



## **PILLAR III DISCLOSURES**

According to Part Six of Regulation (EU) 2019/2033 of the European Parliament and of the Council on the prudential requirements of investment firms

**YEAR ENDED 31 DECEMBER 2021**

**April 2022**

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## 1. INTRODUCTION

### 1.1 CIF Information

Growell Capital Ltd (hereinafter, the ‘Company’) was incorporated in the Republic of Cyprus on 12 November 2012 as a private limited liability company with registration number HE 314852 and it is a Cyprus Investment Firm. The Company was licensed by the Cyprus Security Exchange Commission (hereinafter, the ‘CySEC’) with CIF licence No. 214/13 to provide financial services, on 17 September 2013.

The table below illustrates the current licence information of the Company:

**Table 1: Company License Information (based on the First Appendix of the Law 87(I)/2017)**

|                       |    | Investment Services and Activities |   |   |   |   |   |   |   | Ancillary Services |   |   |   |   |   |   |
|-----------------------|----|------------------------------------|---|---|---|---|---|---|---|--------------------|---|---|---|---|---|---|
|                       |    | 1                                  | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 1                  | 2 | 3 | 4 | 5 | 6 | 7 |
| Financial Instruments | 1  | ✓                                  | ✓ | - | ✓ | - | - | - | - | ✓                  | ✓ |   |   | ✓ |   | - |
|                       | 2  | ✓                                  | ✓ | - | ✓ | - | - | - | - | ✓                  | ✓ |   |   | ✓ |   | - |
|                       | 3  | ✓                                  | ✓ | - | ✓ | - | - | - | - | ✓                  | ✓ |   |   | ✓ |   | - |
|                       | 4  | ✓                                  | ✓ | - | ✓ | - | - | - | - | ✓                  | ✓ |   |   | ✓ |   | - |
|                       | 5  | ✓                                  | ✓ | - | ✓ | - | - | - | - | ✓                  | ✓ | - | ✓ | ✓ |   | - |
|                       | 6  | ✓                                  | ✓ | - | ✓ | - | - | - | - | ✓                  | ✓ |   |   | ✓ | - | - |
|                       | 7  | ✓                                  | ✓ | - | ✓ | - | - | - | - | ✓                  | ✓ |   |   | ✓ |   | - |
|                       | 8  | ✓                                  | ✓ | - | ✓ | - | - | - | - | ✓                  | ✓ |   |   | ✓ |   | - |
|                       | 9  | ✓                                  | ✓ | ✓ | ✓ | - | - | - | - | ✓                  | ✓ |   |   | ✓ |   | - |
|                       | 10 | ✓                                  | ✓ | - | ✓ | - | - | - | - | ✓                  | ✓ |   |   | ✓ |   | - |

The Company is authorised to provide the following **Investment Services**, in accordance with Part I of the First Appendix of the Law 87(I)/2017:

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients
- Dealing on own account
- Portfolio management.

The Company is authorised to provide the following **Ancillary Services**, in accordance with Part II of the First Appendix of the Law 87(I)/2017:

- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
- Foreign exchange services where these are connected to the provision of investment services.
- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.
- Investment research and financial analysis or other forms.

The Company is authorised to provide the aforementioned investment and ancillary services, as applicable for each service, for the following Financial Instruments, in accordance with Part III of the First Appendix of the Law 87(I)/2017:

#### 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 point 6 of Part III 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.

## **1.2 Classification and prudential requirements**

The Investment Firms Directive (EU) 2019/2034 (“IFD”) and the Investment Firm Regulation, Regulation (EU) 2019/2033 (“IFR”) entered into force on 26 July 2021, introducing a new classification system for investment firms, based on their activities, systemic importance, size and interconnectedness. All investment firms are classified as Class 1, 2 or 3 Investment Firms.

Class 1 Investment Firms are the largest and most interconnected investment firms, with risk profiles similar to those of significant credit institutions, have equal treatment with credit institutions in the sense of a level playing field accordingly and they will fall entirely under the Regulation (EU) No 575/2013 (“CRR”).

Investment Firms categorized as Class 2 and Class 3 will have the most impact from the new prudential framework as, the capital requirements, reporting requirements and internal governance policies are subject to the provisions of IFR/IFD.

CIFs that meet all of the below criteria are categorised as Class 3 Investment Firms while when they exceed any of the following specific size thresholds, they are categorised as Class 2 Investment Firms.

**Table 2: Threshold Criteria**

| No. | Metric   | Thresholds             |
|-----|--|------------------------|
| 1.  | Assets Under Management  | <€1.2 billion          |
| 2.  | Client orders handled – cash trades                                | < €100 million per day |
| 3.  | Client orders handled – derivative trades                          | <€1 billion per day    |
| 4.  | Assets safeguarded and administered                                | zero                   |
| 5.  | Client money held  | zero                   |
| 6.  | On- and off-balance sheet total                                    | < €100 million         |
| 7.  | Total annual gross revenue from investment services and activities | < €30 million          |

Further to the above, the Company is categorized as a **Class 2 Investment Firm** since it does not meet all of the above criteria and as such it should maintain own funds of at least the **higher** between:

**A. Permanent minimum capital requirement**

The permanent minimum capital requirement of the Company is **€750k** since it is authorized to provide the investment service of “*dealing on own account*”.

**B. Fixed overhead requirements**

The Fixed Overheads Requirement is calculated as one quarter (¼) of the previous year fixed expenses (based on audited figures).

**C. K-Factors requirement**

The new K-Factors are quantitative indicators that reflect the risk that the new prudential regime intends to address. Specifically, capital requirements from applying the K-factors formula (pursuant to Article 15 of the IFR) is the sum of Risk to Client (‘RtC’), Risk to Market (‘RtM’) and Risk to Firm (‘RtF’) proxies.

**1.3 Scope of application**

The Pillar III Disclosures Report (the ‘Report’) is prepared on an individual (solo) basis in accordance with the disclosure requirements as laid out in Part Six of the IFR. Investment firms are required to disclose their capital resources, capital requirements, remuneration policies, practices and governance standards.

The Report has as a starting point the financial information used in the Company’s Financial Statements which are prepared in accordance with the International Financial Reporting Standards (“IFRS”). As the two documents serve different purposes, the reported figures illustrate differences, which lie on the differences of the fundamental concepts between the IFR and the IFRS.

**1.4 Pillar III Regulatory framework**

The Report has been prepared in accordance with the new regulatory regime for investment firms the European Parliament has adopted, the IFR and the IFD as well as the relevant provisions of

the Law 165(I)/2021 “*The Prudential Supervisions for Investment Firms Law of 2021*” (the “Law”) and the Law 164(I)/2021, amending Law 97(I)/2021, “*The Capital Adequacy Investment Firms Law of 2021*”.

The IFR establishes the prudential requirements in terms of own funds, level of minimum capital, concentration risk, liquidity requirements and level of activity with respect to small and non-interconnected investment firms. Furthermore, IFR introduced significant changes in the prudential regulatory regime applicable to Investment Firms including a new classification system, an amended minimum initial capital and minimum capital ratios, changes to the calculation of the capital requirements, the reporting requirements and the internal governance policies and the introduction of the K-Factors methodology and new measures relating to liquidity requirements, large exposures and consolidation requirements.

The Regulatory framework consists of a three “Pillar” approach:

- Pillar I - Covers minimum capital and liquidity requirements.
- Pillar II – Regulates the investment firm’s accountability to the regulator for capital and liquidity adequacy. If the regulator deems the capital to be insufficient, a corrective requirement can be imposed on the company in the form of what is known as a ‘SREP decision’.
- Pillar III - Market Discipline requires the disclosure of information regarding the prudential requirements, risk management and principles of the remuneration policy.

The Company has a formal policy, approved by the Board, which details its approach in complying fully with the Pillar 3 disclosure requirements as laid out in Part Six of the IFR.

The provisions on disclosure requirements are described in Articles 46 to 53 of the IFR. In addition, these disclosures must be verified by the external auditors of the CIF. The CIF will be responsible to submit its external auditors’ verification report to CySEC. The Company has included its risk management disclosures on its website.

Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, this was not included in the document.

## **Frequency**

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

## **Location of publication**

The Company’s Pillar III disclosures are published on the Company’s websites:

- [www.fxgrow.com](http://www.fxgrow.com)
- [www.geldexinvest.com](http://www.geldexinvest.com)



## **Verification**

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. The Company's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures have been reviewed by the Risk Manager.

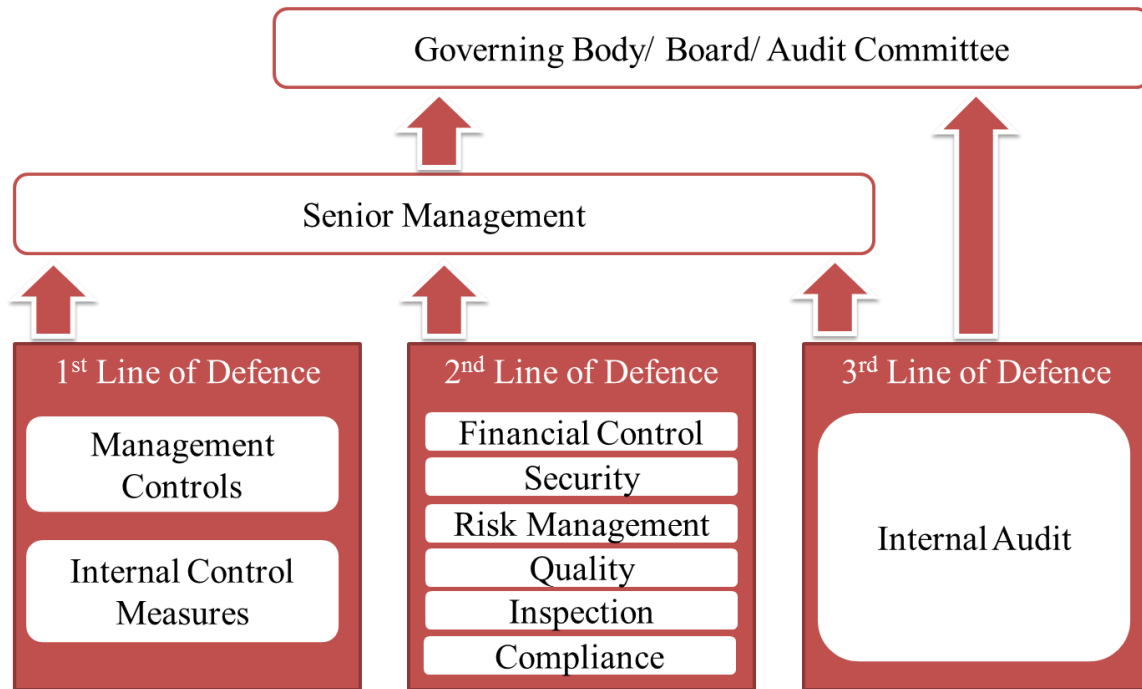
### **1.5 Risk management objectives and policies**

To ensure effective risk management, the Company has adopted the Three Lines of Defence model, with clearly defined roles and responsibilities.

First Line of Defence: Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organisational risk appetite and are fully compliant with the Company's policies and where appropriate defined thresholds. First Line of Defence acts as an early warning mechanism for identifying (or remedying) risks or failures.

Second Line of Defence – The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company's risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. The Risk Management Function will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise-wide risks and make recommendations to address them. Integral to the mission of Second Line of Defence is identifying risk areas, detecting situations/activities, in need of monitoring and developing policies to formalise risk assessment, mitigation and monitoring.

Third Line of Defence - Comprised by the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of design and operational effectiveness of the systems of internal controls. Internal Audit undertakes on-site inspections/visits to ensure that the responsibilities of each Function are discharged properly (i.e. soundly, honestly and professionally) as well as reviewing the Company's relevant policies and procedures. Internal Audit works closely with both the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.



