



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

The **Conotoxia Holding Cyprus Limited** (hereinafter, the ‘Group’) was incorporated in the Republic of Cyprus on 09 December 2015 as a limited liability company with registration number HE 349931 and it is the parent company of **Conotoxia Ltd** (the “CIF”) which was incorporated in the Republic of Cyprus on 15 January 2016 as a private limited liability company with registration number HE 351239 and regulated by the Cyprus Security Exchange Commission (hereinafter, the ‘CySEC’) with CIF number 336/17 on 11 September 2017 and activated on 11 November 2017.

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

Table 1: CIF 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 | ✓ | ✓ | - | - | - | - | - | - | ✓ | ✓ | | | ✓ | | - |
| | 11 | - | - | - | - | - | - | - | - | - | - | | | - | | - |

The CIF 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

The CIF 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.
- Investment Research and financial analysis or other forms.

The CIF 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.

On 06 April 2021, the Company submitted to CySEC an application to extend its licence to include Dealing on Own Account investment service. The licence extension application approval has been granted on 13 April 2022 and as such the Company is in the process to fulfil the conditions provided by CySEC for the activation of the new services. Moreover, the Company has proceeded with the necessary action (capital injection, impact analysis etc.) in order to ensure that it is ready to comply with the new rules following the licence extension approval.

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 CIF 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 as at 31 December 2021 was **€150k** since it was not authorized to provide the investment service of dealing on own account but it is permitted to hold clients money. Moreover and following licence extension application approval on 13 April 2022, the Company’s initial capital increased to €750k.

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. However, and based on its authorisation as at 31 December 2021, the Company was not required to calculate RtF and RtM based on trading book exposures. Finally, and following licence extension application approval on 13 April 2022, the Company will be required to calculate the respective RtM and RtF K-Factors capital requirement once the dealing on own account investment service is activated.

1.3 Scope of application

The Pillar III disclosures Report (the ‘Report’) is prepared 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 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.

The Group submitted a declaration duly signed by the Board of Directors (the “Board” of “BoD”) to CySEC stating that the parent entity is not required by the International Financial Reporting Standards (IFRS) and/or Companies Law and/or any other legislation to prepare Consolidated Audited Financial Statements in accordance with the Circular C350 and the provisions of IFRS10. In this respect, the Report is based on the Consolidated Management Accounts for the period 31 December 2021 (unaudited) which are prepared in accordance with IFRS and the provisions of the Cyprus Company Law, Cap. 113.

The Group is required to comply with the Pillar 3 requirements on a consolidated basis. As at 31 December 2021, the basis of consolidation of the Group entities for accounting and prudential purposes is presented in the Group Structure below:

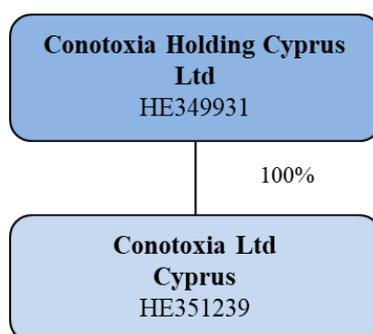


Figure 1: Scope of Application

The subsidiary companies, their activities and their consolidation method as at 31 December 2021 are presented in the table below.

Table 3: Basis of Consolidation of Group entities for regulatory purposes

| Name of the entity | Method of accounting consolidation | Method of regulatory consolidation | Description of the entity |
|------------------------------|------------------------------------|------------------------------------|---------------------------|
| Conotoxia Holding Cyprus LTD | Full consolidation | Full consolidation | Financial Holding Company |
| Conotoxia Ltd | Full consolidation | Full consolidation | Investment Firm |

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 Group 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 Group 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 Group 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 Group has considered a disclosure to be immaterial, this was not included in the document.

Frequency

The Group’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 Pillar III disclosures are published on:

- a) <https://forex.conotoxia.com/>
- b) <https://forex.cinkciarz.pl/>

Verification

The Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. The 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 Group 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 Group'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 Group'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 Group'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.

