investment firm can pose to its clients ('RtC'), to the market ('RtM') and to the investment firm itself ('RtF'). The K-factor requirement shall amount to the sum of

- Risk-to-client ("RtC")
- Risk-to-market ("RtM")
- Risk-to-firm ("RtF")

In the following table, a granular detail of each K-Factor is presented; the definitions and the applicable coefficient of the respective amounts to calculate the k-factor requirement. It is noted that the calculations of the k-factors are applicable as per the Articles 17, 18, 19,20, 22, 23, 26 and 39 of the IFR.

Table 7: K-Factors definitions and coefficient requirements

Risk Type	K-Factors	Article	Definitions	Coefficient	Applied for
Risk To Client (RtC)	K-AUM	Art 17 - IFR	<b>Assets under management</b> – under both discretionary portfolio management and non-discretionary advisory arrangements of an ongoing basis	0.02%	
	K-CMH	Art 18 - IFR	<b>Client money held</b> – captures the risk of potential for harm where an investment firm holds money for its customers taking into account the legal arrangements in relation to asset segregation and irrespective of the national accounting regime applicable to client money. Excludes client money that is deposited on a (custodian) bank account in the name of the client itself, where the investment firm has access to these client funds via a third-party mandate. (on segregated or nonsegregated basis)	0.40%	Segregated Accounts
				0.50%	Non-Segregated Accounts
	K-ASA	Art 19 - IFR	<b>Assets safeguarded and administered</b> – ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on its own balance sheet or in third-party accounts	0.04%	
	K-COH	Art 20 - IFR	<b>Client orders handled</b> – captures the potential risk to clients of an investment firm which executes its orders (in the name of the client, not in the name of the investment firm itself).	0.10%	cash trades
Art 20 - IFR		0.01%		derivative trades	
Risk to Market (RtM)	K-NPR	Art 22 - IFR	<b>Net position risk</b> – based on the market risk framework (standardised approach, or if applicable, internal models) of the CRR		

	<b>K-CMG</b>	Art 23 - IFR	<b>Clearing member guarantee</b> - Investment firm's clearing member – where permitted by a Member State competent authority for specific types of investment firms which deal on own account through clearing members, based on the total margins required by an investment firm's clearing member		
<b>Risk to Firm (RtF)</b>	<b>K-DTF</b>	Art 33 - IFR	<b>Daily trading flow</b> – based on transactions recorded in the trading book of the investment firm dealing on own account, whether for itself or on behalf of a client, and the transactions that an investment firm enters through the execution of orders on behalf of clients in its own name	0.10%	cash trades
		Art 26 - IFR		0.01%	derivative trades
	<b>K-TCD</b>	Art 26 - IFR	<b>Trading counterparty default</b> – investment firm's exposure to the default of their trading counterparties in accordance with simplified provisions for counterparty credit risk based on the CRR		
	<b>K-CON</b>	Art 39 - IFR	<b>Concentration Risk</b> - in an investment firm's large exposures to specific counterparties based on the provisions of the CRR that apply to large exposures in the trading book.		

The Company presents in the below table the amounts of each factor and the K-Factor requirements, as of 31<sup>st</sup> December 2021.

*Table 8: Total K-Factors requirements*

TOTAL K-FACTOR REQUIREMENT	Factor amount	K-factor requirement
		<b>0</b>
<b>RISK to CLIENT</b>		<b>0</b>
Assets under management	0	0
Client money held - Segregated	0	0
Client money held - Non - segregated	0	0
Assets safeguarded and administered	0	0
Client orders handled - Cash trades	0	0
Client orders handled - Derivatives Trades	0	0
<b>RISK to MARKET</b>		<b>0</b>
K-Net positions risk requirement		0
Clearing margin given	0	0
<b>RISK to FIRM</b>		<b>0</b>
Trading counterparty default		0
Daily trading flow - Cash trades	0	0
Daily trading flow - Derivative trades	0	0
K-Concentration risk requirement		0

### 6.2.1 Risk to Client (RtC) K-Factors

The below table provides details on the K-factors under RtC, which capture client assets under management and ongoing advice (K-AUM), client money held (K-CMH), assets safeguarded and administered (K-ASA), and client orders handled (K-COH), as of 31<sup>st</sup> of December 2021.