#### 1.4.1 Risk Management Framework

Managing risk effectively in a Company operating in a continuously changing risk environment requires a strong risk management culture. As a result, the Company has established an effective risk oversight structure and the necessary internal organisational controls to ensure that the Company undertakes the following:

- The adequate risk identification and management
- The establishment of the necessary policies and procedures
- The setting and monitoring of the relevant limits and
- Compliance with the applicable legislation

The Board meets on a regular basis and receives updates on risk and regulatory capital matters from management. The Board reviews regularly (at least annually) written reports concerning compliance, risk management and internal audit policies, procedures and work as well as the Company’s risk management policies and procedures as implemented by Management.

As part of its business activities, the Company faces a variety of risks, the most significant of which are described further below. The Company holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk.

#### 1.4.2 Risk Statement

The Company's activities expose it to a variety of risks, and in particular to credit risk, market risk, operational risk, compliance risk, regulatory risk, reputational risk, group risk, strategic risk, liquidity risk, conduct risk etc. The Company, through its operations, has significant exposure to the economies and financial markets.

As regards the management of the risks arising from the COVID-19 outbreak, the Company is following the local government guidelines in its response to the virus, testing its business

continuity and disaster recovery plan and supporting the work from home principle whenever it is possible. During the year 2021, the Company concentrated their efforts on monitoring and assessing the impact of COVID-19 as well as ensuring business continuity. In this respect, it has taken the required measures to ensure that its employees have access to its technology infrastructures necessary for the completion of their tasks and that additional systems for critical functions are being provided.

## **Risk Strategy**

The risk strategy of the Company is the responsibility of the Board, which formulates it and is responsible for monitoring its implementation. This is achieved through the development of risk management processes and procedures as well as through an assessment of the risks undertaken and the effectiveness of the risk management framework, given the Company's business model. One important characteristic of the Company's risk strategy is the alignment with the strategic and operational targets that are set by the Board.

The risks that arise from the implementation of the Company's strategic and business plans are regularly analyzed in order to ensure the adequacy of the relevant policies, procedures and systems.

The risk strategy of the Company aims to provide to both Senior Management and employees a general risk framework for the management of the different types of risk in line with the overall risk management and risk bearing capacity of the Company. The Company recognizes the importance of risk management to its business' success and therefore the overall objective is to establish effective risk management policies that are able to mitigate the Company's exposure to the various risks.

## **Risk Appetite**

Risk appetite is the level and type of risk a firm is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders. Risk appetite is generally expressed through both quantitative and qualitative means and should consider extreme conditions, events and outcomes. In addition, risk appetite should reflect potential impact on earnings, capital and funding/liquidity.

The company has a low-risk appetite in respect to investing and to managing business and operational activities.

According to the Financial Stability Board (FSB), an appropriate risk appetite framework (RAF) should enable risk target, risk appetite, risk limits and risk profile to be considered for business lines and legal entities as relevant, and within the group context.

The Risk appetite framework is defined as the overall approach, including policies, processes, controls, and systems through which risk appetite is established, communicated, and monitored.

Moreover, it includes a risk appetite statement, risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring the RAF. The RAF should consider material risks to the financial institution, as well as to the institution's reputation vis-à-vis policyholders, depositors, investors and customers. The RAF aligns with the institution's strategy.

The Company is assessing its risk appetite in respect to investing and to managing business and operational activities while the Company's Risk Appetite Statement is prepared by the Risk Manager and approved by the Board of Directors.

**Table 3: Risk Appetite areas**

| Indicator                               | Normal <sup>1</sup> | Warning <sup>2</sup> | Limit <sup>3</sup> |
|---|---------------------|----------------------|--------------------|
| Minimum Own Fund Requirement            | >€900k              | <€900k               | €750k              |
| Common Equity Tier 1 Ratio <sup>4</sup> | >100%               | <75%                 | 56%                |
| AT1 Capital Ratio <sup>4</sup>          | >125%               | <100%                | 75%                |
| Total Capital Ratio <sup>4</sup>        | >150%               | <125%                | 100%               |
| Liquid Assets                           | >€55k               | <€55k                | €43k               |
| Return on Assets                        | ≥5.00%              | <5.00%               | 0.00%              |
| Retained Earnings / Total Equity        | ≥10.00%             | <10.00%              | 5.00%              |

Notes

1. The level of the indicator is within the acceptable limits as per the Company's risk appetite.
2. The Company should take proactive actions in order to ensure that the level of the indicator will remain above the acceptable limits.
3. The level of the indicator falls below the acceptable limits and as such the Company should proceed with the required actions in order to restore the level of the said indicator to the normal predefined levels.
4. Additional own funds requirement and 1.50% as per the paragraph 18 of the Law 20(I)/2016 have been taken into consideration for Normal and Warning thresholds

The Risk Appetite framework has been designed to create links to the strategic long-term plan, capital planning and the Company's risk management framework.

The Board approves the Company's corporate strategy, business plans, budget, long term plan and ICARA. The Company employs mitigation techniques defined within the Company's policies, to ensure risks are managed within its Risk Appetite.

### 1.4.3 Risk Culture

Risk culture is a critical element in the Company's risk management framework and procedures. Management considers risk awareness and risk culture within the Company as an important part of the effective risk management process. Ethical behaviour is a key component of the strong risk culture and its importance is also continuously emphasised by the management.

The Company is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to take accountability for them. The Company embraces a culture where each of the business areas are encouraged to take risk-based decisions, while knowing when to escalate or seek advice.

### 1.5. Declaration of the Management Body

The Management Body is required to proceed with an annual declaration on the adequacy of the Company's risk management framework and ensure that the risk management arrangements and systems of financial and internal control in place are in line with the Company's risk profile.

The Company's risk management framework is designed to identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company's operations. The Board considers that it has in place adequate systems and controls with regards to the Company's size, risk profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

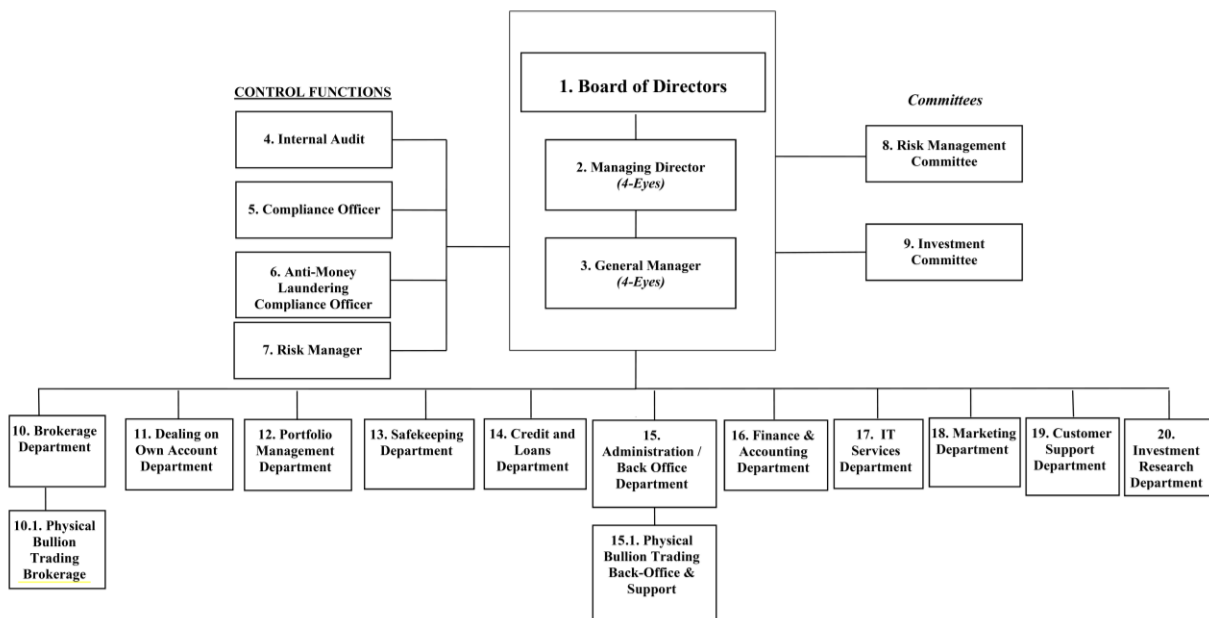
## 2. CORPORATE GOVERNANCE

The Company’s systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness.

The risk management and internal control systems are embedded in the operations of the Company and are capable of responding quickly to evolving business risks, whether they arise from factors within the Company or from changes in the business environment.

### 2.1. Organisational Structure

The Company’s latest organizational structure is as follows:



Through the said structure, the Company incorporates a strict Internal Governance framework. Furthermore, the Organisational Structure incorporates the various organisational and functional reporting lines, as well as the different roles and responsibilities therein, while it also facilitates the compliance of the Company with the principle of segregation of duties and helps in the avoidance and control of possible conflicts of interest situations within the Company.

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff constituting the Company.

Moreover, 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, sets the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

### **2.1.1. Board of Directors**

The management body has the ultimate and overall responsibility for the investment firm and defines, oversees and is accountable for the implementation of the governance arrangements.

The Board is responsible for ensuring that the Company complies at all times with its obligations under the Law. In doing so, the Board approves and periodically reviews the effectiveness of the policies, arrangements and procedures put in place, whilst if needed, takes appropriate measures to address any deficiencies.

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff of the Company. It also 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, sets the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

The Board has the overall responsibility for the establishment and oversight of the Company's Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust. The Board comprises of two executive directors and two non-executive directors.

The names of the Board of Directors have been updated during 2021. Specifically, Mr Kassem Shmeis has resigned from his position as Executive Director and the Company notified CySEC through a letter in March 2021, of their decision to appoint Mr. Hassan Mazeh in the position of Executive Director. CySEC accepted the Company's proposal for a change in the Board of Directors.

#### ***2.1.1.1. Number of Directorships held by members of the Board***

All members of the Board commit sufficient time to perform their functions in the Company. The number of directorships which may be held by a member of the Board at the same time shall take into account individual circumstances and the nature, scale and complexity of the Company's activities. Unless representing the Republic, members of the Board of a CIF that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- one executive directorship with two non-executive directorships;
- four non-executive directorships.

Furthermore, directorships in organisations which do not pursue predominantly commercial objectives such as non-profit or charitable organisations shall not count for the purposes of the above guidelines.

The table below discloses the number of directorships held by members of the management body in entities of the Company as at 31 December 2021:



**Table 4: Number of Directorships of the members of the Board of Directors\***

| Director            | Function               | Number of Executive Directorships | Number of Non-Executive Directorships |
|---------------------|------------------------|-----------------------------------|---------------------------------------|
| Ms. Cynthia Tawk    | Executive Director     | 1                                 | -                                     |
| Mr. Hassan Mazeh**  | Executive Director     | 1                                 | -                                     |
| Mr. George Skordis  | Non-Executive Director | -                                 | 1                                     |
| Mr. Michael Ellinas | Non-Executive Director | -                                 | 2                                     |

\* The information in this table is based only on representations made by the directors of the Company.

\*\* Appointed in March 2021 in replacement of Mr Kassem Shmeis

For the purpose of the above, Executive or Non-Executive directorships held within the same group shall count as a single directorship.

### 2.1.2. Risk Manager

Further to the formation of the overall Internal Governance Framework, it should be noted that the Board has appointed a Risk Manager to ensure that all the different types of risks taken by the Company are in compliance with the Law and the obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place and are functional on an operational level from a day-to-day basis. The Risk Manager reports directly to the Senior Management of the Company while as previously discussed, the Risk Management Committee is responsible to control and overview the Risk Manager's actions/ performance at work.