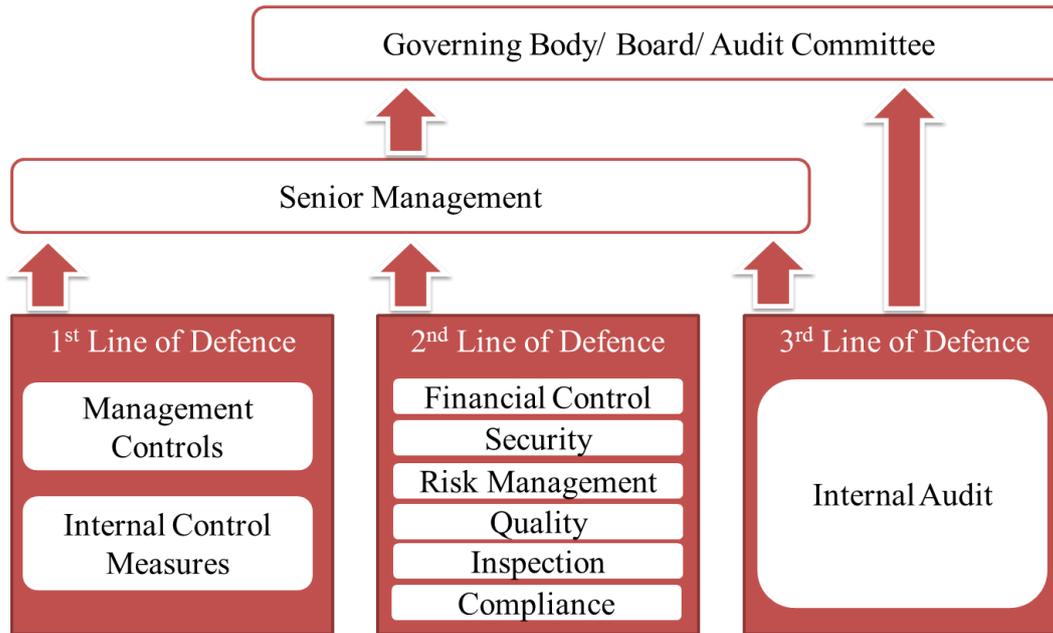


Figure 2: Three Lines of Defence

1.5.1 Risk Management Framework

Managing risk effectively in a Group operating in a continuously changing risk environment requires a strong risk management culture. As a result, the Group has established an effective risk oversight structure and the necessary internal organisational controls to ensure that the Group 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 Group's risk management policies and procedures as implemented by Management.

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

1.5.2 Risk Statement

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

Table 4: Risk Appetite areas – Group Level

| Indicator | Normal ¹ | Warning ² | Limit ³ |
|---|---------------------|----------------------|--------------------|
| Minimum Own Fund Requirement | >€380k | <€380k | €319k |
| Common Equity Tier 1 Ratio ⁴ | >100% | <75% | 56% |
| AT1 Capital Ratio ⁴ | >125% | <100% | 75% |
| Total Capital Ratio ⁴ | >150% | <125% | 100% |
| Liquid Assets | >€130k | <€130k | €106k |
| 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 Group's risk appetite.
2. The Group 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 Group 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 Group's risk management framework.

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

1.5.3 Risk Culture

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

The Group 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 Group 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 Group'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 risk profile.

The Group's risk management framework is designed to identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Group's operations. The Board considers that it has in place adequate systems and controls with regards to the Group'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 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 Group and are capable of responding quickly to evolving business risks, whether they arise from factors within the Group or from changes in the business environment.

2.1. 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 Group 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 Group 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 Group. It also implements and maintains adequate risk management policies and procedures which identify the risks relating to the activities, processes and systems, and where appropriate, sets the level of risk tolerated by the Group. The Group 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 Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust.

2.1.1. Number of Directorships held by members of the Board

All members of the Board commit sufficient time to perform their functions in the Group. 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 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 Group as at 31 December 2021:

Table 5: Number of Directorships of the members of the Board of Directors*

| Director | Entity Name | Function | No. Executive Directorships | No. Non-Executive Directorships |
|--------------------|---|------------------------|-----------------------------|---------------------------------|
| Grzegorz Jaworski | Conotoxia Ltd | Executive Director | 1 | - |
| Sergii Rybak | Conotoxia Ltd | Executive Director | 1 | - |
| Marcin Pioro | Conotoxia Ltd/ Conotoxia Holding Cyprus ltd | Non-Executive Director | 6 | - |
| Charalambos Pittas | Conotoxia Ltd | Non-Executive Director | 2 | 1 |
| Yiannis Georgiou | Conotoxia Ltd | Non-Executive Director | - | 3 |

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

2.2. Policy on Recruitment

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Group'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 Group as well as sufficient knowledge, of the legal framework governing the operations of a CIF.

2.3. Policy on Diversity

The Group 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 Group takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age, 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 ICARA report as shown in the table below:

Table 6: Information flow on risk to management body

| No. | 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 | Semi-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 |

Furthermore, the Group 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 Group to absorb losses.

During the year under review, the primary objective of the Group 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 Group maintained healthy capital ratios in order to support its business.