Table 9: Risk to Client K-Factors requirements

RISK to CLIENT	Factor amount	K-factor requirement
		<b>0</b>
K-AUM: Assets under management	0	0
K-CMH: Client money held - Segregated	0	0
K-CMK: Client money held - Non - segregated	0	0
K-ASA: Assets safeguarded and administered	0	0
K-COH: Client orders handled - Cash trades	0	0
K-COH: Client orders handled - Derivatives Trades	0	0

### 6.2.2 Risk to Market (RtM) K-Factors

The below tables provide further details on the K-factors under RtM, which capture the net position risk (K-NPR) in accordance with the provisions of the CRR or, where permitted by the competent authority for specific types of investment firms which deal on own account through clearing members, based on the total margins required by an investment firm's clearing member (K-CMG), as of 31<sup>st</sup> of December 2021. It is noted that the Company is not exposed to K-CMG or K-NPR risks.

Table 10: Risk to Market K-Factors requirements

RISK to MARKET	Factor amount	K-factor requirement
<b>RISK to MARKET</b>		<b>0</b>
K-NPR: K-Net positions risk requirement		0
K-CMG: Clearing margin given	0	0

### 6.2.3 Risk to Firm (RtF) K-Factors

The below table provide further details on the K-factors under RtF capture an investment firm's exposure to the default of their trading counterparties (K-TCD) in accordance with simplified provisions for counterparty credit risk based on the CRR, concentration risk in an investment firm's large exposures to specific counterparties based on the provisions of CRR that apply to large



exposures in the trading book (K-CON), and operational risks from an investment firm’s daily trading flow (K-DTF), as of 31<sup>st</sup> of December 2021. It is worth mentioning that the Company is not exposed to any of these risks.

*Table 12: Risk to Firm K-Factors requirements*

<b>RISK to FIRM</b>	<b>Factor amount</b>	<b>K-factor requirement</b>
		<b>0</b>
K-TCD: Trading counterparty default		0
K-DTF: Daily trading flow - Cash trades	0	0
K-DTF: Daily trading flow - Derivative trades	0	0
K-CON: K-Concentration risk requirement		0

### **6.2.3.1 Concentration Risk**

As per the article 37 of the IFR, Investment firms that fall under Class 2 and Class 3 shall monitor and control their concentration risk in the trading book, not to exceed the applicable limits of the concentration risk exposure value to an individual client or group of connected clients shall be 25% of its own funds.

- a) Where that individual client is a credit institution or an investment firm, or where a group of connected clients includes one or more credit institutions or investment firms, the limit with regard to concentration risk shall be the higher of 25% of the investment firm’s own funds or EUR 150 million provided that for the sum of exposure values with regard to all connected clients that are not credit institutions or investment firms, the limit with regard to concentration risk remains at 25% of the investment firms’ own funds.
- b) Where the amount of EUR 150 million is higher than 25% of the investment firm’s own funds, the limit with regard to concentration risk shall not exceed 100% of the investment firm’s own funds.

In cases where the limits are exceeded, then the Company has the obligation to notify CySEC of the amount of excess, the name of the individual client concerned and, where applicable, the name of the group of connected clients concerned, without delay. CySEC may grant a limited period for the Company to ensure compliance and meet the own funds requirement on the excess exposure value.

The Company shall calculate any Exposure Value Excess of an individual client or group of connected clients, as follows: Exposure Value minus the concentration risk limit of;

- 500 % of the investment firm’s own funds, where 10 days or less have elapsed since the excess occurred, and
- in aggregate, 600 % of the investment firm’s own funds, for any excesses that have persisted for more than 10 days.

