



**DISCLOSURES & MARKET DISCIPLINE REPORT**  
of  
**MERITKAPITAL LIMITED**

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

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**FOR THE YEAR ENDED 31 DECEMBER 2023**  
**April 2024**



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## 1. Introduction

### 1.1 Group Information

**MeritKapital HC Limited** (hereinafter, the 'Group') was incorporated in the Republic of Cyprus on 8 April 2021 as a limited liability company with registration number HE 412086 and it is the parent company of **MeritKapital Limited** (hereinafter, the 'Company' or 'CIF'). The Company was incorporated in the Republic of Cyprus on 29 December 2006 as a private limited liability company with registration number HE 189316 and obtained a Cyprus Investment Firm ("CIF") licence from the Cyprus Securities and Exchange Commission ("CySEC"), CIF licence No. 077/06 on 30 November 2006 to provide the following Investment and Ancillary Services in trading with the Financial Instruments listed below, in accordance with Part I, II and III of the Law 87(I)/2017:

#### Investment Services:

- Reception and transmission of orders in relation to one or more financial instruments (for Financial Instruments 1,2,3,4,5,6 and 9 herebelow)
- Execution of orders on behalf of clients (for Financial Instruments 1,2,3,4,5,6 and 9 herebelow)
- Dealing on own account (for Financial Instruments 1 to 10 herebelow)
- Portfolio Management (for Financial Instruments 1,2,3,4 and 9 herebelow)
- Investment Advice (for Financial Instruments 1,2,3,4 and 9 herebelow)
- Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis (for Financial Instruments 1 to 10 herebelow)
- Placing of financial instruments without a firm commitment basis (for Financial Instruments 1 to 10 herebelow)

#### Ancillary Services:

- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management (for Financial Instruments 1,2,3,4,5,6 and 9 herebelow)
- Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings.
- Foreign exchange services where these are connected to the provision of investment services.
- Investment Research and financial analysis of other forms (for Financial Instruments from 1 to 10 herebelow)
- Services Related to Underwriting

#### Financial Instruments:

- Transferable Securities
- Money Market Instruments

- Units in Collective Investment Undertakings
- 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.
- 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).
- 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
- 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
- Derivative instruments for the transfer of credit risk.
- Financial contracts for differences.
- 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.

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

**Table 1: Company Licence 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	9	1	2	3	4	5	6	7
Financial Instruments	1	✓	✓	✓	✓	✓	✓	✓	-	-	✓	-			✓		-
	2	✓	✓	✓	✓	✓	✓	✓	-	-	✓	-			✓		-
	3	✓	✓	✓	✓	✓	✓	✓	-	-	✓	-			✓		-
	4	✓	✓	✓	✓	✓	✓	✓	-	-	✓	-			✓		-
	5	✓	✓	✓	-	-	✓	✓	-	-	✓	-	✓	✓	✓	✓	-
	6	✓	✓	✓	-	-	✓	✓	-	-	✓	-			✓		-
	7	-	-	✓	-	-	✓	✓	-	-	-	-			✓		-
	8	-	-	✓	-	-	✓	✓	-	-	-	-			✓		-

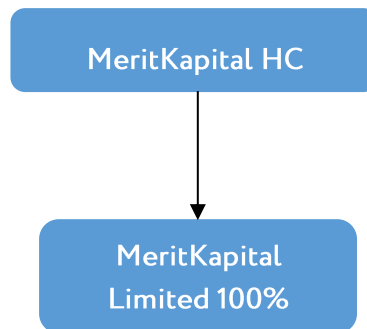
9	✓	✓	✓	✓	✓	✓	✓	✓	-	-	✓	✓			✓	
10	-	-	✓	-	-	✓	✓	-	-	-	-	-			✓	-
11	-	-	-	-	-	-	-	-	-	-	-	-			-	-

## 1.2 Scope of application

The Disclosures & Market Discipline 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 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.

The Company is required to comply with the market disclosures requirement on a consolidated basis. As at 31 December 2023, the basis of consolidation of the Group entities for accounting and prudential purposes is presented in the Group Structure below:



The Group consolidated financial statements as at 31 December 2023 comprise the financial statements of the parent company and the financial statements of its subsidiaries which are presented in the table below.

**Table 2: Basis of Consolidation of Group entities for regulatory purposes**

Name of the entity	Method of accounting consolidation	Country	Description of the entity
Mettius Acquisitions Limited	Full consolidation	Cyprus	Distressed financial instruments investment
Macleish Investments Limited	Full consolidation	Cyprus	Real Estate
MeritAfrika Limited	Full consolidation	Nigeria	Interdealer broker

### 1.3 Classification and prudential requirements

Under current prudential regulatory framework, Investment Firms Directive (EU) 2019/2034 (“IFD”) and Investment Firm Regulation, Regulation (EU) 2019/2033 (“IFR”), all investment firms are classified as Class 1, 2 or 3 Investment Firms, based on their activities, systemic importance, size and interconnectedness. 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 fall entirely under the CRR.

Investment Firms categorized as Class 2 and Class 3 must comply with the provisions of the IFR/IFD prudential regulatory regime for investment firms introduced back in June 2021. 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, are categorised as Class 2 Investment Firms.

**Table 3: 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 ( $\frac{1}{4}$ ) of the previous year fixed expenses (based on the latest audited figures).

#### C. K-Factors requirement

The K-Factors are quantitative indicators that reflect the risk that the IFR/IFD 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 the Risk to Client ('RtC'), Risk to Market ('RtM') and Risk to Firm ('RtF') proxies.