### 2.1.3. Committees

Establishing committees helps management bodies in their supervisory function. Committees draw on the specific knowledge and areas of expertise of individual management body members. While committees should prepare decisions and make recommendations to the management body in its supervisory function, the management body has overall responsibility.

However, the Company has established a *Risk Management Committee* and *Investment Committee* in order to ensure the effectiveness of the risk management and investment policies and procedures.

#### Investment Committee

An Investment Committee has been 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 decisions shall relate to general and overall decisions as far as the investments are concerned which correspond to the Client's risk profile categories or the Company's risk profile, as applicable. These general and overall decisions relate to various sectors of the economy across multiple regions and countries, general macroeconomic indicators, types of Financial Instruments, types of financial markets and market segments. Further, these decisions are notified to the relevant Heads of the Departments of the Company, as necessary, to enable discharging of their duties in an effective manner. As far as investments are concerned and when related to specific investment strategies, these decisions are of a prescribed content.



During the year 2021, the Investment Committee has met three times.

### **Risk Management Committee**

The Risk Management Committee of the Company 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 overall risks underlying the operations of the Company. To this effect, the Company has adopted and maintains an applied risk management framework/policy, which identifies the risks relating to the Company's activities, processes and systems and sets the risk tolerance levels of the Company.

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

Furthermore, the risk committee advises the management body on the investment firm's overall current and future risk appetite and strategy and assists the management body in overseeing the implementation of that strategy by senior management.

The Risk Management Committee meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager. During the year 2021, the Committee met one time.

#### **2.1.4. Other Governance Functions**

##### **Internal Audit Function**

The Internal Auditor reports to the Senior Management and the Board of the Company and is separated and independent from the other functions and activities of the Company. The Internal Auditor has access to the Company's premises, systems, information, personnel and financials. The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions are taken according to the Board's assessment and prioritization. Moreover, the qualifications of the Internal Auditor should entail sufficient academic background, extensive knowledge of and exposure to the capital markets and financial services industry, and high level of knowledge and understanding of the legal framework under which the Company is regulated.

##### **Compliance Function**

Pursuant to the regulatory obligations of the Company and with the view to complement the Internal Governance framework of the Company, the Board has established a compliance function to manage compliance risk. Furthermore, the Board has appointed the Compliance Officer (the "CO") who is to be responsible for this function across the entire investment firm. More specifically, the CO 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, to put in place adequate measures and procedures designed to minimize such risks and to enable the competent authorities to exercise their powers effectively. The compliance

function, policies and procedures should also be compliant with Article 22 of Commission Delegated Regulation (EU) 2017/565 and ESMA guidelines on the compliance function.

The Compliance Officer is independent and reports directly to the Senior Management of the Company, having at the same time the necessary authority, resources, expertise and access to all relevant information. The staff within the compliance function possesses sufficient knowledge, skills and experience in relation to compliance and relevant procedures and has access to regular training.

### **Anti-Money Laundering Compliance Officer**

The Board retains a person to the position of the Company’s Anti-Money Laundering Compliance Officer (hereinafter the “AMLCO”) to whom the Company’s employees report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The AMLCO belongs to the higher hierarchical levels/layers of the Company so as to command the necessary authority. The AMLCO leads the Company’s Anti-Money Laundering Compliance procedures and processes and reports to the Senior Management and the Board of the Company.

#### **2.1.5. Responsibilities**

**Table 5: Roles and Responsibilities**

| Role                | Responsibilities  |
|---------------------|---|
| <b>Risk Manager</b> | <ul style="list-style-type: none"> <li>• Design the overall risk management system of the Company</li> <li>• Comply and implement the relevant provisions of the Law</li> <li>• Prepare the Risk Management policies and procedures</li> <li>• Provide training to relevant employees and the Senior Management, on risk-related issues</li> <li>• Analyze the market and its trends</li> <li>• Evaluate the effect of the introduction of any potential new services or activities on the Company’s risk management</li> <li>• Measures for the monitoring of capital adequacy and large exposures</li> <li>• Draft written reports to the Management Body including recommendations.</li> <li>• Monitor Client and counterparty limits</li> <li>• Identify and manage the overall risks faced by the Company</li> <li>• Establish methods for risk monitoring and measurement</li> <li>• Monitor the performance and overall actions of the Dealing on Own Account Department</li> <li>• Prepare and implement the ICARA of the Company</li> <li>• Apply stress testing scenarios and undertake analysis of the results,</li> <li>• Review the policy on maximum limits with respect to liquidity risk and market risk</li> <li>• Identify the instruments that are qualified as liquid assets.</li> <li>• Ensure that data for the calculation of the K-Factors requirement are available at all times.</li> <li>• Fulfil the disclosure requirements under part six of IFR based on the categorization of the Company.</li> </ul> |

|                                  |   |
|----------------------------------|---|
| <b>Investment Committee</b>      | <ul style="list-style-type: none"> <li>• Supervise the proper choice of investments</li> <li>• Analyse the investment potential and contribute to the elaboration of the investment policy</li> <li>• Decide upon the markets and types of Financial Instruments in which the Company shall be active</li> <li>• Determine the mode, content and frequency of the Client’s briefing.</li> <li>• Establish, approve, adjust and monitor the Company Investment Policy in relation to the Portfolio Management Department</li> <li>• Review the Company’s Investment Policy whenever a material change occurs</li> <li>• Establish risk profile categories for each Client</li> <li>• Analyze the economic conditions and the investment alternatives based on a thorough examination of third party reports</li> <li>• Select appropriate benchmarks for different type of portfolios</li> <li>• Examine the returns and the associated risks of the Client portfolios</li> <li>• Review the established dealing on own account policy</li> <li>• Monitor the collection of the Client information through the filling of the Investment Questionnaire, or information obtained through interviews</li> </ul>  |
| <b>Risk Management Committee</b> | <ul style="list-style-type: none"> <li>• Scrutinize and decide on various risks associated with the operation of the Company with the view to increase the awareness of, formulate internal policies and measure the performance of the said policies</li> <li>• Review the risk management procedures in place</li> <li>• Review the ICARA on a yearly basis</li> <li>• Monitor and control the Risk Manager’s and Risk Management Department’s performance and effectiveness</li> <li>• Ensure that the Company has a clear policy in respect of the assumption, follow up and management of risks duly notified to all interested parties or organizational units of the Company.</li> <li>• Break down of such risk limits further where necessary, for example, per class of investment service or Financial Instrument, or Client or market</li> <li>• Implement stop loss-control limits</li> <li>• Follow up open positions within the approved limits</li> <li>• Ensure the immediate tracking down and scrutiny of important abrupt changes in the Company’s financial figures, procedures or personnel, as well as the regular control of the volume and causes underlying deviations between projections and corporate end results, as submitted to the Board</li> <li>• Approve Client and counterparty limits</li> <li>• Approve policy description concerning information systems and monitor the information systems in place</li> <li>• Establish a policy regarding the amount of information provided to Clients about the nature and risks of Financial Instruments according to the Client classification</li> <li>• Supervise the Disaster Recovery Plan</li> </ul> |
| <b>Compliance Function</b>       | <ul style="list-style-type: none"> <li>• Liaise with all relevant business and support areas within the Company</li> <li>• Monitor and assess the adequacy and effectiveness of the measures, policies and procedures put in place</li> <li>• Monitor and assess the level of Legal &amp; Compliance Risk that the Company faces</li> </ul>   |

|                       |   |
|-----------------------|---|
|                       | <ul style="list-style-type: none"> <li>• Provide training to the staff of the Company in respect with the compliance function according to the Law</li> <li>• Communicate the relevant statutes of the IOM to each employee and notify them of any relevant changes therein</li> <li>• Develop and design the appropriate procedures of the Company, so as to prevent and resolve potential conflicts of interest</li> <li>• Ensure that all employees have the ability to identify cases of potential conflicts of interest.</li> <li>• Disclose to Clients the general nature and any potentially present conflicts of interest</li> <li>• Keep records regarding conflict of interest situations</li> <li>• Consent and approve the Company's Replacement Policy</li> <li>• Establish and implement the measures as regards personal transactions and notify each relevant person of the restrictions on personal transactions</li> <li>• Review the Company's website, on at least annual basis</li> <li>• Ensure that the termination process of Clients account is followed</li> <li>• Ensure that all relevant information is included in the Company's outsourcing agreements</li> <li>• Ensure that the performance of multiple functions by the Company's relevant persons does not and is not likely to prevent those persons from discharging any particular function soundly, honestly, and professionally</li> <li>• Follow up Client complaints or grievances in relation to the Administration/Back Office Department and filing these complaints.</li> <li>• Approve the information script and/or standard FAQ which shall state the information that can be shared with Clients</li> </ul> |
| <b>Internal Audit</b> | <ul style="list-style-type: none"> <li>• Establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements</li> <li>• Provide timely, accurate and relevant reporting in relation to internal audit matters to the Board of Directors and the Senior Management of the Company, at least annually.</li> <li>• Provide the Company with an Independent confirmation that the process followed by the Company is according to the Board's requirements,</li> <li>• Provide the Company with an Independent review of the risk assessment, stress testing and capital allocation exercises performed, and shall confirm their compliance with the policies and procedures approved by the Board of the Company</li> <li>• Perform an Independent validation of all numbers included in the ICARA Report and shall confirm their agreement with the financial records</li> </ul>  |
| <b>AMLCO</b>          | <ul style="list-style-type: none"> <li>• The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income</li> <li>• To decrease the probability of appearance among the Customers of the Company of any persons/organizations engaged in illegal activity and/or related with such persons/organizations</li> <li>• To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing</li> </ul>  |

|  |   |
|--|---|
|  | <ul style="list-style-type: none"> <li>To ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities</li> </ul> |
|--|---|

## 2.2. Policy on Recruitment

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework. Members of the Board possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board reflects an adequately broad range of experiences to be able to understand the CIF's activities, including the main risks to ensure the sound and prudent management of the Company as well as sufficient knowledge, of the legal framework governing the operations of a CIF.

## 2.3. Policy on Diversity

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organisation. For this purpose, the Company takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age and cultural and educational background for the Board appointments.

## 2.4. Information flow on risk to the management body

Risk information flows up to the Board directly from the business departments and control functions. The Board ensures that it receives on a frequent basis, at least annually written reports regarding Internal Audit, Compliance, Money Laundering and Terrorist Financing and Risk Management issues and approves the Company's ICARA report as shown in the table below:

**Table 6: Information flow on risk to management body**

|   | Report Name           | Owner of Report    | Recipient                       | Frequency |
|---|-----------------------|--------------------|---------------------------------|-----------|
| 1 | Risk Manager's Report | Risk Manager       | Senior Management, Board, CySEC | Annually  |
| 2 | Form 165-01           | Risk Manager       | Senior Management, Board, CySEC | Quarterly |
| 3 | ICARA Report          | Risk Manager       | Senior Management, Board        | Annually  |
| 4 | Pillar 3 Disclosures  | Risk Manager       | Senior Management, Board        | Annually  |
| 5 | Risk Register         | Risk Manager       | Senior Management, Board        | Annually  |
| 6 | Compliance Report     | Compliance Officer | Senior Management, Board, CySEC | Annually  |

|    |   |  |  |                 |
|----|---|--|--|-----------------|
| 7  | Internal Audit Report                               | Internal Auditor                         | Senior Management, Board, CySEC                      | Annually        |
| 8  | Anti-money laundering (AMLCO) Report                | Anti-money laundering Compliance Officer | Senior Management, Board, CySEC                      | Annually        |
| 9  | Audited Financial Statements                        | External Auditor                         | Senior Management, Board, CySEC                      | Annually        |
| 10 | Form 144-14-11 'Prudential Supervision Information' | Risk Manager                             | Senior Management, Board, CySEC                      | Annually        |
| 11 | Form 20-01 (Recovery Plan)*                         | Risk Manager                             | Senior Management, Board, CySEC                      | Every Two Years |
| 12 | Resolution Templates (XBRL)                         | Risk Manager                             | Senior Management, Board, Resolution Authority (CBC) | Annually        |

*\*CIF which are subject to simplified obligations for the purpose of preparing their recovery plans according to Directive DI20-01*

Furthermore, the Company believes that the risk governance processes and policies are of at most importance for its effective and efficient operation. The processes are reviewed and updated on an annual basis or when deemed necessary.