It is noted that for the calculation of the Exposure Value the following K-Factors shall be taken into consideration

- the Risk to Market (RtM), Net position risk (K-NPR), and
- the Risk to Firm (RtF), Trading counterparty default (K-TCD)

As per the Article 54 of the IFR, the Company shall report on a quarterly basis the different levels of concentration risk it faces:

- concentration risk on client money held (CMH),
- concentration risk on assets safeguarded and administered (ASA),
- concentration risk on total own cash deposited,
- concentration risk on top 5 trading book exposures,
- concentration risk on top 5 Non-Trading Book and off-balance sheet exposures.

### **6.3 Credit Risk**

The Company implements and maintains adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems and where appropriate set the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems in light of the level of risk tolerance where applicable.

Credit Risk corresponds to the risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments. The Company's credit risk mainly arises:

- By the Company's deposits in credit and financial institutions, and
- By assets mainly held from debtors or prepayments made.

#### **6.3.1 Credit Risk Mitigation**

The Company follows both regulatory and compliance-oriented Credit Risk Mitigation ("CRM") strategies in order to minimize the possibility of occurrence of this risk, such as;

- The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.
- All Client funds are held in segregated accounts, separated from Company's funds,
- Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.
- The Company maintains regular credit review of counterparties, identifying the key risks faced and reports them to the Board of Directors, which then determines the firm's risk appetite and ensures that an appropriate amount of capital is maintained, and
- In order to maintain its Credit risk to the minimum, the Company is using EU credit institutions for safekeeping of funds and always ensures that the banks it cooperates with have high ratings based on top credit rating agencies (Moody's, S&P or Fitch), it frequently

monitors their compliance with the EU regulatory framework and diversifies the funds over several credit institutions thus mitigating the risk exposure efficiently.

- The Company has no significant concentration of Credit Risk.
- Clients cannot commence trading unless funds have been deposited into their account and their deposits have been cleared. Once trading begins, a given margin is tied, or held as collateral, protecting the Company if the position goes against the client. If account equity drops below a certain predefined level, under normal market conditions all client positions are automatically closed, therefore eliminating the risk that clients will lose more money than already deposited in their account.
- The company does not transfer the risk arising in the trading book to the banking book.

During the year of 2021, the geographic distribution of the Company's credit risk exposures was concentrated in Europe.

Further to the above, the Company has policies to diversify credit risk and to limit the amount of credit exposure to any counterparty in compliance with the requirements of the Regulation.

### **6.3.2 Past due and Impaired Receivables**

Past due receivables arise when the debt has not been made at its due date. A borrower who is past due may be subject to late fees, unless the borrower is still within a grace period. Failure to repay the debt on time could have negative implications for the borrower's credit status or cause the loan terms to be permanently adjusted whereas Impaired receivables arise when the debtor is unable to provide the payment fully while the past due is when the debtor did not make the payment as of its due date.

## **6.4 Market Risk**

Market risk corresponds to the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, liquidity risk and the price of securities (equity, bonds), commodities, derivatives and other assets.

### **6.4.1 Foreign Exchange Risk**

Foreign Exchange Risk is the financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the company (USD). The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange limits, such as through the establishment of maximum value of exposure to a currency pair as well as through the utilization of sensitivity analysis.

The Company is exposed to market risk arises from fluctuations in the market price of foreign currencies and precious metals due to open positions on CFDs. The Company's exposure is mainly on short-term market conditions and client activities.

### 6.4.2 Interest Rate Risk

Adverse interest rate movements, both in local and foreign currency, may cause losses to the value of the Company's assets. The Company's income and operating cash flows are substantially independent of changes in market interest rates. Furthermore, the Company has no significant interest-bearing assets.

### 6.4.3 Liquidity Risk

The Company is exposed to Liquidity risk which is the risk that the Company will not be able to meet its financial obligations as they fall due. In periods of up normal fluctuations in market conditions or financial crisis, liquidity risk can expose the Company to shortfall of access to the capital markets resulting to damages. The Company is protected against liquidity risk as maintains sufficient cash and marketable securities and adequate amount of credit facilities.

To minimize its exposure to liquidity risk, the Company implements the below Liquidity Risk Mitigation Strategies;

- Regular analysis & reporting to the Board on the Company's funding needs,
- Monitoring of the Company's exposures and diversification to avoid rise of concentration risk as per internal policies and procedures, and
- Cash Management.