#### 1.4 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:

- **Basic Prudential Requirement** - Covers minimum capital and liquidity requirements.
- **Internal Capital and Liquidity Adequacy Assessment** – 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'.
- **Disclosures Requirement** - require 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 of Directors ('Board' or 'BoD'), which details its approach in complying fully with the market 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 Disclosures & Market Discipline Report is published on the official website:

- [www.meritkapital.com](http://www.meritkapital.com)

## Verification

The Disclosures & Market Discipline Report is subject to internal review and validation prior to being submitted to the Board for approval. The Report has 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.

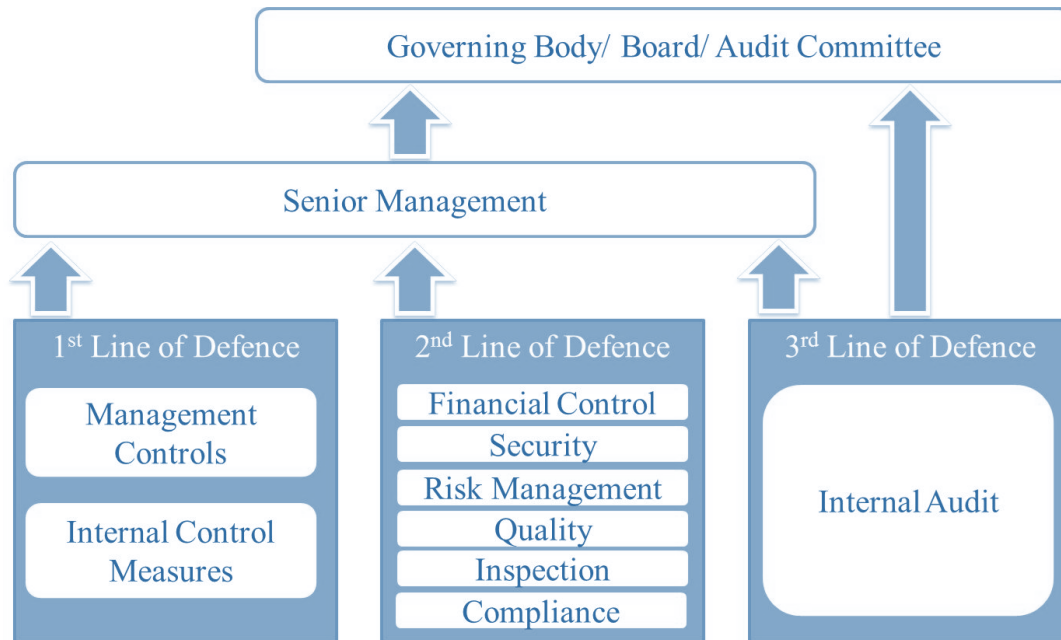
To ensure effective risk management, the Company has adopted the Three Lines of Defence model, with clearly defined roles and responsibilities.

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.



### 1.5.1. 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 it undertakes the following:

- i. The adequate risk identification and management
- ii. The establishment of the necessary policies and procedures
- iii. The setting and monitoring of the relevant limits and
- iv. 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.



### 1.5.2. 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 current macroeconomic and political uncertainty (heightened inflation, Ukrainian crisis, climate crisis etc.), the Group is following the local government guidelines, enhancing its onboarding procedures and closely monitoring its capital and liquidity positions.

#### 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 Company 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 Financial Stability Board (FSB) an appropriate risk appetite framework (RAF) should enable risk capacity, 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. 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**

Indicator	Normal <sup>1</sup>	Warning <sup>2</sup>	Limit <sup>3</sup>
Minimum Own Fund Requirement	≥\$3,500k	<\$3,500k	\$2,799k
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	>\$500k	<\$500k	\$232k
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 additional 18.75% total capital ratio requirement as per the paragraph 18 of the Law 20(1)/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 risk management framework.

The Board approves the Group's corporate strategy, business plans, budget, long term plan and ICAAP. The Group employs mitigation techniques defined within the policies, to ensure risks are managed within 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 behaviour 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 is encouraged to take risk-based decisions, while knowing when to escalate or seek advice.

### **1.6 Declaration of the Management Body**

The Board 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 the Company has in place adequate systems and controls with regards to its size, risk profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss. Key ratios and figures representing interaction of the risk profile and the stated risk tolerances are deemed to be proprietary information.

## 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. Organisational Structure

Through the organizational 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.

#### 2.1.1. Board of Directors

As at 31 December 2023, the Board comprises of two executive directors and two non-executive directors.

The Board 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 main responsibilities of the Board of Directors are:

1. To establish, implement and maintain decision-making procedures and an organizational structure which clearly and in documented manner specifies reporting lines and allocates functions and responsibilities;
2. To ensure that its relevant persons are aware of the procedures that must be followed for the proper discharge of their responsibilities;
3. To establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the CIF;

4. To employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them;
5. To establish, implement and maintain effective internal reporting and communication information at all relevant levels of the CIF;
6. To maintain adequate and orderly records of its business and internal organization; and
7. To ensure that the performance of multiple functions by its relevant persons does not and is no likely to prevent those persons from discharging any particular function soundly, honestly, and professionally.

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 four non-executive directors.

### 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 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.

According to Section 27 of the Law, if the Company meets the following criteria as set out in Section According to Circular C487, if the Company meets the definition of 'significant CIF' as set out in Section 26(8)(a) of the Law, it is obligated to establish a Risk, Remuneration and Nomination Committee. The Company does not fall under the definition of 'significant CIF' since its average on and off-balance sheet items during the four preceding years were less than €100m. Therefore, it is not required to comply with the additional regulatory requirements indicated above.