Further to the above, the Group as a **Class 2** investment firm group 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 Group 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 Group'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 Group are shown in the following table:

Table 7: Own Funds Composition as at 31 December 2021

| Own Funds Composition | Solo €'000 | Consolidated €'000 |
|--|---------------|-----------------------|
| CET1 capital before regulatory adjustments | | |
| Capital instruments and the related share premium accounts | 4,781 | 4,815 |
| Audited Reserves | (4,012) | (4,018) |
| CET1 capital: regulatory adjustments | | |
| Additional deductions of CET1 Capital (ICF Contribution) * | (39) | (39) |
| CET1 capital | 729 | 758 |
| AT1 capital | - | - |
| Tier 1 capital (T1 = CET1 + AT1) | 729 | 758 |
| Tier 2 (T2) capital | - | - |
| Total capital | 729 | 758 |

* 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 Group discloses the capital instruments' main features as outlined below:

Table 8: Main features of capital instruments

| Capital Instruments Main Feature | CET1 | CET1 |
|---|----------------------|---------------------------|
| Issuer | Conotoxia Limited | Conotoxia Holding Limited |
| Regulatory Treatment | | |
| Scope | Solo | Consolidated |
| Instrument type | Common Equity | Common Equity |
| Amount recognized in regulatory capital | €4,781k | €4,815k |
| Nominal amount of instrument | €4,781k | €4,815k |
| Issue Price | Various | Various |
| Accounting classification | Shareholders' Equity | Shareholders' Equity |
| Perpetual or dated | Perpetual | Perpetual |
| Original maturity date | No maturity | No maturity |
| Issuer call subject to prior supervisory approval | No | No |
| Coupons / Dividends | | |
| Fixed or floating dividend/coupon | Floating | Floating |
| Coupon rate and any related index | N/A | N/A |

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

| Equity | Solo €000 | Consolidated €000 |
|---|--------------|----------------------|
| Share capital | 4,781 | 4,815 |
| Audited Reserves | (4,012) | (4,018) |
| Total Equity as per Audited Financial Statements | 769 | 797 |
| | | |
| Common Equity Tier 1 capital: regulatory adjustments | | |
| Additional deductions of CET1 Capital | (39) | (39) |
| | | |
| Total Own funds | 729 | 758 |

4. OWN FUNDS REQUIREMENTS

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

- Initial Capital 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 €750k 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 €75k. For all other CIFs, the initial capital shall be €150k.

Therefore, since the CIF as at 31 December 2021 was not authorised to provide the investment service of dealing on own account, the Group's initial capital requirement was €150k. Moreover and following licence extension application approval on 13 April 2022, the Company's initial capital increased to €750k.

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 solo and consolidated fixed overheads requirement based on the latest solo audited financial statements and consolidated management accounts are €318k and €319k respectively as per the table below:

Table 11: Fixed Overheads Requirement

| Item | Solo €'000 | Consolidated €'000 |
|------------------------------------|---------------|-----------------------|
| Total Expenses | 1,492 | 1,497 |
| Variable Expenses | (221) | (221) |
| Annual Fixed Overheads | 1,271 | 1,276 |
| Fixed Overheads requirement | 318 | 319 |

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').

Since the Company as at 31 December 2021 was not authorised to offer the Dealing on Own Account, Investment Advice and Portfolio Management, the K-factors that were applicable to the Company were CMH, COH and ASA. Furthermore, the Company is also calculating the respective K-NPR capital requirements related to on-balance sheet FX exposures.

Moreover, and following licence extension application approval on 13 April 2022, the Company will be required to calculate the respective RtM and RtF K-Factors capital requirement once the dealing on own account investment service is activated.

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

4.3.1.1 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: $K\text{-CMH} = \text{CMH} \times 0.4\%$
- For non-segregated accounts: $K\text{-CMH} = \text{CMH} \times 0.5\%$

The table below shows the Total CMH values in segregated for the 4th quarter of 2021 in accordance with the Article 18(1) of IFR:

Table 12: Total CMH (average amounts)

| | Factor amount | | |
|------------------------------------|---------------------------|---------------------------|--------------------------|
| | December 2021 €'000 | November 2021 €'000 | October 2021 €'000 |
| CMH - Segregated (average amounts) | 655 | 640 | 597 |

4.3.1.2. 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 4th quarter of 2021 in accordance with the Article 19(1) of IFR:

Table 13: Total ASA (average amounts)

| | Factor amount | | |
|------------------------------------|---------------------------|---------------------------|--------------------------|
| | December 2021 €'000 | November 2021 €'000 | October 2021 €'000 |
| Total ASA (average amounts) | 2,234 | 2,237 | 2,045 |

4.3.1.3. 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
- $K\text{-COH} = \text{COH} \times 0.01\%$

The table below shows the arithmetic mean amount of COH in derivatives for the 4th quarter of 2021, in accordance with the Article 20(1) of IFR:

Table 14: Total COH (average amounts)

| | Factor amount | | |
|---|------------------------|------------------------|-----------------------|
| | December 2021 €'000 | November 2021 €'000 | October 2021 €'000 |
| COH - Derivative (average amounts) | 8,604 | 8,020 | 7,166 |
| Of which: Reception and transmission of client orders | 8,604 | 8,020 | 7,166 |

The below figure illustrates the average amount of the RtC K-Factors of the Group for the year 2021.