The Company has undertaken a specific review of its liquidity risks and ensure to meet its upcoming obligations. As at 31<sup>st</sup> of December 2021, the Company held USD 153,000 of liquid assets. More details are presented in the below tables.

*Table 13: Liquidity requirements*

Liquidity Requirement	Amount USD Thousands
<b>Liquidity Requirement</b>	29
<b>Client guarantees</b>	0
<b>Total liquid assets</b>	153
<b>Unencumbered short term deposits</b>	153
<b>Total eligible receivables due within 30 days</b>	0
<b>Level 1 assets</b>	0
Coins and banknotes	0
Withdrawable central bank reserves	0
Central bank assets	0
Central government assets	0
Regional government/local authorities assets	0
Public Sector Entity assets	0
Recognisable domestic and foreign currency central government and central bank assets	0

Credit institution (protected by Member State government, promotional lender) assets	0
Multilateral development bank and international organisations assets	0
Extremely high quality covered bonds	0
<b>Level 2A assets</b>	<b>0</b>
Regional government/local authorities or Public Sector Entities assets (Member State, RW20 %)	0
Central bank or central/regional government or local authorities or Public Sector Entities assets (Third Country, RW20 %)	0
High quality covered bonds (CQS2)	0
High quality covered bonds (Third Country, CQS1)	0
Corporate debt securities (CQS1)	0
<b>Level 2B assets</b>	<b>0</b>
Asset-backed securities	0
Corporate debt securities	0
Shares (major stock index)	0
Restricted-use central bank committed liquidity facilities	0
High quality covered bonds (RW35 %)	0
<b>Qualifying CIU shares/units</b>	<b>0</b>
<b>Total other eligible financial instruments</b>	<b>0</b>

## 6.5 Operational Risk

Operational risks (including accounting and environmental risks) correspond to the risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss. This section describes the monitoring of the Company's operational risk, in addition to providing an analysis of the Company's operational risk profile and regulatory capital requirements.

The Company has developed processes, management tools and a control infrastructure to enhance the Company-wide control and management of the operational risks that are inherent in its various activities. These include, among others, general and specific procedures, permanent supervision, business continuity plans, and functions dedicated to the oversight and management of specific types of operational risks, such as fraud, risks related to external service providers, legal risks, information system security risks and compliance risks.

In order to control the exposure to operational risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses), and

- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance.

To that effect, the management of operational risk is geared towards:

- Maintaining a strong internal control governance framework, and
- Managing operational risk exposures through a consistent set of processes that drive risk identification, assessment, control and monitoring.

The Company implements the below Operational Risk Mitigation Strategies in order to minimize its Operational Risk Exposure;

- The development of operational risk awareness and culture,
- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities,
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives,
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value,
- Established a "four-eye" structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management. The Board further reviews any decisions made by the Management while monitoring their activities,
- Detection methods are in place in order to detect fraudulent activities, and
- Comprehensive business contingency and disaster recovery plan.

The Risk Manager and the Senior Management employs specialized tools and methodologies to identify, assess, mitigate and monitor operational risk. These specialized tools and methodologies assist operational risk management to address any control gaps. To this effect, the following are implemented;

- Incident collection,
- Key Risk Indicators,
- Business Continuity Management, and
- Training and awareness.

### **6.5.1 Exposure Analysis**

The Company calculate the operational risk using the fixed overhead requirement calculation of the 25% of the preceding year annual fixed overheads. The Company's overheads requirements as at 31<sup>st</sup> of December 2021 is USD 87,000 resulting from the annual fixed overheads of USD 349,000.