However, the Company has established *Investment, Product Governance and Risk Management Committees* in order to ensure the effectiveness of the risk management, investment and product governance policies and procedures.

### **Investment Committee**

An Investment Committee has been formed to ensure the implementation of a prudent investment policy and 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.

### **Product Governance Committee**

The Company established a committee which is responsible for the product approval and review. The committee is responsible to review the processes and procedures which are followed for approval and monitoring of manufactured instruments.

Further to the above, the committee shall ensure that the Company manufactures/distributes financial products targeting a particular group of Clients, so that the product meets their interests, needs and objectives (target market). The Committee shall also identify a group of end-Clients where these products may not be offered due to the Committee's assessment that the product does not meet their interests, needs and objectives (negative target market).

Moreover, the committee shall identify appropriate distribution channels/venues and media of marketing for each target market. Finally, the Committee shall identify information and practices that will enable to assess each individual end-Clients' compatibility with its products.

### **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.

#### **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 committee members 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 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 possess sufficient knowledge, skills and experience in relation to compliance and relevant procedures and have 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.

## 2.2. 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.

### Board of Directors Recruitment

The management of a CIF must be undertaken by at least two persons meeting the requirements below:

1. Members of the Board shall at all times be of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board of directors shall reflect and adequately board range of experiences;
2. All Board members shall commit sufficient time to perform their functions in the Company;
3. 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.
4. For the purposes of subsection above, the following shall count as a single directorship:
  - a) Executive or non-executive directorships held within the same group;
  - b) Executive or non-executive directorships held within:
    - i. institutions which are members of the same institutional protection scheme provided that the conditions set out in Article 113, paragraph (7) of CRR are fulfilled; or
    - ii. undertakings (including non-financial entities) in which the CIF holds a qualifying holding.



5. Directorships in organisations which do not pursue predominantly commercial objectives shall not count for the purposes of the previous subsection;
6. The Commission may allow members of the Board of Directors to hold additional non-executive directorships;
7. The Board of Directors shall collectively possess adequate knowledge, skills experience to be able to understand the Company’s activities, including the principal risks; and
8. Each member of the Board of Directors shall act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the senior management where necessary and to effectively oversee and monitor the decision-making of the management.

Chairman of the BoD shall not exercise simultaneously the functions of a Chief Executive Officer within the Company, unless justified by the Company and approved by CySEC.

### 2.3. Number of Directorships held by members of the Board

The table below discloses the number of directorships held by members of the management body of the Company, including MeritKapital Ltd and any other companies belonging to the same group, as at 31 December 2023. Directorships in organisations which do not pursue predominantly commercial objectives such as non-profit or charitable organisations, are not taken into account for the purposes of the below.

**Table 5: Number of Directorships held<sup>1</sup>**

Director	Function	Number of Executive Directorships	Number of Non-Executive Directorships
Ms. Persella Ioannides	Executive Director	2	2
Mrs. Tariro Taka <sup>*</sup>	Executive Director	1	-
Mr. Denis Kozlov <sup>**</sup>	Independent, Non-Executive Director	1	-
Mr. Antonis Papaevagorou <sup>**</sup>	Non-Executive Director	2	-

<sup>\*</sup> Appointed in replacement of Mr Panos Ioannidis who resigned on 20 April 2023<sup>u</sup>

<sup>\*\*</sup> Appointed in replacement of Mr. Hermes Stephanou, Mr. Stavros Christodoulides and Mr. Andreas Michaelides who resigned on 20 April 2023

<sup>1</sup> Note: The information in this table is based only on representations made by the directors of the Company



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

## 2.4. Policy on Diversity

The Group is committed to promoting 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.

## 2.5. Outsourcing

The Company outsources some functions and activities to reputable and skilled individuals or companies, as per the provisions of the Law.

In outsourcing the functions and activities, the Company remains fully responsible for discharging all of its obligations under the Law and complies in particular with the following conditions:

- a) the outsourcing must not result in the delegation by senior management of its responsibility
- b) the relationship and obligations of the Company towards its Clients under the Law must not be altered
- c) the conditions with which the Company must comply in order to be authorized in accordance with the conditions for granting a CIF authorization as stated by the Law, and to remain so, must not be undermined
- d) none of the other conditions subject to which the Company's authorization was granted must be removed or modified
- e) where the compliance function is outsourced, the responsibility shall lay with the service provider (physical person) and in no case the responsibility shall be limited through the outsourcing agreement

It is noted that the following principle is adhered at all times, during any outsourcing: in the case that outsourcing concludes the transfer of functions of the Company to such a degree which renders the Company's a letter box entity, it is considered to undermine the conditions for authorization of the Company by CySEC.

The Compliance Officer ensures that the outsourced functions are included in the relevant outsourcing agreements with the service providers or individuals, and the Managing Director ensures that these are adhered to at all times.

The Board passes a resolution for selecting a service provider or individual for outsourcing and the Internal Auditor receives all feedback on the performance of the outsourced duties, at least annually.

The Company exercises due skill, care and diligence when entering into, managing or terminating any arrangement for the outsourcing to a service provider of critical or important operational functions or of any investment services or activities.

The respective rights and obligations of the Company and of the service provider are clearly allocated and set out in a written agreement. In particular, the Company keeps its instruction and termination rights, its rights of information, and its right to inspections and access to books and premises. The agreement ensures that outsourcing by the service provider only takes place with the consent, in writing, of the Company.