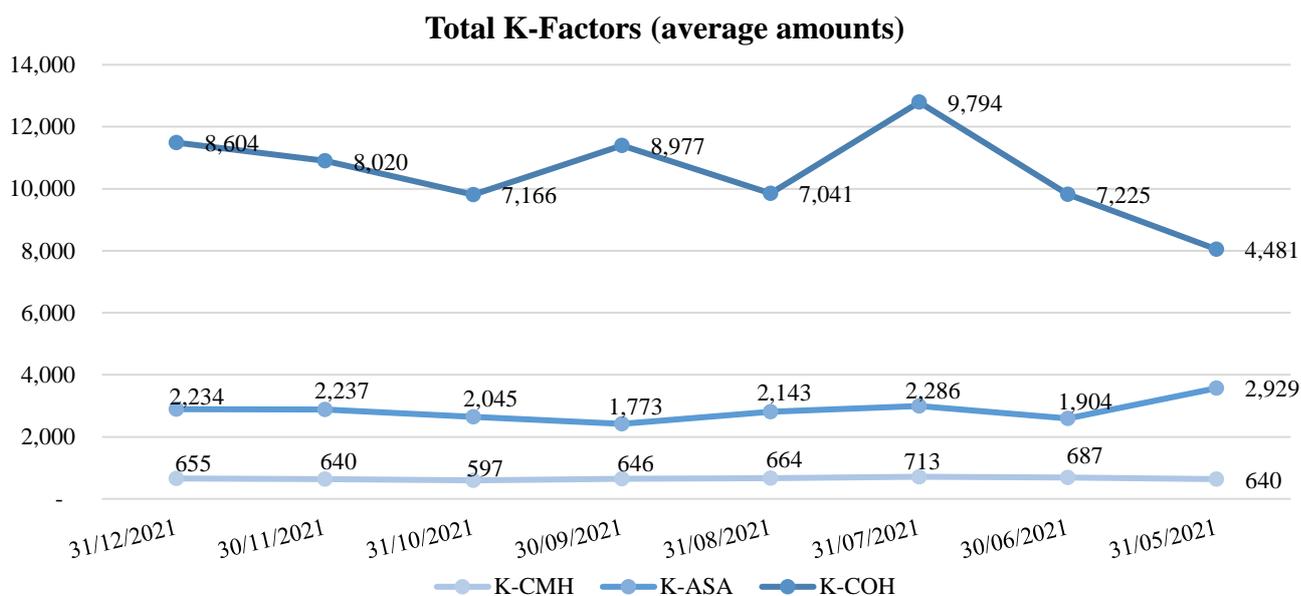


Figure 3: RtC K-Factors (Average Amounts)

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.

4.3.2.3. 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 CIF does not deal for its own account, market risk is therefore limited to movements in foreign exchange rates.

Foreign Exchange Risk

The Group's reporting currency is Euro. Foreign currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency.

If the sum of the Group's overall net foreign-exchange position and its net gold position exceeds 2% of its total own funds, the Group calculates own funds requirements for foreign exchange risk.

The own funds requirement for foreign exchange risk is the sum of its overall net foreign-exchange positions and its net gold position in the reporting currency, multiplied by 8%.

The foreign exchange risk in the Group 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 Group's foreign exchange risk was zero since the overall net foreign-exchange position did not exceed 2% of the total own funds as at 31 December 2021.

Closely Correlated Currencies

Following the EBA's Final draft Implementing Technical Standards on Closely Correlated Currencies under Article 354 (3) of CRR, the Group 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 Group's positions in non-reporting currencies and gold for the period were zero.

4.3.3. K-Factors Requirement Results

As at 31 December 2021, the K-Factors Requirement is €4k on a solo basis and €4k on a consolidated basis as shown in the table below:

Table 15: K-Factors Results

| Item | Solo | | Consolidated | |
|-----------------------------------|------------------------|--------------|------------------------|--------------|
| | Factor Amount €'000 | KFR €'000 | Factor Amount €'000 | KFR €'000 |
| TOTAL K-FACTOR REQUIREMENT | | 4 | | 4 |
| Risk To clients | | 4 | | 4 |
| K-AUM | - | - | - | - |
| <i>K-CMH (Segregated)</i> | 655 | 3 | 655 | 3 |
| <i>K-CMH (non-Segregated)</i> | - | - | - | - |
| K-ASA | 2,234 | 1 | 2,234 | 1 |
| <i>K-COH (Derivative Trades)</i> | 8,604 | 1 | 8,604 | 1 |
| <i>K-COH (Cash Trades)</i> | - | - | - | - |
| Risk to Market | | - | | - |
| <i>K-NPR</i> | | - | | - |
| Risk to Firm | | - | | - |
| <i>K-DTF (Cash Trades)</i> | - | - | - | - |
| <i>K-DTF (Derivative Trades)</i> | - | - | - | - |
| <i>K-TCD</i> | | - | | - |
| <i>K-CON</i> | | - | | - |

4.4. 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 own funds requirement calculated in accordance with Article 11.