Table 14: Overheads requirements

Fixed Overhead Requirement Calculation	Amount USD Thousands
<b>Fixed Overhead Requirement</b>	<b>87</b>
<b>Annual Fixed Overheads of the previous year after distribution of profits</b>	<b>349</b>
Total expenses of the previous year after distribution of profits	349
Of which: Fixed expenses incurred on behalf of the investment firms by third parties	0
<b>(-) Total deductions</b>	<b>0</b>
(-) Staff bonuses and other remuneration	0
(-) Employees', directors' and partners' shares in net profits	0
(-) Other discretionary payments of profits and variable remuneration	0
(-) Shared commission and fees payable	0
(-) Fees, brokerage and other charges paid to CCPs that are charged to customers	0
(-) Fees to tied agents	0
(-) Interest paid to customers on client money where this is at the firm's discretion	0
(-) Non-recurring expenses from non-ordinary activities	0
(-) Expenditures from taxes	0
(-) Losses from trading on own account in financial instruments	0
(-) Contract based profit and loss transfer agreements	0
(-) Expenditure on raw materials	0
(-) Payments into a fund for general banking risk	0
(-) Expenses related to items that have already been deducted from own funds	0
<b>Projected fixed overheads of the current year</b>	<b>0</b>
<b>Variation of fixed overheads (%)</b>	<b>-100.00%</b>

## 6.6 Additional and Significant Risks

### 6.6.1 Marketing and Advertising Risk

The Company has dedicated professionals specialized in the financial services field for promoting the Company's services.

### 6.6.2 Compliance, Reputational and Legal Risks

Compliance risk (including legal and tax risks) corresponds to the risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company's activities.

Compliance means acting in accordance with applicable regulatory rules, as well as professional, ethical and internal principles and standards. Fair treatment of customers, with integrity, contributes decisively to the reputation of the Company. By ensuring that these rules are

observed, the Company works to protect its customers and, in general, all of its counterparties, employees, and the various regulatory authorities to which it reports.

The Compliance Officer is responsible to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations. As part of this the compliance officer identifies the level of compliance risk the Company faces taking into account the investment services, activities and ancillary services provided as well as the types of financial instruments traded and distributed. The compliance officer reports directly to the Board of the Company.

The compliance officer is independent and has the necessary authority, resources, expertise and access to all relevant information.

### ***6.6.3 Money Laundering and Terrorism Financing Risk***

Money laundering and terrorist financing risk mainly refers to the risk where the Company may be used as a vehicle to launder money and/or assist/involved in financing terrorism.

The Company has in place and is updating as applicable, certain policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks. Among others, these policies, procedures and controls include the following;

- The adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing risks faced by the Company,
- The adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing risk,
- Setting certain minimum standards of quality and extent of the required identification data for each type of Client such as documents from independent and reliable sources, third party information,
- Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular business relationship or an occasional transaction,
- Monitoring and reviewing the business relationship or an occasional transaction with clients and potential clients of high-risk countries, and
- ensuring that the Company's personnel receive the appropriate training and assistance.

The Company frequently reviewing its policies, procedures and controls with respect to money laundering and terrorist financing to ensure compliance with the applicable legislation and incorporated, as applicable, any new information issued/available in this respect.



## 7. Board of Directors and Senior Management Recruitment

One of the Board's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and Head of Departments.

The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the Board and must be able to commit the necessary time and effort to fulfil their responsibilities.

Factors considered in the review of potential candidates include;

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subject,
- Knowledge of and experience with financial institutions ("fit-and-proper"),
- Integrity, honesty and the ability to generate public confidence,
- Knowledge of financial matters including understanding financial statements and financial ratios,
- Demonstrated sound business judgment, and
- Risk management experience.

### 7.1 Diversity Policy

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success.

The Company recognizes the value of a diverse and skilled workforce and management body, which includes and makes use of differences in the age, skills, experience, background, race and gender between them. A balance of these differences will be considered when determining the optimum composition.

The Company is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practises in the Corporate Governance Code of many EU countries.

In line with the recent changes in the regulatory reporting framework, the Company is in the process of establishing a dedicated diversity policy in relation to the Management body.

## 8. Remuneration

Remuneration refers to payments or compensations received for services or employment. The remuneration system includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment and shall be appropriate to the Company's

size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the regulatory framework.