## 2.6. 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	IF CLASS2 Ind & IF CLASS2 Con Forms	Risk Manager	Senior Management, Board, CySEC	Quarterly
3	ICARA Report	Risk Manager	Senior Management, Board	Annually
4	Disclosures & Market Discipline Report	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 165-03 '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
13	Remuneration Reporting	Finance Department & Risk Manager	Senior Management, Board, CySEC	Annually

\*CIF which are subject to simplified obligations for the purpose of preparing their recovery plans according to Directive D120-01

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 minimum 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. Composition of Regulatory Capital

The Company shall disclose information relating to their own funds according to Article 49(a) and (c) of IFR.

The following information provides a full reconciliation of the Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) instruments and Tier 2 (T2) instruments issued. The Company's regulatory capital comprises fully of CET1 capital while it has not issued any AT1 or T2 capital.

The composition of the Company's Own Funds which is cross-referenced to the corresponding rows in table EU IF CC2 is shown below:

**Table 7: IF CC1.01 - Composition of regulatory own funds as at 31 December 2023**

Common Equity Tier 1 (CET1) capital: instruments and reserves		Solo \$'000	Consolidated \$'000	Source based on reference numbers of the balance sheet in the audited financial statements (EU IF CC2)
1	OWN FUNDS	19,279	25,404	
2	TIER 1 CAPITAL	19,279	25,404	
3	COMMON EQUITY TIER 1 CAPITAL	19,279	25,404	

4	Fully paid-up capital instruments	1,884	1,781	1 (Shareholders' Equity)
5	Share premium	5,249	10,686	2 (Shareholders' Equity)
6	Retained earnings	9,237	14,756	3 (Shareholders' Equity)
7	Accumulated other comprehensive income	-	-	N/A
8	Other reserves	3,278	(1,449)	4 (Shareholders' Equity)
9	Minority interest given recognition in CET1 capital	-	-	N/A
10	Adjustments to CET1 due to prudential filters	-	-	N/A
11	Other funds	-	-	N/A
12	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(370)	(370)	
13	(-) Own CET1 instruments	-	-	N/A
14	(-) Direct holdings of CET1 instruments	-	-	N/A
15	(-) Indirect holdings of CET1 instruments	-	-	N/A
16	(-) Synthetic holdings of CET1 instruments	-	-	N/A
17	(-) Losses for the current financial year	-	-	N/A
18	(-) Goodwill	-	-	N/A
19	(-) Other intangible assets	(146)	(146)	2 (Assets)
20	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-	N/A
21	(-) Qualifying holding outside the financial sector which exceeds 15% of own funds	-	-	N/A
22	(-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds	-	-	N/A
23	(-) CET1 instruments of financial sector entities where the institution does not have a significant investment	-	-	N/A
24	(-) CET1 instruments of financial sector entities where the institution has a significant investment	-	-	N/A
25	(-)Defined benefit pension fund assets	-	-	N/A
26	(-) Other deductions	-	-	N/A
27	CET1: Other capital elements, deductions and adjustments <sup>1</sup>	(124)	(124)	11 & 12 (Assets)

28	<b>ADDITIONAL TIER 1 CAPITAL</b>	-	-	
29	Fully paid up, directly issued capital instruments	-	-	N/A
30	Share premium	-	-	N/A
31	<b>(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1</b>	-	-	
32	(-) Own AT1 instruments	-	-	N/A
33	(-) Direct holdings of AT1 instruments	-	-	N/A
34	(-) Indirect holdings of AT1 instruments	-	-	N/A
35	(-) Synthetic holdings of AT1 instruments	-	-	N/A
36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	-	-	N/A
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment	-	-	N/A
38	(-) Other deductions	-	-	N/A
39	Additional Tier 1: Other capital elements, deductions and adjustments	-	-	N/A
40	<b>TIER 2 CAPITAL</b>	-	-	
41	Fully paid up, directly issued capital instruments	-	-	N/A
42	Share premium	-	-	N/A
43	<b>(-) TOTAL DEDUCTIONS FROM TIER 2</b>	-	-	
44	(-) Own T2 instruments	-	-	N/A
45	(-) Direct holdings of T2 instruments	-	-	N/A
46	(-) Indirect holdings of T2 instruments	-	-	N/A
47	(-) Synthetic holdings of T2 instruments	-	-	N/A
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	-	-	N/A
49	(-) T2 instruments of financial sector entities where the institution has a significant investment	-	-	N/A
50	Tier 2: Other capital elements, deductions and adjustments	-	-	N/A

### 3.2. Main features of capital instruments

The Company shall disclose the main features of the CET1 and AT1 instruments and Tier 2 instruments issued according to Article 49(b) of IFR. Therefore, the Company's capital instruments' main features are outlined below:

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

No	Item	CET1 Capital
1	Issuer	MERITKAPITAL HC LIMITED
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	n/a
3	Public or private placement	Private
4	Governing law(s) of the instrument	Cyprus Companies Law
5	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	\$12
7	Nominal amount of instrument	\$12,466,650
8	Issue price	\$1
9	Redemption price	N/A
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	8 April 2021
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
22	Existence of step up or other incentive to redeem	No
23	Noncumulative or cumulative	Non-cumulative
24	Convertible or non-convertible	Non-convertible
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A

27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	N/A
32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A
34	If write-down, permanent or temporary	N/A
35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the instrument (signposting)	N/A

### 3.3. Balance Sheet Reconciliation

The Company shall disclose the balance sheet included in their management accounts for the year 2023.