The own funds, own funds requirement and capital ratio reported as at 31 December 2021, were the following:

Table 16: Own Funds

| OWN FUNDS COMPOSITION | Solo €'000 | Consolidated €'000 |
|---|-----------------------|-------------------------------|
| Share capital | 4,781 | 4,815 |
| Audited Reserves | (4,012) | (4,018) |
| Investors Compensation Fund | (39) | (39) |
| CET 1 Capital | 729 | 758 |
| Additional Tier 1 | - | - |
| T1 Capital | 729 | 758 |
| Tier 2 Capital | - | - |
| Own Funds | 729 | 758 |
| OWN FUNDS REQUIREMENTS | | |
| | €'000 | €'000 |
| Initial Capital | 150 | 150 |
| Fixed Overheads Requirement | 318 | 319 |
| K-Factors Requirement | 4 | 4 |
| Own funds Requirement | 320 | 231 |
| CAPITAL RATIOS | | |
| | €'000 | €'000 |
| CET 1 (min. 56%) | 227.90% | 328.25% |
| Surplus(+)/Deficit(-) of CET 1 Capital | 550 | 629 |
| T1 (min. 75%) | 227.90% | 328.25% |
| Surplus(+)/Deficit(-) of Tier 1 Capital | 489 | 585 |
| Total (min. 100%) | 227.90% | 328.25% |
| Surplus(+)/Deficit(-) of Total capital | 409 | 527 |

As per the above results, the Group as at 31 December 2021 maintains adequate own funds to cover its capital requirements.

However, the Group should monitor the above ratios in order to ensure compliance with the capital adequacy requirements at all times

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

The figure below illustrates the Own Funds Composition and the three Own Funds Requirements.

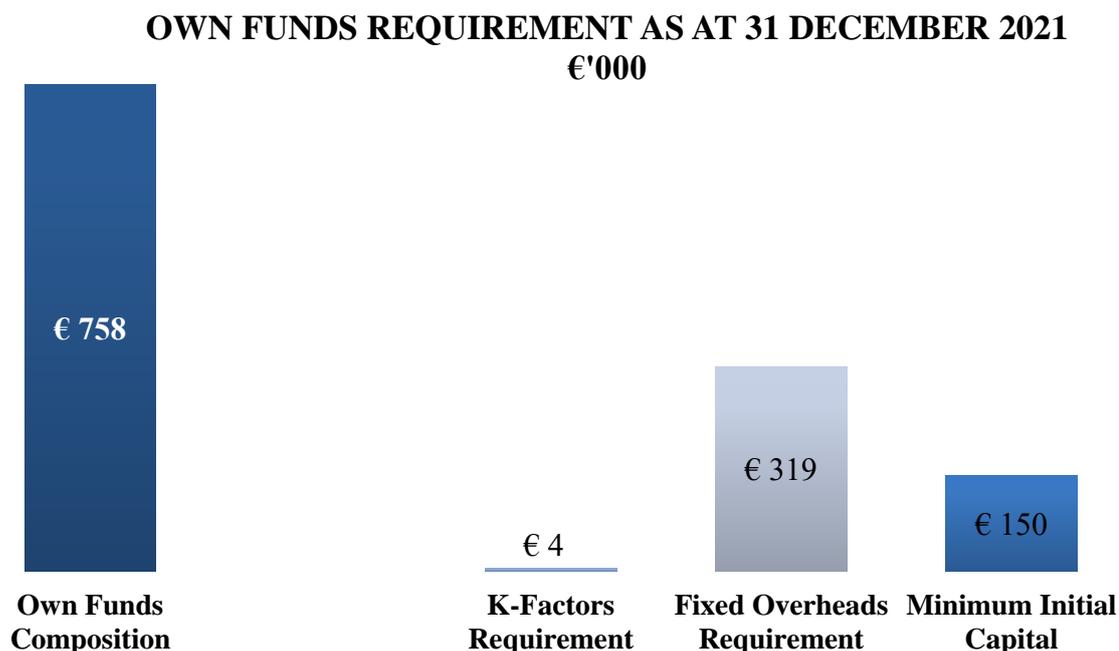


Figure 4: Own Funds Requirement as at 31 December 2021

4.5. Reporting requirements

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

- a) Level and composition of own funds
- b) Own funds requirements
- c) Own funds requirement calculations
- d) Where the firm is a Class 3 firm – the level of activity, including the balance sheet
- e) and revenue breakdown by investment service and applicable K-factor
- f) Concentration risk
- g) 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 Group. During the year under review, the Group’s own funds never dropped below its own funds requirement and the Group 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 17: Large Exposure Limits

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

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

- 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 Group 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 Group shall report the top five clients from whom the largest amounts of Group's earnings are derived, the top five, if available, largest trading book exposures and largest exposures not recorded in the trading book. The Group 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 Group 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 latest solo and consolidated audited financial statements, the Group has the following liquid assets which is well above the 1/3 of the total fixed overheads requirement.