During the year of 2021, the Company's remuneration system is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, such as the Senior Management, members of the Board and the Heads of the Departments. The said practices are established to ensure that the rewards for the 'Executive Management' provide the right incentives to achieve its business strategies.

Additionally, the Company takes into account the conduct of business and conflicts of interest risks that may arise. Effective conflicts of interest management duties and conduct of business risk management obligations in order to ensure that clients' interests are not impaired by the policy and its practices in the short, medium and long term.

As per Article 51 of the IFR, the Company shall disclose the aggregated quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investment firm, indicating the following:

- the amounts of remuneration awarded in the financial year, split into fixed remuneration, including a description of the fixed components, and variable remuneration, and the number of beneficiaries.
- the amounts and forms of awarded variable remuneration, split into cash, shares, share-linked instruments and other types separately for the part paid upfront and for the deferred part.
- the amounts of deferred remuneration awarded for previous performance periods, split into the amount due to vest in the financial year and the amount due to vest in subsequent years.
- the amount of deferred remuneration due to vest in the financial year that is paid out during the financial year, and that is reduced through performance adjustments.
- the guaranteed variable remuneration awards during the financial year and the number of beneficiaries of those awards.
- the severance payments awarded in previous periods, that have been paid out during the financial year.
- the amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of beneficiaries of those payments and the highest payment that has been awarded to a single person.

The below tables disclose all details as per the Company's remuneration policy and practices. It is noted that the total remuneration of staff consists only fixed components. The aggregate quantitative information on key management personnel remuneration for the year amounted to 170,280 EUR.

*Table 15: Aggregate Quantitative Information on Remuneration broken down by business area*

€ thousands	No. of staff	Fixed	Variable	Total
<b>Board of Directors</b>	<b>5</b>	<b>139</b>	<b>0</b>	<b>139</b>
Senior Management (excluding Board Members)	0	31	0	31
Head of Departments (excluding Board Members)	2	0	0	0
Members of staff whose actions have a material impact on the risk profile of the institution and other staff	0	0	0	0
<b>Grand Total</b>	<b>7</b>	<b>170</b>	<b>0</b>	<b>170</b>

*Table 16: Variable Remuneration broken down by type of remuneration*

€ thousands	Cash	Share-linked instruments	Other Types	Total Variable
Board of Directors	0	0	0	0
Senior Management (excluding Board Members)	0	0	0	0
Head of Departments (excluding Board Members)	0	0	0	0
Members of staff whose actions have a material impact on the risk profile of the institution and other staff	0	0	0	0
<b>Grand Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

*Table 17: Deferred Remuneration awarded from previous performance periods*

€ thousands	Current Financial year	Subsequent years	Total Deferred Remuneration
Board of Directors	0	0	0
Senior Management (excluding Board Members)	0	0	0
Head of Departments (excluding Board Members)	0	0	0
Members of staff whose actions have a material impact on the risk profile of the institution and other staff	0	0	0
<b>Grand Total</b>	<b>0</b>	<b>0</b>	<b>0</b>

*Table 18: Guaranteed Variable Remuneration*

€ thousands	Guaranteed Variable Remuneration
Board of Directors	0
Senior Management (excluding	0
Head of Departments (excludin	0
Members of staff whose actions have a material impact on the risk profile of the institution and other staff	0
<b>Grand Total</b>	<b>0</b>

*Table 19: Severance payments awarded in previous periods and paid during the financial year*

€ thousands	Severance Remuneration
Board of Directors	0
Senior Management (excluding Board Members)	0
Head of Departments (excluding Board Members)	0
Members of staff whose actions have a material impact on the risk profile of the institution and other staff	0
<b>Grand Total</b>	<b>0</b>

*Table 20: Severance payments awarded during the financial year*

€ thousands	Paid Upfront	Deferred	Severance Remuneration
Board of Directors	0	0	0
Senior Management	0	0	0
Head of Departments (excluding Board Members)	0	0	0
Members of staff whose actions have a material impact on the risk profile of the institution and other staff	0	0	0
<b>Grand Total</b>	<b>0</b>	<b>0</b>	<b>0</b>