As at the 31 December 2023, the reconciliation of Group's assets and liabilities and regulatory Own Funds is shown in the following table:

**Table 9: Balance Sheet Reconciliation**

No.	Item	Balance sheet as in the audited financial statements \$'000	Under regulatory scope of consolidation \$'000	Cross reference to EU IF CC1
<i>Assets - Breakdown by asset classes according to the balance sheet in the published/audited financial statements</i>				
1	Property, plant and equipment	208	82	N/A
2	Intangible Assets	246	246	Ref. 19
3	Investments in subsidiaries	1,320	-	N/A
4	Investment in Associate	5	19	N/A
5	Financial assets at fair value through other comprehensive income	540	1,223	N/A



6	Deposits with Regulatory Bodies	158	158	Ref. 27
7	Trade and other receivables	14,079	14,172	N/A
8	Financial assets at fair value through profit or loss	13,147	13,683	N/A
9	Short term receivables	8,284	8,284	N/A
10	Refundable taxes	-	115	N/A
11	Cash and cash equivalents	51,409	51,777	N/A
	<b>Total Assets</b>	<b>86,397</b>	<b>89,978</b>	
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the published/audited financial statements</b>				
1	Lease Liabilities	-	407	N/A
2	Trade and Other Payables	5,154	1,509	N/A
3	Short-term Liabilities	12,441	12,441	N/A
	<b>Total Liabilities</b>	<b>17,595</b>	<b>14,359</b>	
<b>Shareholders' Equity</b>				
1	Share Capital	1,884	1,781	Ref. 4
2	Share Premium	5,249	10,686	Ref. 5
3	Translation reserve	(46)	(1,635)	Ref. 8
4	FV Reserve	84	186	Ref. 8
5	Other Reserves	3,239	(5,334)	Ref. 8
6	Audited Reserves	9,237	14,756	Ref. 6
7	Unaudited Profit for 2022/2023	52,157	49,846	N/A
	<b>Total Shareholders' equity</b>	<b>71,802</b>	<b>75,619</b>	

## 4. PRUDENTIAL REQUIREMENTS

### 4.1. Own Funds Requirement

#### 4.1.1. 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.

#### 4.1.2. 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, the Company’s solo and consolidated fixed overheads requirement based on the latest audited financial statements is \$668k \$696k respectively as per the table below:

**Table 10: Fixed Overheads Requirement**

Item	Solo \$'000	Consolidated \$'000
<b>Total expenses of the previous year after distribution of profits</b>	<b>2,693</b>	<b>2,809</b>
<b>Total deductions</b>	<b>(22)</b>	<b>(26)</b>
(-)Staff bonuses and other remuneration	-	-
(-)Employees', directors' and partners' shares in net profits	-	-
(-)Other discretionary payments	-	-
(-)Shared commission and fees payable	-	-
(-)Fees, brokerage and other charges paid to CCPs	-	-
(-)Fees to tied agents	-	-
(-)Interest paid to customers on client money	-	-
(-)Non-recurring expenses from non-ordinary activities	-	-
(-)Expenditures from taxes	(22)	(26)
(-)Losses from trading on own account in financial instruments	-	-

(-)Contract based profit and loss transfer agreements	-	-
(-)Expenditure on raw materials	-	-
(-)Payments into a fund for general banking risk	-	-
(-)Expenses related to items that have already been deducted from own funds	-	-
<b>Annual Fixed Overheads</b>	<b>2,671</b>	<b>2,782</b>
<b>Fixed Overheads requirement</b>	<b>668</b>	<b>696</b>

#### 4.1.3. K-Factors Requirement

The K-factor capital requirements are essentially a mixture of activity- and exposure-based requirements. K-factors applied 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.

#### 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:

#### **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.

K-AUM shall be the arithmetic mean of the remaining 12 monthly values multiplied by the relevant coefficient of 0.02%.

As at 31 December 2023, the K-AUM was \$3k.

The table below shows the Total AUM amounts as an arithmetic mean for the 4th quarter of 2023 in accordance with the Article 17(1) of IFR:

**Table 11: Total AUM (average amounts)**

	Factor amount		
	December 2023 \$'000	November 2023 \$'000	October 2023 \$'000
<b>Total AUM (average amounts)</b>	<b>16,744</b>	<b>17,531</b>	<b>18,505</b>
Of which: AUM - Discretionary portfolio management	16,744	17,531	18,505

### K-CMH: Client 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. This provides 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 a segregated or non-segregated 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.

K-CMH shall be the arithmetic mean of the daily values from the remaining 6 months multiplied by the relevant coefficient (0.4% for segregated accounts and 0.5% for non-segregated accounts).

As at 31 December 2023, the K-CMH was \$173k. The table below shows the average CMH values in segregated accounts and non-segregated accounts for the 4th quarter of 2023 in accordance with the Article 18(1) of IFR:

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

	Factor amount		
	December 2023 \$'000	November 2023 \$'000	October 2023 \$'000
CMH - Segregated (average amounts)	43,172	44,039	44,563
CMH - Non-segregated (average amounts)	-	-	-

### 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.

K-ASA shall be the arithmetic mean of the daily values from the remaining 6 months multiplied by the relevant coefficient of 0.04%.