Table 18: Liquidity Requirements

| Item | Solo €'000 | Consolidated €'000 |
|--|---------------|-----------------------|
| Liquid Assets | 507 | 512 |
| Total | 507 | 512 |
| Requirement (1/3 of Fixed Overheads Requirement) | 106 | 106 |
| Surplus | 401 | 406 |

Further to the above, the Group maintains adequate liquid assets to cover the one third fixed overheads requirement. However, the Group should monitor the above in order to ensure compliance at all times. The below figure illustrates the liquid assets from all the EEA Credit Institutions the Group held their money and the minimum liquidity requirement that the Group needs to store in an emergency period. The below figure illustrates the liquid assets from all the EEA Credit Institutions the Company held their money and the minimum liquidity requirement that the Company needs to store in an emergency period.

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

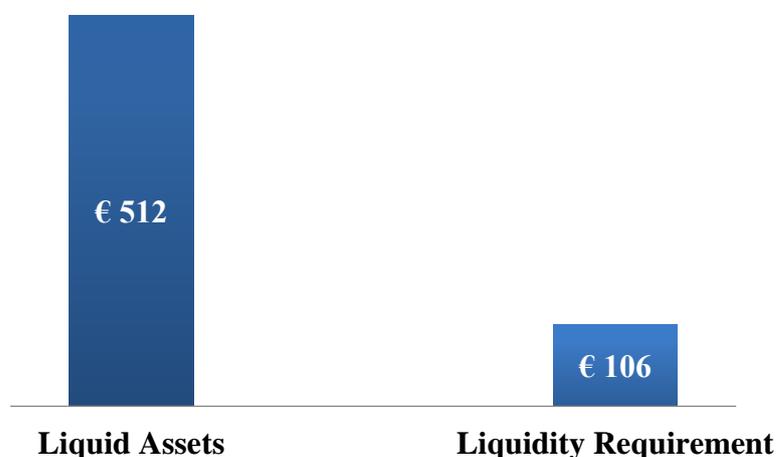


Figure 5: Liquidity Requirement as at 31 December 2021

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:

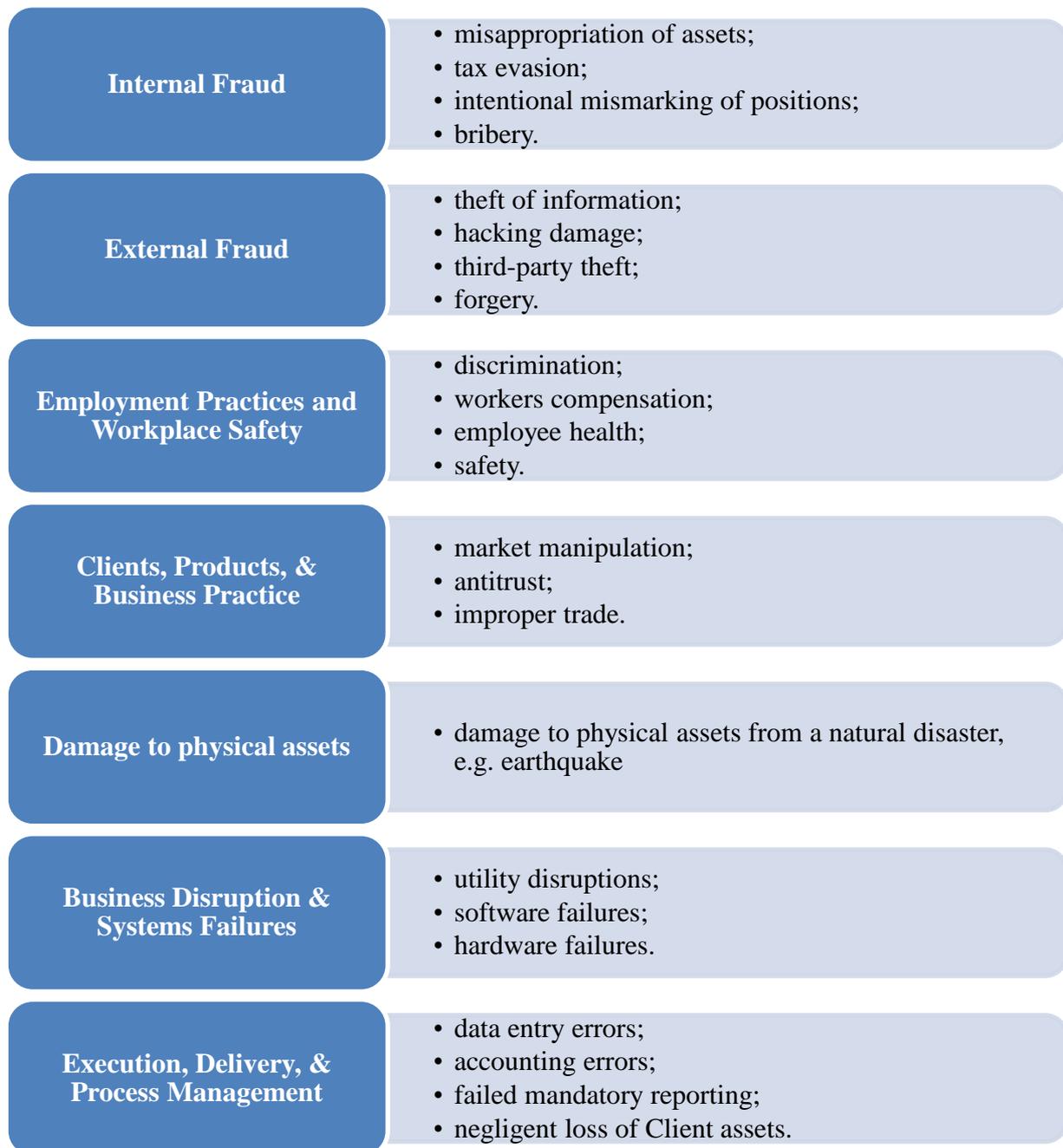


Figure 6: Operational Risk Registry

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

The Group 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;
- A IT Disaster Recovery Plan has been designed in order to be used in the event of a force majeure affecting the Group'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 Group's information databases including data, records and facilities.
- The majority of actions occurring in the Group'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 Group's policies;

Following the outbreak of COVID-19 in Cyprus, the Firm 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 system 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 Group 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 Group 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 Group 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 Group's key directors, the loss of large customers, poor customer service, fraud or theft, customer claims, legal action and regulatory fines.

The Group 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 Group 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 Group'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 Group.

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 are conducted with a view to minimize the Group's exposure to business risk. These are analyzed and taken into consideration when implementing the Group's strategy.

5.6. Regulatory Risk

Regulatory risk is the risk the Group 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 Group 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. The compliance with these procedures and policies are further assessed and reviewed by the Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Group'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 Group mainly to financial losses due to imposed fines from the Regulators. The compliance incidents may also lead to diminished reputation, reduced Group 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 Group and regular reviews by the Internal Auditors. The structure of the Group 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 Group'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 Group'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 Group.

Additionally, the Group 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 Group's stop out limit. Therefore, the Group 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.

Furthermore, the receivable/payable amounts with the LPs are monitored on a daily basis. In particular, the Group 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 Group has established a remuneration policy, which its purpose is to set out the remuneration practices of the Group taking into consideration the salaries and benefits of the staff, in accordance with the provisions of the Law on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Group's size, internal organization and the nature, scope and complexity of its activities. Furthermore, the Group's remuneration strategy is designed to reward and motivate the people who are committed to maintaining a long-term career with the Group and performing their role in the interests of the Group.

The design of the Policy is approved by the people who effectively direct the business of the Group, 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 procedure. Moreover, 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 Group's remuneration policy aims to (i) provide for sufficient incentives so as for the Group's employees, to achieve the business targets, (ii) deliver an appropriate link between reward and performance whilst at the same time become a comprehensive, consistent and effective risk management tool that prevents excessive risk taking and/or undesirable practices in light of financial incentives schemes that may be implemented by the Group in future, which could lead to compliance risks for the Group in the long-run. This Policy is designed in such a way aiming not to create incentives and enforce reasonable measures to prevent any incentives that may lead persons to favor their own interests, or the Group's interests, to the potential detriment of clients.

7.1. Remuneration System

The remuneration mechanisms employed are well known management and human resources tools in order to determine the remuneration of each staff member. In addition, other factors that taken into account for the Remuneration of the Group's employees is the following:

- The financial viability of the Group,
- The general financial situation and the state in which the Group operates,
- Each employee's personal objectives (such as personal development, compliance with the Group'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,
- 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 remuneration system takes into account the highly competitive sector in which the Group operates, and the considerable amount of resources the Group invests in each member of the staff.