### 3. OWN FUNDS

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses.

During the year under review, the primary objective of the Company with respect to capital management was to ensure that it complied with the imposed capital requirements with respect to its own funds and that the Company maintained healthy capital ratios in order to support its business.

Further to the above, the Company as a **Class 2** investment firm shall at all times have own funds at least the highest of the following:

- Initial Capital Requirement,
- Fixed Overheads Requirements and
- K-Factors Requirement.

The Company throughout the year under review managed its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

#### 3.1. Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information relating to their own funds. Furthermore, institutions shall disclose a description of the main features of the Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) instruments and Tier 2 (T2) instruments issued by the institution.

The Company's regulatory capital comprises fully of CET1 capital while it has not issued any AT1 or T2 capital. The composition of the capital base and capital ratios of the Company are shown in the following table:

**Table 7: Own Funds Composition as at 31 December 2021**

| Own Funds Composition                                      | €000         |
|--|--------------|
| <b>CET1 capital before regulatory adjustments</b>          |              |
| Capital instruments and the related share premium accounts | 1,589        |
| Retained earnings  | (380)        |
| <b>CET1 capital: regulatory adjustments</b>                |              |
| Additional deductions of CET1 Capital (ICF Contribution) * | (70)         |
| <b>CET1 capital</b>  | <b>1,140</b> |
| <b>AT1 capital</b>   | <b>-</b>     |
| <b>Tier 1 capital (T1 = CET1 + AT1)</b>                    | <b>1,140</b> |
| <b>Tier 2 (T2) capital</b>                                 | <b>-</b>     |
| <b>Total capital</b>                                       | <b>1,140</b> |

\*According to the Circular C334, CIFs should deduct the additional Cash Buffer of 3 per thousand of the eligible funds and financial instruments of their clients as at the previous year calculated according to paragraph 11(6) of the Directive DI87-07 (operation of the ICF).



### 3.2. Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

In order to meet the requirements for disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, the Company discloses the capital instruments' main features as outlined below:

**Table 8: Main features of capital instruments**

| Capital Instruments Main Feature                  | CET1                          |                       |
|---|-------------------------------|-----------------------|
| Issuer  | Growell Capital Limited       |                       |
| <b>Regulatory Treatment</b>                       |                               |                       |
| Eligible at Solo/(sub-)consolidated/solo          | Solo                          |                       |
| Instrument type                                   | Common Equity                 |                       |
| Amount recognized in regulatory capital           | €1,589k                       |                       |
| Nominal amount of instrument                      | €1,589k                       |                       |
| Issue Price                                       | Various                       |                       |
| Accounting classification                         | Shareholders' Equity          |                       |
| Amount of Increase/Original date of issuance      | <i>Share Capital Increase</i> | <i>Effective Date</i> |
|   | €1k                           | 12/11/2012            |
|   | €353k                         | 21/02/2014            |
|   | €70k                          | 09/09/2014            |
|   | €65k                          | 30/11/2014            |
|   | €92k                          | 26/08/2016            |
|   | €142k                         | 30/11/2016            |
|   | €256k                         | 30/06/2017            |
|   | €400k                         | 28/12/2017            |
| €210k   | 29/10/2021                    |                       |
| Perpetual or dated                                | Perpetual                     |                       |
| Original maturity date                            | No maturity                   |                       |
| Issuer call subject to prior supervisory approval | No                            |                       |
| <b>Coupons / Dividends</b>                        |                               |                       |
| Fixed or floating dividend/coupon                 | Floating                      |                       |
| Coupon rate and any related index                 | N/A                           |                       |

The Company's capital resources consist of Tier 1 Capital only. No additional Tier 1 and Tier 2 Capital available. Moreover, the Company on 29 October 2021 proceeded with a share capital increase of €210k by issuing 1,000 shares of €1 nominal value per share and share premium of €209 per share in order to boost its level of own funds.

### 3.3. Balance Sheet Reconciliation

Institutions shall disclose a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions and the balance sheet in the audited financial statements of the institution as follows:



**Table 9: Balance Sheet Reconciliation**

| <b>Equity</b>  | <b>€000</b>  |
|--|--------------|
| Share capital  | 9            |
| Share premium  | 1,580        |
| Retained earnings  | (380)        |
| <b>Total Equity as per Audited Financial Statements</b>            | <b>1,209</b> |
| <b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b> |              |
| Additional deductions of CET1 Capital                              | (70)         |
| <b>Total Own funds</b>   | <b>1,140</b> |

## 4. OWN FUNDS REQUIREMENTS

The Company as a **Class 2** investment firm shall at all times have own funds at least the highest of the following:

- Initial minimum requirement,
- Fixed Overhead Requirements and
- K-Factors Requirement.

### 4.1. Initial Capital Requirement

As per the Title III of the Law, the initial capital of a CIF which is authorised to provide any of the investment services or perform any of the investment activities listed in points (3) and (6) of Part I of Annex I to the Investment Services and Activities and Regulated Markets Law, shall be €750,000 while for a CIF which is authorised to provide any of the investment activities listed in points (1), (2), (4), (5) and (7) and which is not permitted to hold client money or securities belonging to its clients, the initial capital shall be €75,000. For all other CIFs, the initial capital shall be €150,000.

Therefore, since the Company is authorised to provide the investment service of “*dealing on own account*”, its initial capital is €750,000.

### 4.2. Fixed Overheads requirement

The fixed overheads requirement (FOR) applies to all CIFs. The FOR is intended to calculate a minimum amount of capital that a CIF would need available to absorb losses if it has cause to wind-down or exit the market.

It is calculated as the one quarter of the fixed overheads of the preceding year (or business plan where the audited financial statements are not available) in accordance with the provision of Article 13 of IFR.

Further to the above and in accordance with RTS issued by EBA, the following variable expenses can be excluded from the calculation of the fixed overheads:

**Table 10: Deductible variable expenses from Fixed Overheads**

| No. | Details  |
|-----|--|
| 1.  | Staff bonuses and other remuneration, to the extent that they depend on the net profit of the investment firm in the respective year   |
| 2.  | Employees', directors' and partners' shares in profits   |
| 3   | Other appropriations of profits and other variable remuneration, to the extent that they are fully discretionary   |
| 4.  | Shared commission and fees payable which are directly related to commission and fees receivable, which are included within total revenue, and where the payment of the commission and fees payable is contingent on the actual receipt of the commission and fees receivable |
| 5.  | Fees to tied agents  |
| 6.  | Non-recurring expenses from non-ordinary activities  |
| 7.  | Fees, brokerage and other charges paid to central counterparties, exchanges and other trading venues and intermediate brokers for the purposes of executing, registering or clearing transactions, only where they are directly passed on and charged to customers           |
| 8.  | Interest paid to customers on client money, where there is no obligation of any kind to pay such interest;   |

|     |   |
|-----|---|
| 9.  | Expenditures from taxes where they fall due in relation to the annual profits of the investment firm  |
| 10. | Losses from trading on own account in financial instruments   |
| 11. | Payments related to contract-based profit and loss transfer agreements according to which the investment firm is obliged to transfer, following the preparation of its annual financial statements, its annual result to the parent undertaking |
| 12. | Payments into a fund for general banking risk in accordance with Article 26(1)(f) of Regulation (EU) 2013/575   |
| 13. | Expenses related to items that have already been deducted from own funds in accordance with Article 36(1) of Regulation (EU) 2013/575   |

Further to the above, the Company's fixed overheads requirement based on the latest audited financial statements is €134k as per the table below:

**Table 11: Fixed Overheads Requirement**

| Item                               | €'000      |
|------------------------------------|------------|
| Total Expenses                     | 666        |
| Variable Expenses                  | (130)      |
| <b>Annual Fixed Overheads</b>      | <b>536</b> |
| <b>Fixed Overheads requirement</b> | <b>134</b> |

### 4.3. K-Factors Requirement

The K-factor capital requirements are essentially a mixture of activity- and exposure-based requirements. K-factors applies to an individual investment firm will depend on the MiFID investment services and activities it undertakes.

Capital requirement from applying K-factors formula is the sum of Risk to Client ('RtC'), Risk to Market ('RtM') and Risk to Firm ('RtF').

Further to the above and since the Company is Class 2 IF which is authorized to provide the investment service of *Dealing on Own Account*, all RtC, RtM and RtF proxies are applicable for the Company.

#### 4.3.1. Risk to Client

The risk to Client proxy captures the risk that may be inflicted onto the clients. RtC exists in the activities/services of the firm which are related to the client and are measured as a percentage of Clients Money Held (CMH), Assets Under Management (AUM), Assets Safeguarded & Administered (ASA) and Clients' Orders Handled (COH).

The Company is required to calculate the following K-Factors requirements as part of the RtC:

##### 4.3.1.1. K-AUM: Assets Under Management

K-AUM captures the risk of harm to clients from an incorrect discretionary management of client portfolios or poor execution and provides reassurance and client benefits in terms of the continuity of service of ongoing portfolio management and investment advice.

AUM is the value of assets an IF manages for its clients under both discretionary portfolio management and non-discretionary arrangements constituting investment advice of an ongoing nature.

### Calculation

AUM shall be the rolling average of the value of the total monthly assets under management, measured on the last business day of each of the previous 15 months, excluding the 3 most recent monthly values.

AUM=average of the 12 months

K-AUM = AUM\*0.02%

The table below shows the Total AUM value as an arithmetic mean for the 4<sup>th</sup> quarter of 2021 in accordance with the Article 17(1) of IFR:

**Table 12: Total AUM (average amounts)**

|  | Factor amount             |                           |                          |
|--|---------------------------|---------------------------|--------------------------|
|  | December<br>2021<br>€'000 | November<br>2021<br>€'000 | October<br>2021<br>€'000 |
| <b>Total AUM (average amounts)</b>                 | <b>196</b>                | <b>196</b>                | <b>196</b>               |
| Of which: AUM - Discretionary portfolio management | 196                       | 196                       | 196                      |

#### 4.3.1.2. K-CMH: Clients Money Held

K-CMH captures the risk of potential for harm where an investment firm holds the money of its clients, taking into account whether they are on its own balance sheet or in third-party accounts and arrangements under applicable national law provided that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm.

CMH is the amount of client money that an investment firm holds or controls. It 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).

### Calculation

CMH shall be the rolling average of the value of total daily client money held, measured at the end of each business day for the previous 9 months, excluding the 3 most recent months.

CMH = average of the 6 months

- For segregated accounts: K-CMH = CMH\*0.4%
- For non- segregated accounts: K-CMH = CMH\*0.5%

The table below shows the Total CMH values in segregated accounts and non-segregated accounts for the 4<sup>th</sup> quarter of 2021 in accordance with the Article 18(1) of IFR:

**Table 13: Total CMH (average amounts)**

|  | Factor amount             |                           |                          |
|--|---------------------------|---------------------------|--------------------------|
|  | December<br>2021<br>€'000 | November<br>2021<br>€'000 | October<br>2021<br>€'000 |
| CMH - Segregated (average amounts)     | 922                       | 791                       | 688                      |
| CMH - Non-segregated (average amounts) | -                         | -                         | -                        |

#### **4.3.1.3. K-ASA: Assets Safeguarded and Administered**

K-ASA captures the risk of safeguarding and administering client assets, and 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.

ASA means the value of assets that an investment firm safeguards and administers for clients – 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.