As at 31 December 2023, the K-ASA was \$152k. The table below shows the Total ASA amounts as an arithmetic mean for the 4th quarter of 2023 in accordance with the Article 19(1) of IFR:

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

	Factor amount		
	December 2023 \$'000	November 2023 \$'000	October 2023 \$'000
<b>Total ASA (average amounts)</b>	<b>380,457</b>	<b>376,405</b>	<b>378,495</b>
Of which: Fair value of financial instruments (Level 2)	10,269	12,236	14,456
Of which: Fair value of financial instruments (Level 3)	-	-	-
Of which: assets formally delegated to another financial entity	377,102	373,070	375,203
Of which: assets of another financial entity that has formally delegated to the investment firm	-	-	-

## 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 of 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.

K-COH shall be the arithmetic mean of the daily values of the remaining 3 months multiplied by the relevant coefficient (0.1% for cash trades and 0.01% for derivative trades).

As at 31 December 2023, the K-COH was \$2k. The table below shows the arithmetic mean amount of COH in cash trades and derivatives for the 4<sup>th</sup> quarter of 2023, in accordance with the Article 20(1) of IFR:

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

	Factor amount		
	December 2023 \$'000	November 2023 \$'000	October 2023 \$'000
<b>COH - Cash trades (average amounts)</b>	<b>1,879</b>	<b>1,950</b>	<b>2,488</b>
Of which: Execution of client orders	1,833	1,886	2,463
Of which: Reception and transmission of client orders	45	63	26
<b>COH - Derivative (average amounts)</b>	<b>17</b>	<b>17</b>	<b>17</b>
Of which: Execution of client orders	17	17	17
Of which: Reception and transmission of client orders	-	-	-

### 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.

### 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;
- Equity Risk
- Traded Debt Instrument Risk

As at 31 December 2023, the K-NPR capital requirements amounted to \$2,564k on a solo basis and \$2,449k on a consolidated basis, as shown in the table below:

**Table 15: K-NPR capital requirement**

K-NPR	Solo \$'000	Consolidated \$'000
Foreign Exchange Risk	810	609
Position Risk in equity instruments	1,476	1,562
Position Risk in debt instruments	277	277
<b>K-NPR</b>	<b>2,564</b>	<b>2,449</b>

### Foreign Exchange Risk

The Group's reporting currency is USD. 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 \$810k emanating from a net foreign exchange exposure of \$10,125k based on the latest relevant calculations of the Company's capital requirements, as at 31st of December 2023.

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 2023 were \$7,470k. In this respect, please find below the analysis of the Company's exposure to Foreign Exchange Risk as at 31 December 2023:

**Table 16: Foreign Exchange Risk capital requirements on a consolidated basis**

	Positions Subject to Capital			Capital Requirement \$'000
	Long \$'000	Short \$'000	Matched \$'000	
Closely Correlated Currencies	5,123	-	-	
<i>Of which EUR</i>	-	-	-	
All Other Currencies	10,125	-	-	
Gold Positions	-	-	-	
<b>Total</b>	<b>15,248</b>	-	-	<b>810</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 2023, the consolidated market risk capital requirements, due to position risk in equities amounted to \$1,562k.



**Table 17: Position risks in equities**

	Total Exposure \$000	Capital Requirements \$000
General Risk	9,764	781
Specific Risk	9,764	781
<b>Total</b>	<b>19,528</b>	<b>1,562</b>

**Traded Debt Instruments**

Position Risks in Traded Debt Instruments arising from the investments on Fixed Income instruments such as bonds. The position risk on a traded debt instrument shall be divided into two components in order to calculate the capital required against it:

- a. Specific risk— this is the risk of a price change in the instrument concerned due to factors related to its issuer; and
- b. General risk – this is the risk of a price change in the instrument due to a change in the level of interest rates.

Net positions shall be classified according to the currency in which they are denominated and shall calculate the capital requirement for general and specific risk in each individual currency separately. The capital requirement for general market risk for traded debt instruments is calculated under the maturity-based approach. The instruments' net positions shall be grouped into the three zones (maturity bands) according to the residual time to maturity and whether their coupon is above/below 3%. The Company's trading book exposure is presented in the table below.

As at 31 December 2023, the consolidated market risk capital requirements, due to position risk in traded debt instruments, amounted to **\$277k**.

**Table 18: Position Risks in Traded Debt Instruments for EUR currency**

Currency: EUR	Net Positions	Weighting factor	Positions subject to capital charge	Own Funds Requirements
	\$000	%	\$000	\$000
<b>TDI in Trading Book</b>				<b>35</b>
<b>General Risk – Maturity based approach</b>				
Zone 2	90	2.25%	2	2
Zone 3	425	3.75%	16	26
	161	8.00%	7	
<b>Specific Risk</b>				
Debt securities	90	8.00%	7	7

**Table 19: Position Risks in Traded Debt Instruments for GBP currency**

Currency: GBP	Net Positions	Weighting factor	Positions subject to capital charge	Own Funds Requirements
	\$000	%	\$000	\$000
<b>TDI in Trading Book</b>				<b>68</b>
<b>General Risk - Maturity based approach</b>				
Zone 1	828	0.20%	2	2
<b>Specific Risk</b>				
Debt securities	828	8.00%	66	66

**Table 20: Position Risks in Traded Debt Instruments for USD currency**

Currency: USD	Net Positions	Weighting factor	Positions subject to capital charge	Own Funds Requirements
	\$000	%	\$000	\$000
<b>TDI in Trading Book</b>				<b>152</b>
<b>General Risk – Maturity based approach</b>				
Zone 1	0	0.20%	0	0
Zone 2	437	1.75%	8	8
Zone 3	1,151	6.00%	69	109
	322	12.5%	40	
<b>Specific Risk</b>				
Debt securities	438	8.00%	35	35

**Table 21: Position Risks in Traded Debt Instruments for RUB currency**

Currency: RUB	Net Positions	Weighting factor	Positions subject to capital charge	Own Funds Requirements
	\$000	%	\$000	\$000
<b>TDI in Trading Book</b>				<b>23</b>
<b>General Risk – Maturity based approach</b>				
Zone 3	504	4.50%	23	23

### 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:

## 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.

As at 31 December 2023, the K-TCD was zero.