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

It is noted that the Group 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 total remuneration of staff currently consists of a fixed and may include 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, professional experience, accountability, competence and responsibility needed for an employee to perform each position/role. The Policy is also set in comparison with standard market practices employed by the other market participants/competitors.

Moreover, the Group's has in place a 'variable Remuneration scheme' whereby the all employees and the members of the Board of Directors may receive variable Remuneration via the Group's payroll system, via wire transfer on the employee's name in addition to their monthly fixed salary. The variable remuneration is a performance-based remuneration which motivated and rewards staff members based on their results in relation with the targets set in the beginning of the year. Moreover, the Group does not award, pay or provide guaranteed variable Remuneration. In addition, the Group has identified the following four main groups that will receive variable remuneration:

- a) Senior management staff (including executive and non-executive Directors);
- b) Control functions (Compliance, Internal Audit and Risk Manager);
- c) Heads of Investment Services Departments;
- d) Any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on their risk profile whose activities have a significant influence on the risk profile of the Group, i.e. whose total remuneration is +/- 10% of the total remuneration of the three above categories of the covered officers and employees.

This kind of remuneration is not guaranteed, and the BoD shall determine a maximum percentage of variable remuneration relative to the fixed remuneration in order to ensure a compliant ratio between these two kinds of remuneration.

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

7.2. Link between the pay and performance

The Group recognizes the responsibility that the Staff has in driving its future success and delivering value for the Group 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 Group's procedures.

Further to the above, the Group implements a performance appraisal program, 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 motivate them to be improved. At the most of the times, the performance appraisal takes place in a multiyear framework in order to ensure that the appraisal process assess employee's long-term performance. However, sometimes the performance appraisal is performed on medium and short-term basis, and the performance indicators of this type of performance appraisal include quantitative as well as qualitative criteria. Performance appraisal on medium and short-term is being performed as follows:

- a. Objectives are set in the beginning of each year (depending on the department appraisal process) defining what the Group functions, departments and individuals are expected to achieve during the year and half annually.
- b. Performance checks and feedbacks: managers provide support and feedback to the concerned staff every 6 months, during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.
- c. 6 Months Performance review.

The Group 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's objectives (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 objectives and
- c. the overall results of the Group

7.3. Remuneration of Senior Management Personnel and Directors

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

The quantitative remuneration criteria mostly rely on numeric and financial data such as the business'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 Group 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 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 business's size and complexity, the responsibilities and the time that the non-executive directors are expected to consume.

The remuneration of the senior management personnel of the Group, including the Board are shown in the following tables:

Table 19: Remuneration analysis split by Senior Management and key management personnel

| | Executive Directors | Key Management personnel | Non-Executive Directors |
|--------------------------------|---------------------|--------------------------|-------------------------|
| Fixed reward | 154,927 | 288,514 | 12,000 |
| Variable reward | - | 2,058 | - |
| Total | 154,927 | 290,571 | 12,000 |
| Number of beneficiaries | 2 | 8 | 3 |

The variable to fixed remuneration ratio as at 31 December 2021 was 0.5%.

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 Group that are remunerated €1mln or more per financial year and as such the above disclosure are not applicable to the Group. 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 20: Aggregate remuneration analysis by business area

| Business Area | Aggregate Remuneration |
|---------------------------------|------------------------|
| | € |
| Control Functions | 256,830 |
| Business Development Department | 65,504 |
| Support/Sales Unit Department | 24,724 |
| Finance Department | 54,487 |
| Brokerage Department | 43,954 |
| Total | 445,498 |

**Control functions include the Executive Directors and Compliance and AML Department.*

8. INVESTMENT POLICY

Investment Firms should disclose the following information in accordance with Article 46 of IFR:

- a) the proportion of voting rights attached to the shares held directly or indirectly by the investment firm, broken down by Member State and sector;
- b) a complete description of voting behaviour in the general meetings of companies the shares of which are held in accordance with paragraph 2 of Article 46, an explanation of the votes, and the ratio of proposals put forward by the administrative or management body of the company which the investment firm has approved; and
- c) an explanation of the use of proxy advisor firms;
- d) the voting guidelines regarding the companies the shares of which are held in accordance with paragraph 2 of Article 46.

CIFs who meet the criteria of Paragraph 26(8)(a) of the Law, whose on-and-off balance sheet assets on average over the 4 year period are less than €100m are exempted from the disclosure requirement regarding investment policy.

The Company does not meet the condition of Paragraph 26(8)(a) of the Law and as such it is not required to disclose the requirements regarding investment policy.

9. ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

From 26 December 2022, investment firms which do not meet the criteria referred to Paragraph 26(8)(a) of the Law shall disclose information on environmental, social and governance risks, including physical risks and transition risks as per Article 35 of IFD.

The Company does not meet the condition of Paragraph 26(8)(a) of the Law and as such it is exempted from disclosures regarding ESG.