#### **Calculation**

It is calculated as the rolling average of the daily total value of assets under safekeeping and administration, measured at the end of each business day for the previous 9 months, excluding the 3 most recent months.

ASA=average of the 6 months

K-ASA = ASA\*0.04%

The table below shows the Total ASA values as an arithmetic mean for the 4<sup>th</sup> quarter of 2021 in accordance with the Article 19(1) of IFR:

**Table 14: Total ASA (average amounts)**

|                             | Factor amount             |                           |                          |
|-----------------------------|---------------------------|---------------------------|--------------------------|
|                             | December<br>2021<br>€'000 | November<br>2021<br>€'000 | October<br>2021<br>€'000 |
| Total ASA (average amounts) | 4,340                     | 6,296                     | 6,067                    |

#### **4.3.1.4. K-COH: Client Orders Handled**

K-COH captures the potential risk to clients of an investment firm which executes orders (in the name of the client, and not in the name of the investment firm itself), for example as part of execution-only services to clients or when an investment firm is part of a chain for client orders.

COH captures the potential risk to clients of an investment firm which executes its orders (in the name of the client). This is the value of orders that an investment firm handles for clients, through the reception and transmission of client orders and execution of orders on behalf of clients.

### Calculation

COH shall be the rolling average of the value of the total client orders handled, measured throughout each business day for the previous 6 months.

COH= sum of [ABS(Buys) + Abs (Sells)] for both cash trades and derivatives

➤ *For Cash Trades*

- The value is the amount paid or received on each trade
- COH=average of the 3 months
- K-COH = COH\*0.1%

➤ *For Derivative Trades*

- The value is the notional amount of the contract
- COH=average of the 3 months
- K-COH = COH\*0.01%

The table below shows the arithmetic mean amount of COH in cash trades and derivatives for the 4<sup>th</sup> quarter of 2021, in accordance with the Article 20(1) of IFR:

**Table 15: Total COH (average amounts)**

|                                     | Factor amount             |                           |                          |
|-------------------------------------|---------------------------|---------------------------|--------------------------|
|                                     | December<br>2021<br>€'000 | November<br>2021<br>€'000 | October<br>2021<br>€'000 |
| COH - Cash trades (average amounts) | 819                       | 478                       | 560                      |
| COH - Derivative (average amounts)  | 13                        | 82                        | 184                      |

### 4.3.2. Risk to Market

The Risk to market proxy captures the risk an IF can pose to market access. The K-factor for RtM is based on the rules for market risk, for position in financial instruments in foreign exchange and in commodities in accordance with the CRR.

#### 4.3.2.1. K-NPR: Net Position Risk

A Class 2 investment firm must calculate its K-NPR requirement by reference to trading book positions and positions other than trading book positions where the positions give rise to foreign exchange risk or commodity risk. The K-NPR requirement is calculated in accordance with Title IV of Part Three of the CRR.

The Company is exposed to market risk resulting from exposure to:

- FX Risk;
- Commodity Risk

- Equity Risk

As at 31 December 2021, the K-NPR capital requirements amounted to €23k, as shown in the table below:

**Table 16:K-NPR capital requirement**

| K-NPR                 | €'000     |
|-----------------------|-----------|
| Foreign Exchange Risk | 19        |
| Commodities Risk      | 2         |
| Position Risk         | 2         |
| <b>K-NPR</b>          | <b>23</b> |

### Foreign Exchange Risk

Foreign exchange risk is the effect that unanticipated exchange rate changes have on the Company.

In the ordinary course of business, the Company is exposed to foreign exchange risk, which is monitored through various control mechanisms.

The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of a maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

The Company's foreign exchange risk capital requirement is €19k emanating from a net foreign exchange exposure of €240k based on the latest relevant calculations of the Company's capital requirements, as at 31<sup>st</sup> of December 2021.

The Company continues to regularly monitor the impact of exchange rate risks and if deemed necessary corrective actions will be taken to minimize the effect.

### Closely Correlated Currencies

Following the EBA's Final draft Implementing Technical Standards on Closely Correlated Currencies under Article 354 (3) of CRR, the Company may apply lower own funds requirements against positions in relevant closely correlated currencies as these are disclosed by EBA. In this respect, for the calculation of the foreign exchange risk for matched positions on closely correlated currencies, a capital requirement of 4% instead of 8% is used.

The Company's matched positions in closely correlated currencies for the period up to 31 December 2021 were €8k. In this respect, please find below the analysis of the Company's exposure to Foreign Exchange Risk as at 31 December 2021:

**Table 17: Foreign Exchange Risk capital requirements**

|                               | Net Positions |            | 2% total own funds | Positions Subject To Capital Charge |            |          | OFR       |
|-------------------------------|---------------|------------|--------------------|-------------------------------------|------------|----------|-----------|
|                               | Long          | Short      |                    | Long                                | Short      | Matched  |           |
| <b>TOTAL POSITIONS</b>        | <b>331</b>    | <b>240</b> | <b>24</b>          | -                                   | <b>299</b> | <b>8</b> | <b>19</b> |
| Currencies closely correlated | 323           | 76         |                    | -                                   | 67         | 8        | 0         |
| of which: reporting currency  | 314           | -          |                    | -                                   | -          | -        |           |
| All other currencies          | 9             | 113        |                    | -                                   | 180        |          | 14        |
| Gold                          | -             | 52         |                    | -                                   | 52         |          | 4         |

### Commodities Risk

Commodities Risk is the risk of the unexpected changes in commodities prices. These commodities are split into precious metals (except gold), base metals, agricultural products and other energy products (oil, gas).

The Company calculates its capital requirement with respect to commodities risk using the Simplified Approach. Each position in commodities or commodity derivatives is expressed in terms of the standard unit of measurement. The spot price in each commodity is expressed in the reporting currency. The capital requirements for each commodity are calculated as the summation of the following:

- 15% x net position (long or short) x spot price for the commodity
- 3% x gross position (long plus short) x spot price for the commodity

As at 31 December 2021, the Commodities risk capital requirements due to commodities risk amounted to €2k.

**Table 18: Capital requirements for Commodities risk**

| Category        | Gross Long<br>€000 | Gross Short<br>€000 | Net Long<br>€000 | Net Short<br>€000 | OFR<br>€000 |
|-----------------|--------------------|---------------------|------------------|-------------------|-------------|
| Precious Metals | -                  | 11                  | -                | 11                | 2           |
| Other           | -                  | 1                   | -                | 1                 | 0           |
| <b>Total</b>    | -                  | <b>12</b>           | -                | <b>13</b>         | <b>2</b>    |

### Position Risk

Position Risk is the risk involved with a certain trading position, commonly incurred due to the changes in price of the debt and equity instruments. The Company calculates its capital requirements for position risk as the sum of the own funds requirements for the general and specific risk of its positions in debt and equity instruments.



## Equities

Equity Risk is the risk that the fair value of a financial instrument fluctuates as a result of changes in market prices other than due to the effect of transactional foreign currency exposures or interest rate risks.

The sum of the absolute values of all of the Company’s net long positions and all its net short positions is its overall gross position. The Company calculates, separately for each market, the difference between the sum of the net long and the net short positions. The sum of the absolute values of those differences is its overall net position. The specific risk on this individual equity can be ignored if the stock-index future in question is exchange traded and represents a relevant appropriately diversified index.

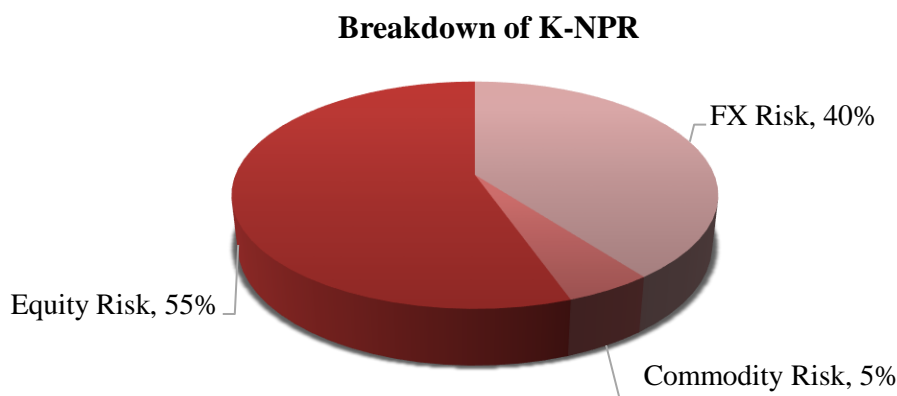
The Company multiplies its overall gross position by 8% in order to calculate its own funds requirement against specific risk. The own funds requirement against general risk are the Company's overall net position multiplied by 8%.

As at 31 December 2021, the market risk capital requirements, due to position risk in equities amounted to €2k.

**Table 19: Position risks in equities**

|               | Total Exposure<br>€000 | Capital Requirements<br>€000 |
|---------------|------------------------|------------------------------|
| General Risk  | 25                     | 2                            |
| Specific Risk | -                      | -                            |
| <b>Total</b>  | <b>25</b>              | <b>2</b>                     |

The graph below shows the breakdown of K-NPR capital requirement as at 31 December 2021.



### 4.3.3. Risk to Firm

The Risk to Firm captures the risk that could be inflicted on the Company. The K-factors under RtF capture an investment firm’s exposure to their trading counterparties, the concentration risk in an investment firm's large exposures and the operational risk from an investment firm’s daily trading flow:

K-factors for K-TCD and K-CON under RtF constitute a simplified application of the rules laid down in the CRR on counterparty credit risk and large exposure risk, respectively.

The Company is required to calculate the following K-Factors requirements as part of the RtF:

#### 4.3.3.1. K-TCD: Trading Counterparty Default

K-TCD captures the risk to an investment firm by counterparties to over-the-counter (OTC) derivatives, repurchase transactions, securities and commodities lending or borrowing transactions, long settlement transactions, margin lending transactions, or any other securities financing transactions, as well as by recipients of loans granted by the investment firm on an ancillary basis as part of an investment service that fails to fulfil their obligations, by multiplying the value of the exposures, based on replacement cost and an add-on for potential future exposure, accounting for the mitigating effects of effective netting and the exchange of collateral.

#### Calculation

Calculation based on CRR counterparty credit risk refers to exposure value, credit valuation, replacement cost, potential future exposure and collateral. The following formulas describe the calculation of the capital requirement for K-TCD:

$$K-TCD = a \times EV \times Rf \times CVA$$

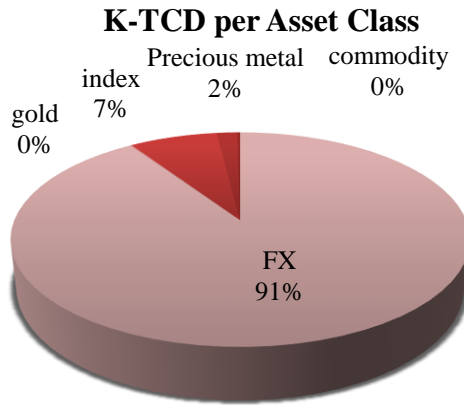
Where:

- $a = 1.2$
- $EV$  = Exposure value calculated in accordance Article 27 of IFR
- $RF$  = the risk factor applicable to the counterparty type as set out in the table 2 in Article 26
- $CVA$  = the credit valuation adjustment calculated in accordance with Article 32 of IFR.