## 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 a 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 an additional own funds 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 funds requirement calculated for each client or group of connected clients.

The Company calculates and keeps aside an additional capital requirement for any amount that exceeds the applicable K-CON limit. Additionally, the Company reports to CySEC, on a quarterly basis, via the IF CLASS2 Ind and IF CLASS2 Con Forms, the amount of exposures exceeding the limits set in Article 37 of the IFR and the name of the relevant counterparty.

As at 31 December 2023 the Company's trading book exposures were below the limits and as such the K-CON was zero.

### **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 the 3 most recent months.

K-DTF shall be the arithmetic mean of the daily values of the remaining 6 months multiplied by the relevant coefficient (0.1% for cash trades and 0.01% for derivative trades).

As at 31 December 2023, the K-DTF was \$20k. The table below shows the arithmetic mean amount of DTF in cash trades and derivatives for the 4<sup>th</sup> quarter of 2023, in accordance with the Article 20(1) of IFR:

**Table 22: Total DTF (average amounts)**

	Factor amount		
	December 2023 \$'000	November 2023 \$'000	October 2023 \$'000
DTF - Cash trades (average amounts)	19,823	23,112	24,964
DTF - Derivative (average amounts)	37	78	205

### K-Factors Requirement Results

As of 31 December 2023, the Company's K-Factors Requirement \$2,914k and \$2,799k on a solo and consolidated basis respectively, as shown in the table below:

**Table 23: K-Factors Results**

Item	Solo		Consolidated	
	Factor Amount \$'000	KFR \$'000	Factor Amount \$'000	KFR \$'000
<b>TOTAL K-FACTOR REQUIREMENT</b>		2,914		2,799
<b>Risk To clients</b>		330		330
<i>K-AUM</i>	16,744	3	16,744	3
<i>K-CMH (Segregated)</i>	43,172	173	43,172	173
<i>K-CMH (non-Segregated)</i>	-	-	-	-
<i>K-ASA</i>	380,457	152	380,457	152
<i>K-COH (Cash Trades)</i>	1,879	2	1,879	2
<i>K-COH (Derivative Trades)</i>	17	0	17	0
<b>Risk to Market</b>		2,564		2,449
<i>K-NPR</i>		2,564		2,449
<i>K-CMG</i>	-	-	-	-
<b>Risk to Firm</b>		20		20

K-TCD		-		-
K-DTF (Cash Trades)	19,823	20	19,823	20
K-DTF (Derivative Trades)	37	0	37	0
K-CON		-		-

## 4.2. Capital Ratios

According to the Article 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.

The own funds, own funds requirement and capital ratio reported as at 31 December 2023, were the following:

**Table 24: Own Funds**

OWN FUNDS COMPOSITION	Solo \$'000	Conso \$'000
Share Capital	1,884	1,781
Share Premium	5,249	10,686
Other Reserves	3,278	(1,449)
Intangible assets	(246)	(246)
ICF	(124)	(124)
Audited Reserves	9,237	14,756
Unaudited Profits 2022	36,539	34,448
Unaudited Profits 2023	15,615	15,398
<b>CET 1 Capital</b>	<b>19,279</b>	<b>25,404</b>
Additional Tier 1	-	-
<b>T1 Capital</b>	<b>19,279</b>	<b>25,404</b>
Tier 2 Capital	-	-
<b>Own Funds</b>	<b>19,279</b>	<b>25,404</b>
<b>OWN FUNDS REQUIREMENTS</b>		
Initial Capital	829(€750)	829(€750)
Fixed Overheads Requirement	668	696

K-Factors Requirement	2,914	2,799
Own funds Requirement	2,914	2,799
<b>CAPITAL RATIOS</b>		
	<b>\$'000</b>	<b>\$'000</b>
<b>Common Equity Tier 1 (min. 56%)</b>	<b>661.64%</b>	<b>907.75%</b>
<i>Surplus of Common Equity Tier 1 capital</i>	<i>17,647</i>	<i>23,836</i>
<b>Tier 1 (min. 75%)</b>	<b>661.64%</b>	<b>907.75%</b>
<i>Surplus of Tier 1 capital</i>	<i>17,093</i>	<i>23,305</i>
<b>Total Capital Ratio (min. 100%)</b>	<b>661.64%</b>	<b>907.75%</b>
<i>Surplus of total capital</i>	<i>16,365</i>	<i>22,605</i>

As per the above results, the Company as at 31 December 2023 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.

### 4.3. 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 is well above the 1/3 of the total fixed overheads requirement.

**Table 25: Liquidity Requirements**

Item	Solo \$'000	Consolidated \$'000
<b>Liquid Assets</b>	<b>2,563</b>	<b>2,881</b>
<b>Liquidity Requirement</b>	<b>223</b>	<b>232</b>
<i>Surplus of total liquid assets</i>	<i>2,340</i>	<i>2,650</i>

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.

#### 4.4. Reporting requirements

##### 4.4.1. Quarterly Submissions

The Company as a Class 2 investment firm 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 information above shall be reported to CySEC using the prudential forms *IF CLASS2 Ind* and *IF CLASS2 Con* on a quarterly basis through CySEC's XBRL portal. 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, the Company's own funds never dropped below its own funds requirement and the Company fulfilled its obligations by successfully submitting, on a quarterly basis, the Capital Adequacy Reports.