**Table 20: K-TCD Exposures**

| Type of contract                 | Positive Fair Value | Notional Amount | Collateral | Exposure Amount | Capital Requirements |
|----------------------------------|---------------------|-----------------|------------|-----------------|----------------------|
|                                  | €'000               | €'000           | €'000      | €'000           | €'000                |
| Interest Rate                    | -                   | -               | -          | -               | -                    |
| Foreign exchange                 | 39                  | 1,162           | 37         | 49              | 4                    |
| Equity single name               | -                   | -               | -          | -               | -                    |
| Equity index                     | 0                   | 25              | 1          | 3               | 0                    |
| Commodity and emission allowance | 0                   | 12              | 1          | 1               | 0                    |
| Other (i.e. cryptos)             | 7                   | 58              | 73         | -               | -                    |
| <b>Total</b>                     | <b>46</b>           | <b>1,258</b>    | <b>112</b> | <b>53</b>       | <b>4</b>             |

The chart below shows the breakdown of K-TCD per instrument class as at 31 December 2021.



#### 4.3.3.2. K-CON: Concentration Risk on Large Exposures

K-CON captures concentration risk in relation to individual or highly connected private sector counterparties with whom firms have exposures above 25 % of their own funds, or specific alternative thresholds in relation to credit institutions or other investment firms, by imposing a capital add-on in line with CRR for excess exposures above those limits.

All IFs should monitor and control their concentration risk. However only Investment Firms which are subject to a minimum own funds requirement under the K-Factors should report the concentration risk.

#### Limits

Where the client is a credit institution or an investment firm, the limit to concentration will be the higher of 25% of the investment firm's capital or €150m. If the amount of €150m is higher than 25% of the firm's own funds, the limit to concentration should not exceed 100% of the firm's capital.

Where the client is not credit institution or investment firm, the limit to concentration risk remains at 25% of the investment firm's own funds.

#### Calculation

Where a firm exceeds these limits, it will be required to hold additional own fund requirement based on the excess over the limit multiplied by a factor between 200% and 900%, depending on the size of the excess as per Table 6 of Article 39 of IFR.

Further to the above, Own Funds requirement of the excess shall be calculated in accordance with the following formula:

$$OFRE = \frac{OFR}{EV} * EVE$$

Where:

- *OFRE = own funds requirement for the excess;*
- *OFR = own funds requirement of exposures to an individual client or groups of connected clients, calculated by adding together the own funds requirements of the exposures to the individual clients within the group, which shall be treated as a single exposure;*
- *EV = exposure value calculated in TCD and NPR K-factors;*
- *EVE = exposure value excess calculated as Exposure Value minus Limit*

The K-CON own funds requirement shall be the aggregate amount of the own fund requirement calculated for each client or group of connected clients.

As at 31 December 2021, the Company did not record any large exposures as a result of its trading book positions. However, if such positions do arise, the Company shall monitor the positions and reduce the concentration risk that may arise.

#### **4.3.3.3.K-DTF: Daily Trading Flow**

K-DTF captures the operational risks to an investment firm in large volumes of trades concluded for its own account or for clients in its own name in one day which could result from inadequate or failed internal processes, people and systems or from external events, based on the notional value of daily trades, adjusted for the time to maturity of interest rate derivatives in order to limit increases in own funds requirements, in particular for short-term contracts where perceived operational risks are lower.

DTF means the daily value of transactions that an investment firm enters through dealing on own account or the execution of orders on behalf of clients in its own name, excluding the value of orders that an investment firm handles for clients which are already taken into account in the scope of client orders handled.

#### **Calculation**

DTF shall be the rolling average of the value of the total daily trading flow, measured throughout each business day for the previous 9 months, excluding 3 recent months.

DTF= sum of [ABS(Buys) + Abs (Sells)] for both cash trades and derivatives

##### ➤ *For Cash Trades*

- The value is the amount paid or received on each trade
- DTF =average of the 6 months
- K- DTF = DTF\*0.1%

##### ➤ *For Derivative Trades*

- The value is the notional amount of the contract
- DTF =average of the 6 months
- K- DTF = DTF\*0.01%

The table below shows the arithmetic mean amount of DTF in cash trades and derivatives for the 4<sup>th</sup> quarter of 2021, in accordance with the Article 20(1) of IFR:

**Table 21: Total DTF (average amounts)**

|                                     | Factor amount          |                        |                       |
|-------------------------------------|------------------------|------------------------|-----------------------|
|                                     | December 2021<br>€'000 | November 2021<br>€'000 | October 2021<br>€'000 |
| DTF - Cash trades (average amounts) | 14,205                 | 1,221                  | 374                   |
| DTF - Derivative (average amounts)  | 139                    | 559                    | 581                   |

#### 4.3.4. K-Factors Requirement Results

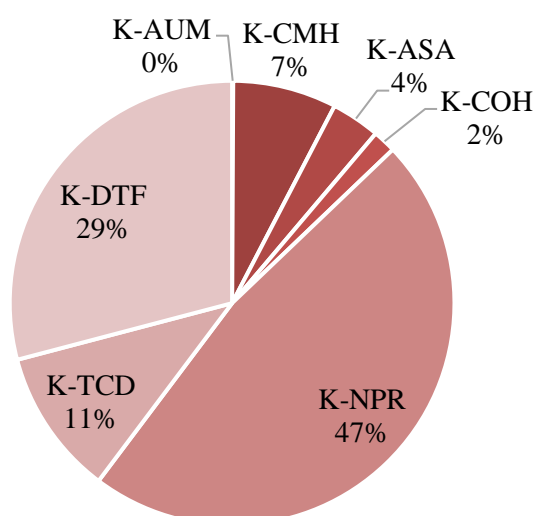
As at 31 December 2021, the Company's K-Factors Requirement is €49k as shown in the table below:

**Table 22: K-Factors Results**

| Item                              | Factor Amount<br>€'000 | K-Factor Requirement<br>€'000 |
|-----------------------------------|------------------------|-------------------------------|
| <b>TOTAL K-FACTOR REQUIREMENT</b> |                        | <b>49</b>                     |
| <b>Risk To clients</b>            |                        | <b>6</b>                      |
| <i>K-AUM</i>                      | 196                    | 0                             |
| <i>K-CMH (Segregated)</i>         | 922                    | 4                             |
| <i>K-CMH (non-Segregated)</i>     | -                      | -                             |
| <i>K-ASA</i>                      | 4,340                  | 2                             |
| <i>K-COH (Cash Trades)</i>        | 819                    | 1                             |
| <i>K-COH (Derivative Trades)</i>  | 13                     | 0                             |
| <b>Risk to Market</b>             |                        | 23                            |
| <i>K-NPR</i>                      |                        | 23                            |
| <b>Risk to Firm</b>               |                        | 19                            |
| <i>K-TCD</i>                      |                        | 5                             |
| <i>K-DTF (Cash Trades)</i>        | 14,205                 | 14                            |
| <i>K-DTF (Derivative Trades)</i>  | 139                    | 0                             |
| <i>K-CON</i>                      |                        | -                             |

The chart below offers a representation of the Company's breakdown of the Company's K-Factors requirement:

## K-FACTORS REQUIREMENT



### 4.4.2 Own Funds Composition & Capital Ratios

According to the provision 9 of the IFR, Investment firms 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:

$$\frac{\text{Common Equity Tier 1 Capital}}{D} \geq 56\%$$

$$\frac{\text{Common Equity Tier 1 Capital} + \text{Additional Tier 1 Capital}}{D} \geq 75\%$$

$$\frac{\text{Common Equity Tier 1 Capital} + \text{Additional Tier 1 Capital} + \text{Tier 2 Capital}}{D} \geq 100\%$$

where D is the Company's own funds requirement calculated in accordance with Article 11. In this respect, the table below provides a detailed analysis of the Company's composition of own funds, own funds requirement and capital ratio reported as at 31 December 2021:

**Table 23: Own Funds**

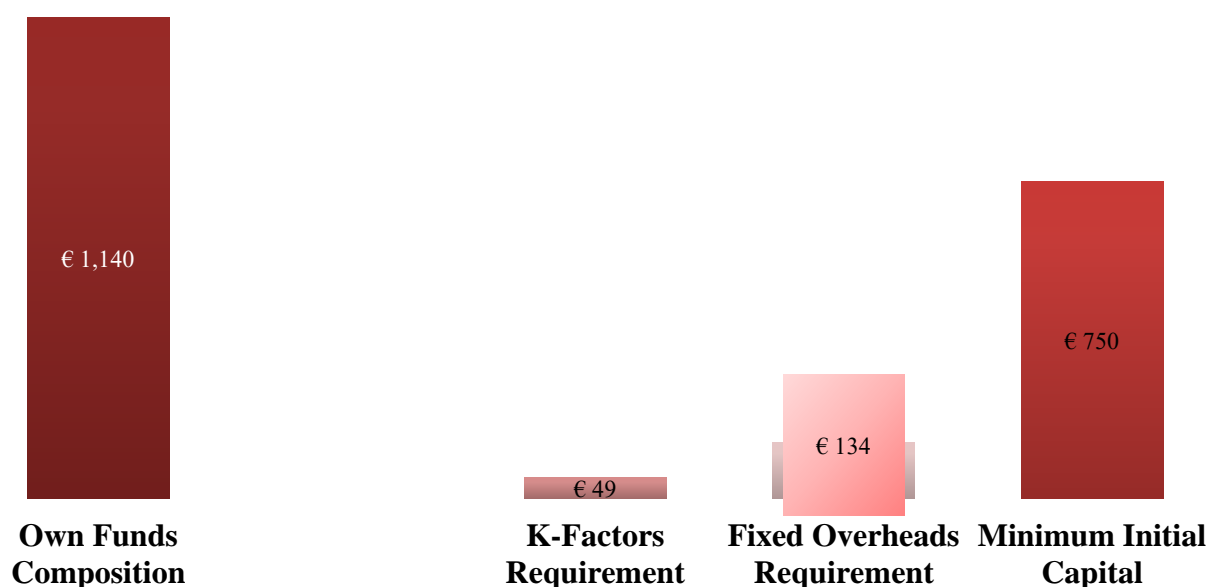
| <b>OWN FUNDS COMPOSITION</b>  | <b>€'000</b> |
|-------------------------------|--------------|
| Share Capital                 | 9            |
| Share Premium                 | 1,580        |
| Retained Earnings             | (380)        |
| Investors Compensation Fund   | (70)         |
| <b>CET 1 Capital</b>          | <b>1,140</b> |
| Additional Tier 1             | -            |
| <b>T1 Capital</b>             | <b>1,140</b> |
| Tier 2 Capital                | -            |
| <b>Own Funds</b>              | <b>1,140</b> |
|                               |              |
| <b>OWN FUNDS REQUIREMENTS</b> | <b>€'000</b> |
| Initial Capital               | 750          |
| Fixed Overheads Requirement   | 134          |
| K-Factors Requirement         | 49           |
| <b>Own funds Requirement</b>  | <b>750</b>   |

| <b>CAPITAL RATIOS</b>    | <b>€'000</b>   |
|--------------------------|----------------|
| <b>CET 1 (min. 56%)</b>  | <b>151.94%</b> |
| <b>T1 (min. 75%)</b>     | <b>151.94%</b> |
| <b>Total (min. 100%)</b> | <b>151.94%</b> |
| <b>Surplus/(Deficit)</b> | <b>390</b>     |

As per the above results, the Company as at 31 December 2021 maintains adequate own funds to cover its capital requirements. However, the Company should monitor the above ratios in order to ensure compliance with the capital adequacy requirements at all times.

The graph below shows the Company's total level of own funds as well as its own funds requirements as at 31 December 2021:

**OWN FUNDS REQUIREMENT AS AT 31 DECEMBER 2021**  
**EUR ('000)**



Further to the above, the Company has implemented a capital adequacy monthly monitoring program in order to ensure compliance with the IFR requirements at all times. In this respect, the Company calculates the capital requirement on a monthly basis in order to assess the capital adequacy ratio for the respective month.

#### **4.5. Reporting requirements**

The Company as a Class 2 investment firm is required by the Law to report on a quarterly basis the following items:

- Level and composition of own funds
- Own funds requirements
- Own funds requirement calculations
- Where the firm is a Class 3 firm – the level of activity, including the balance sheet
- and revenue breakdown by investment service and applicable K-factor
- Concentration risk
- Liquidity requirements

The above information shall be reported to CySEC using the Form165-01 “Reporting for Class 2” on a quarterly basis.

The Senior Management as well as the Risk Manager monitored such reporting and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company. During the year under review, Company fulfilled its obligations by successfully submitting, on a quarterly basis, the Capital Adequacy Reports.

#### 4.6. Concentration risk requirements

The concentration risk arising from exposures to each counterparty, including central counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures such as a single collateral issuer, must be addressed and controlled including by means of written policies and procedures.

Exposure means any asset or off-balance sheet item without applying the risk weights or degrees of risk. Large Exposure means the exposures in the trading book/banking book of an investment firm to a client or a group of connected clients, the value of which exceeds the limits set.

The CIFs that are categorized as Class 2 IFs should continue to monitor and control their concentration risk with regards to their trading book exposures to a client or a group of connected clients in accordance with Part four of IFR.

In particular, CIFs shall monitor and control their concentration risk so as not to exceed the following limits as per Article 37 of IFR.

**Table 24: Large Exposure Limits**

| Type            | Limit   |
|-----------------|---|
| Institution     | Min {up to 100% of eligible capital,<br>Max (25% of eligible capital, €150m)} |
| Non-institution | 25% of eligible capital   |

Where any trading book exposure exceeds the limits mentioned above, a CIF shall calculate additional capital requirement as part of the K-CON requirement.

Moreover, harm can arise from more than just a concentrated trading book exposure to a client. To mitigate the potential for harm that can arise from different types of concentrated exposures or relationships, the Company should monitor and control all their sources of concentration risk, including:

- exposures in a trading book
- assets (for example, trade debts) not recorded in a trading book
- off-balance sheet items
- the location of client money
- the location of client assets
- the location of its own cash deposits
- the sources of its earnings



However, there are no limits on the banking book exposures of an Investment Firm.

The Company is reporting to CySEC on a quarterly basis the level of concentration risk with respect to the credit institutions, investment firms and other entities where clients' money are held and where client securities are deposited while it shall report the level of concentration risk with respect to the credit institutions where its own cash is deposited as per Article 54(2) of IFR. Moreover, the Company shall report the top five clients from whom the largest amounts of Company's earnings are derived, the top five, if available, largest trading book exposures and largest exposures not recorded in the trading book.

Further to the above and as regards the level of concentration with respect to client's money held, the Company ensures that it manages the clients' funds as per the provisions of Paragraph 6(2) of Directive DI87-01 and Circular C418.

The Company maintains proper accounting controls in order to identify, monitor and control all exposures including clients' balances and the value of the assets held as financial instruments under pledge.

Finally, the Company will further assess its exposure to concentration risk from its ongoing activities as part of the ICARA process.

#### 4.7. Liquidity Requirement

As a Class 2 investment firm, the Company is required to hold an amount of liquid assets equivalent to at least one third of the fixed overheads requirement. The purpose is to ensure that the investment firms have an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets in cash to meet their liquidity needs for a 30-calendar day liquidity stress scenario.

The IFR specifies the instruments that are eligible to be qualified as liquid assets to be included in the calculation of the said ratio:

- Coins and banknotes
- Claims on ECB or other Central Banks
- High Quality Covered Bonds
- Shares or units in CIUs

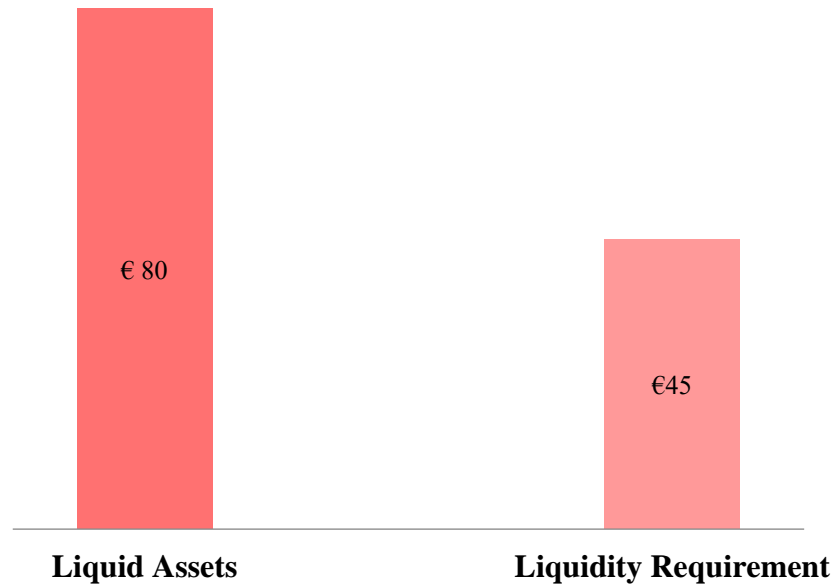
In this respect and as per the Company's latest audited financial statements, the Company has the following liquid assets which are well above the 1/3 of the total fixed overheads requirement.

**Table 25: Liquidity Requirements**

| Item   | €'000     |
|--|-----------|
| Liquid Assets                                    | 80        |
| <b>Total</b>                                     | <b>80</b> |
| Requirement (1/3 of Fixed Overheads Requirement) | 45        |
| <b>Surplus</b>                                   | <b>35</b> |

The following graph displays the Company's liquidity position compared to its liquidity requirement as at 31 December 2021:

## **LIQUIDITY REQUIREMENT AS AT 31 DECEMBER 2021 €'000**



Further to the above, the Company maintains adequate liquid assets to cover the one third fixed overheads requirement. However, the Company should monitor the above in order to ensure compliance at all times.

## 5. OTHER RISKS

### 5.1. Operational Risk

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The following list presents some event-type categories, included in operational risk, with some examples for each category:

|  |   |
|--|---|
| <b>Internal Fraud</b>                                | <ul style="list-style-type: none"> <li>• misappropriation of assets;</li> <li>• tax evasion;</li> <li>• intentional mismarking of positions;</li> <li>• bribery.</li> </ul>             |
| <b>External Fraud</b>                                | <ul style="list-style-type: none"> <li>• theft of information;</li> <li>• hacking damage;</li> <li>• third-party theft;</li> <li>• forgery.</li> </ul>                                  |
| <b>Employment Practices and Workplace Safety</b>     | <ul style="list-style-type: none"> <li>• discrimination;</li> <li>• workers compensation;</li> <li>• employee health;</li> <li>• safety.</li> </ul>                                     |
| <b>Clients, Products, &amp; Business Practice</b>    | <ul style="list-style-type: none"> <li>• market manipulation;</li> <li>• antitrust;</li> <li>• improper trade.</li> </ul>   |
| <b>Damage to physical assets</b>                     | <ul style="list-style-type: none"> <li>• damage to physical assets from a natural disaster, e.g. earthquake</li> </ul>  |
| <b>Business Disruption &amp; Systems Failures</b>    | <ul style="list-style-type: none"> <li>• utility disruptions;</li> <li>• software failures;</li> <li>• hardware failures.</li> </ul>  |
| <b>Execution, Delivery, &amp; Process Management</b> | <ul style="list-style-type: none"> <li>• data entry errors;</li> <li>• accounting errors;</li> <li>• failed mandatory reporting;</li> <li>• negligent loss of Client assets.</li> </ul> |

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 continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

Furthermore, the Company has in place policies and processes whose implementation assists with the evaluation and management of any exposures to operational risk.

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

- Maintaining a four-eye structure and implementing board oversight over the strategic decisions made by the heads of departments;
- An IT Disaster Recovery Plan has been designed in order to be used in the event of a force majeure affecting the Company's internal systems and databases; and
- Maintenance of Risk Registers in the Context of the ICARA;
- A Business Continuity Plan has been implemented which helps protect all of the Company's information databases including data, records and facilities.
- The majority of actions occurring in the Company's systems are automated and therefore it is less likely that a human error will occur;
- Review of risks and controls as part of the Internal Audit function;
- Regular review and updating of the Company's policies;

Following the outbreak of COVID-19 in Cyprus, the Company has taken the required measures to ensure that its employees have access to its technology infrastructures necessary for the completion of their tasks and that additional systems for critical functions are being provided. In this respect, the Business Continuity Plan has been amended accordingly.

## **5.2. Interest Rate Risk**

Interest rate risk is the risk that the value of financial instruments (including currencies) will fluctuate due to changes in the market interest rates. The Company is exposed to interest rate risk in relation to its bank deposits and from the interest charged on the derivative financial instruments that remain open overnight.

The Company monitors interest rate fluctuations and based on the fluctuations of the relevant rates, the necessary hedging activities will be undertaken, as and where applicable.

## **5.3. Reputation Risk**

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large customers, poor customer service, fraud or theft, customer claims, legal action and regulatory fines.

The Company has transparent policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company provides high quality services to customers.

#### **5.4. Strategic Risk**

Strategic Risk 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.

#### **5.5. Business Risk**

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

#### **5.6. 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 Commission; these can be found in the Procedures Manual. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore, the risk of non-compliance is very low.

#### **5.7. Legal and Compliance Risk**

Legal & Compliance risks arise from violations of, or non-conformance with, the Law, Directives and Circulars issued thereof, regulations, prescribed practices, internal policies, and procedures, or ethical standards. This risk exposes the Company mainly to financial losses due to imposed fines from the Regulators. Compliance incidents may also lead to diminished reputation, reduced Company value, limited business opportunities, reduced expansion potential, and possible inability to enforce contracts.

The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the Board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

#### **5.8. IT Risk**

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

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

### **5.9. Conduct Risk**

Conduct risk is defined as the risk of an action, by an individual, financial institution or the industry as a whole, which leads to customer detriment or undermines market integrity. This can bring sanctions and negative publicity. Moreover, EBA has defined conduct risk as the current or prospective risk of losses to an institution arising from inappropriate supply of financial services including cases of wilful or negligent misconduct. Consequently, conduct risk arises from failures of designated liquidity providers located in third countries associated with the Company.

Additionally, the Company is exposed to negative balances with its Liquidity Providers, in case of fast-pacing volatile market, where the LP cannot close a position at the Company's stop out limit. Therefore, the Company may be exposed to conduct risk arising from inadequate agreements with the Liquidity Providers and/or with the third parties that hold client's funds.

As part of the risk management policy and tools, the Company has procedures in place to diversify its liquidity providers and monitors their financial position on an on-going basis. The financial soundness of the liquidity providers is closely monitored and the company is ready to switch to alternative LPs, if necessary. Furthermore, the receivable/payable amounts with the LPs are monitored on a daily basis. In particular, the Company examines its existing procedures and arrangements with respect to the products offered and services provided.

## 6. INTERNAL CAPITAL ADEQUACY AND RISK ASSESSMENT PROCESS

The purpose of capital is to provide sufficient resources to absorb unexpected losses over and above the ones that are expected in the normal course of business. The Company aims to maintain a minimum risk asset ratio which will ensure there is sufficient capital to support the Company during stressed conditions.

Pursuant to Chapter 2 and Paragraph 18 of the Law, the Company should establish sound, effective and comprehensive arrangements, strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital and liquid assets that they consider adequate to cover the nature and level of risks which they may pose to others and to which the investment firms themselves are or might be exposed. These arrangements, strategies and processes shall be appropriate and proportionate to the nature, scale and complexity of the activities of the Company and they shall be subject to regular internal review.

ICARA includes a Liquidity Adequacy Assessment and Contingent Funding Plan. Internal Liquidity Adequacy Assessment Process (ILAAP) and all its components, including risk elaboration on liquidity risks that are applicable to the firm and a Liquidity stress testing will be incorporated within ICARA.

In light of the above, the new ICARA report will present the main business background aspects and developments of the Company, a summary of the Company's business economic environment, the Company's financial summary for the previous and upcoming years, the business and strategic goals, organisational structure and the risk management framework, the overall assessment of the material risks as well as a forward looking capital and liquidity planning.

Following the implementation of the new prudential regulatory framework, the Company should replace its existing ICAAP with the new ICARA by establishing new assessments with respect to the liquidity adequacy of the Company, designing new financial projections and stress tests to reflect the new K-Factors requirement and drafting a new report which reflects all provisions under the new regulation. The new methodologies of K-Factors and Liquidity Stress tests will be incorporated into the new ICARA process, as well as the updated risk register which will focus on a harm-pose approach, identifying different potential risk events that may affect the Company's overall capital adequacy position.

The risk manager informed the Board that the ICARA report preparation has been already initiated and the capital planning is designed. It is expected that the new ICARA report will be available for review by the board in the third quarter of 2022.

## 7. REMUNERATION POLICY

The Company has established a remuneration policy to set out the remuneration practices of the Company taking into consideration the salaries and benefits of the staff, in accordance with the provisions of Directive as well as the Circular 031 (Circular 031 has been issued in place of Guidelines GD-IF-07 for the correct filing purposes) on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Company's size, internal organization and the nature, scope and complexity of its activities. Furthermore, the Company's remuneration strategy is designed to reward and motivate the people who are committed to maintaining a long term career within the Company and performing their role in the interests of the Company.

The design of the Policy is approved by the people who effectively direct the business of the Company, after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance. The people who effectively direct the business are responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks, that remuneration policies and practices can create. The Board discusses remuneration policy matters at least annually. Furthermore, the Policy also benefits from the full support of senior management or, where appropriate, the supervisory function, so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures.

The Policy adopts and maintains measures enabling them to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

Finally, the Policy aims to (i) provide for sufficient incentives so as the relevant persons, -to achieve the business targets, (ii) deliver an appropriate link between reward and performance whilst at the same time consisting of a comprehensive, consistent and effective risk management tool that prevents excessive risk taking and /or misselling practices in light of financial incentives schemes, which could lead to compliance risks for the Company in the long-run.

### 7.1. Remuneration System

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management and members of the Board; the said practices are established to ensure that the rewards for the "executive management" are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long term success.

The remuneration mechanisms employed are well known management and human resources tools in order to determine the remuneration of each staff member. Other factors taken into account for the remuneration of the Company's employees are the following:

- a. The financial viability of the Company,
- b. The general financial situation and the state in which the Company operates,
- c. Each employee's personal objectives (such as personal development, compliance with the Company's systems and controls, compliance with regulatory requirements, commitment



- and work ethics) performance evaluation and the rating received based on their annual performance in relation to the objectives set up at the beginning of the period,
- d. Each employee's professional conduct with Clients (such as acting in the best interest of the Client, fair treatment of Clients and inducing Client satisfaction), as applicable.

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. The remuneration includes all forms of benefits provided by the Company to its staff and can be Financial or non-Financial remuneration.

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

The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for a staff member to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors. Furthermore, the employee's personal goals and performance evaluation in relation to the objectives set up at the beginning of the period and the employee's professional conduct with clients are taken into account in order to determine the remuneration.

The employees' total remuneration consists of a fixed component and a variable component. The Fixed Remuneration (FR) varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role. This fixed amount of remuneration includes salary, fixed pay allowance and other cash allowances and they are all determined based on the role and position of each employee, taking into account the experience, seniority, education, responsibility, and market conditions. Benefits provided to the relevant Company employees, such as social insurance contributions, are not employee performance-related and are considered part of the fixed remuneration.

Moreover, the Company has in place a 'variable remuneration scheme' whereby the employees of the Sales Department may receive variable remuneration in addition to their monthly fixed salary. The variable remuneration is a performance-based remuneration which motivates and rewards staff members based on their results in relation with the targets set in the beginning of the year. This kind of remuneration is not guaranteed and the BoD has determined a maximum percentage of variable remuneration relative to the fixed remuneration in order to ensure a compliant ratio between these two kinds of remuneration. Although, the maximum limit on variable remuneration set at 100% of fixed salary, the limit could be set at 200% upon shareholders' approval according to the Article 94 of Directive 2013/36/EU. Moreover, all Company employees, except the members of the Board of Directors may be eligible for the annual (one-off) bonus remuneration.

Furthermore, no remuneration is payable under deferral arrangements (with vested or unvested portions). Finally, the Company did not pay any non-cash remuneration for the year under review, since the Company does not have non-cash instruments, such as shares or other equivalent non-cash instruments, in place.

The Company recognizes that its remuneration system has some features that increases the mis-selling risk. Therefore, the Company applies effective mitigation controls for each part of the remuneration system.

## **7.2. Link between the pay and performance**

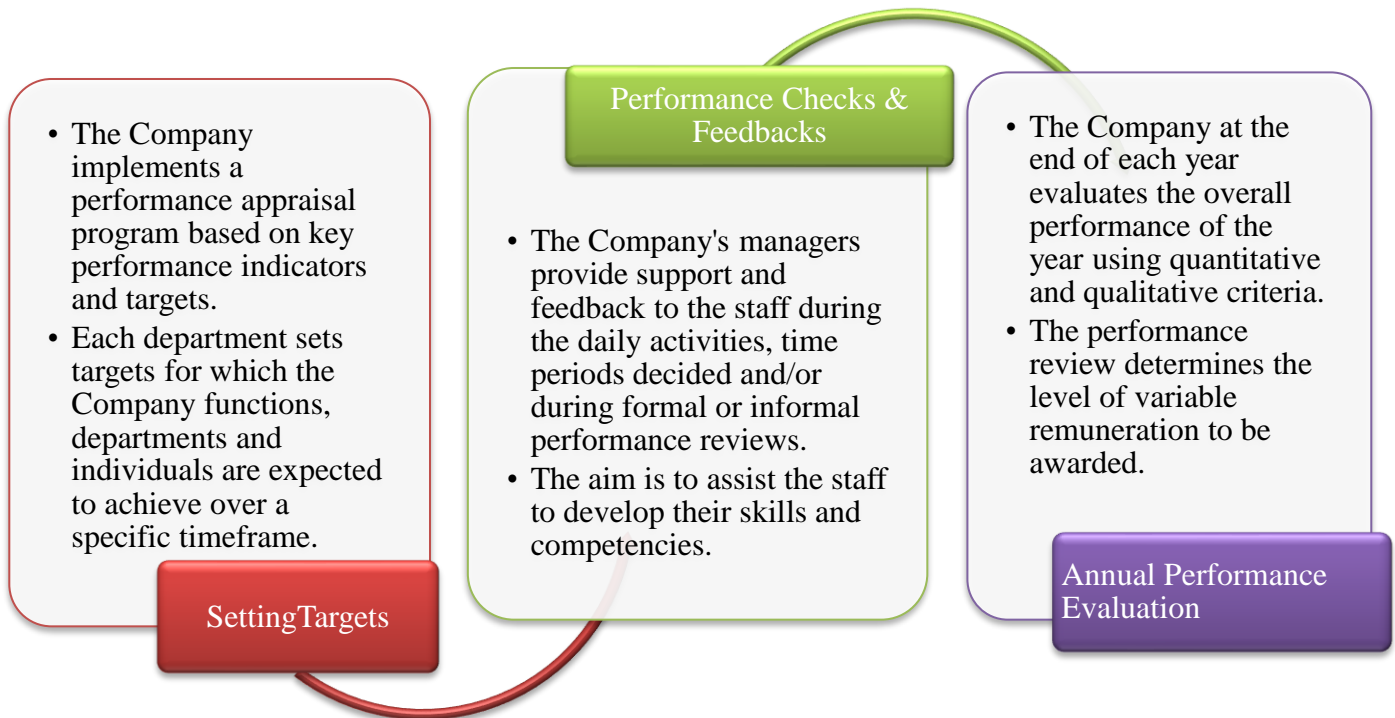
The Company recognises the responsibility that the Staff has in driving its future success and delivering value for the Company and that remuneration is a key component in motivating and compensating its employees. Furthermore, the overall remuneration policy incorporates an annual variable incentive compensation reflecting individual performance and overall performance.

The individual performance is assessed during the annual appraisal process, which establishes objectives for all staff covering both financial and non-financial factors, specific behavioral competencies including compliance and risk management behaviors with regards to the Company's procedures.

The Company shall ensure that where remuneration is linked with performance, the total amount of remuneration is based on a combination of the performance assessment of:

- a. the individual (quantitative as well as qualitative criteria except those who perform their duties on Control Functions where only qualitative criteria apply, are taken into account; annual performance evaluation and performance rating are taken into account),
- b. the business unit concerned, and
- c. the overall results of the Company and as long as conflicts of interest are mitigated, as described in this Policy.

Further to the above, the Company implements a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit and its target is to promote the healthy competition amongst personnel, analysis of weak and strong sides of each employee performance-based and give feedback to the staff member in order to motive them to improve. Most of the times, the performance appraisal takes place in a multiyear framework in order to ensure that the appraisal process assesses employee's long-term performance. However, sometimes the performance appraisal is performed on a medium and short-term basis, and the performance indicators of this type of performance appraisal includes quantitative as well as qualitative criteria. The appraisal is being performed as follows:



### 7.3. Remuneration of Senior Management Personnel and Directors

The remuneration policy of the Company is intended to ensure that the Company will attract and retain the most qualified Senior Management Personnel and Directors. As stated above, the criteria used for determining the remuneration of the Company's directors are segregated into quantitative and qualitative criteria.

The quantitative remuneration criteria mostly rely on numeric and financial data such as the Company's performance and the individual performance evaluation and ratings of each member of the staff whose professional activities affect the risk profile of the firm. In addition to the quantitative criteria, the Company has put in place qualitative criteria which include compliance with regulatory requirements and internal procedures, fair treatment of clients and client satisfaction.

Moreover, the remuneration of the Company's non-executive directors is fixed and it is set at a level that is market aligned and reflects the qualification and competencies required based on the Company's size and complexity, the responsibilities and the time that the non-executive directors are expected to consume in order to serve the Company. The remuneration of the senior management personnel of the Company, including the Board are shown in the following tables:

**Table 26: Remuneration analysis split by Senior Management and key management personnel**

|                                | Executive Directors | Key Management personnel | Non-Executive Directors |
|--------------------------------|---------------------|--------------------------|-------------------------|
| <b>Fixed reward</b>            | 64,344              | 129,837                  | 11,000                  |
| <b>Variable reward</b>         | -                   | -                        | -                       |
| <b>Total</b>                   | <b>64,344</b>       | <b>129,837</b>           | <b>11,000</b>           |
| <b>Number of beneficiaries</b> | 3                   | 5                        | 2                       |

The variable to fixed remuneration ratio as at 31 December 2021 was zero.

Companies are required to disclose the number of natural persons that are remunerated €1mln or more per financial year, in pay brackets of €1mln, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. Nevertheless, currently there are no natural persons at the Company that are remunerated €1mln or more per financial year and as such the above disclosure are not applicable to the Company. No sign-on payments have been awarded during 2021, while no severance payments were paid during the year. Furthermore, aggregate remuneration analyzed by business area is presented below:

**Table 27: Aggregate remuneration analysis by business area**

| Business Area                         | Aggregate Remuneration |
|---------------------------------------|------------------------|
|                                       | €                      |
| Control Functions                     | 97,665                 |
| Brokerage Department                  | 27,576                 |
| Dealing on Own Account Department     | 27,576                 |
| Administration/Back Office Department | 27,576                 |
| Business Development Department       | 13,788                 |
| <b>Total</b>                          | <b>194,181</b>         |

\*Control functions include the Executive Directors and MLCO.