##### 4.4.2. 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 26: 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

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

According to Circular C513, the Company should notify CySEC without delay when the limits referred to in article 37(3) of IFR are exceeded, as required by article 38 of IFR. 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, 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.

## 4.5. Other Risks

### 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:

Internal Fraud	<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>
External Fraud	<ul style="list-style-type: none"> <li>• theft of information;</li> <li>• hacking damage;</li> <li>• third-party theft;</li> <li>• forgery.</li> </ul>
Employment Practices and Workplace Safety	<ul style="list-style-type: none"> <li>• discrimination;</li> <li>• workers compensation;</li> <li>• employee health;</li> <li>• safety.</li> </ul>
Clients, Products, & Business Practice	<ul style="list-style-type: none"> <li>• market manipulation;</li> <li>• antitrust;</li> <li>• improper trade.</li> </ul>
Damage to physical assets	<ul style="list-style-type: none"> <li>• damage to physical assets from a natural disaster, e.g. earthquake</li> </ul>
Business Disruption & Systems Failures	<ul style="list-style-type: none"> <li>• utility disruptions;</li> <li>• software failures;</li> <li>• hardware failures.</li> </ul>
Execution, Delivery, & Process Management	<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; and
- Regular review and updating of the Company's policies.

## Reputation Risk

Reputational risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company by Clients, counterparties, shareholders, investors or regulators. Reputational risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large Clients, poor Client service, fraud or theft, Client claims, legal action, regulatory fines and from negative publicity relating to the Company's operations whether such a fact is true or false.

The Company is aware that, operating in a demanding industry, with many competitors, who may also act in unethical ways, could introduce risks of a reputational nature. The possibility of having to deal with serious incidents is limited as the Company exerts its best efforts in providing high quality services to its clients. In addition, the Company's Board members and Senior Management comprise of experienced professionals who are recognized in the industry for their integrity and ethos, and, as such, add value to the Company.

The Company aims to minimise reputational risk through the implementation of a strong internal control system and adequate policies and procedures (including in the area of client complaint handling). Furthermore, the Company aims to also mitigate this risk by ensuring that all employees are adequately trained and equipped with the required skills to fulfil their duties.

## Business Risk

Business Risk arises due to probable losses that might be incurred by the Company during unfavourable market conditions, thus, having a current and/or future possible impact on earnings or capital from adverse business decisions and/or the lack of responses to industry changes by the Company.

Furthermore, business risk may arise from the probability of inadequate profits or losses due to the unavailability of Liquidity Providers to execute transactions.

The Company may be exposed to business risk in case of a deterioration of business and economic conditions in the markets in which it operates. The Company's business plans involve an expansion of its clientele so as to grow its revenue base and increase its profitability. However, the Company has taken into consideration Business Risk when preparing its financial projections and when conducting its stress testing procedures.

In order to avoid any potential damage to the Company's financial position, the Company continuously evaluates (and redesigns if and when necessary) its business plans taking into account changing economic conditions.

The Company has policies and procedures in place when dealing with possible Client complaints in order to provide the best possible assistance and service under such circumstances.

## Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the 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.

## 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.

### **Information Technology Risk**

Information Technology (hereinafter, "IT") risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's IT.

The Internal Auditor, as part of the annual on-site inspections, evaluates and assesses whether the Company's systems and infrastructure are adequate.

The aim of the Company is for the materialisation of IT risk to be minimised to the lowest possible level and, as such, the Company shall take the respective rectifying measures, as and when deemed necessary.

Specifically, policies have been implemented and measures have been taken regarding backup procedures, software maintenance, hardware maintenance, internet use, data protection procedures, and disaster recovery, as applicable.

### **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 to the Company. 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. Furthermore, the Company can be exposed to conduct risks arising from inadequate agreements with the third parties that hold clients' funds.

The Company will continue to monitor the financial soundness of the liquidity providers and make sure that it can justify the trading risks it undertakes, ensuring that it is in such a cash flow position that it can undertake the settlement of all trades introduced or executed or hedged by its clients. Moreover, the Company recognises the importance to ensure its clients' protection, thus, the Company has in place arrangements such as stop out limits and maintains adequate agreements with its Liquidity Providers.

## 5. 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.

In light of the above, the ICARA report presents the main business background 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 its material risks as well as provides forward looking capital and liquidity planning.

The Company recognises the importance of the ICARA and appreciates that it enables the firm to justify its business strategy and risk assessments in such a way as to be more diligent in the inclusion of risk factors in the business design process and also to hold adequate capital against the gross risks to which it is exposed to. It is also acknowledged that the ICARA Report is a reasonably intense process, requiring information from many different departments and committees of the Company and also it requires senior management time and involvement at the design phase, during the risk and financial data collection phase and the sign-off phase. Therefore, the Board is committed to continuously update the ICARA at least annually to reflect the latest strategic plans and updates.

The ICARA Report and capital planning for the year 2022 has been prepared and approved by the Board in the third quarter of 2023. The report is being reviewed and updated annually, while it is submitted to CySEC upon its request as laid down at Article 50(b) of the IFR.

## 6. REMUNERATION POLICY

The Group have established remuneration policy that aims to set out the remuneration practices taking into consideration the salaries and benefits of the staff, in accordance with the provisions of Directive as well as the Circular 031 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 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 remuneration policy is designed to retain, reward and motivate employees regardless of gender, age, race, ethnicity, disability, gender reassignment, marital or civil partnership, pregnancy or maternity, and religion or belief. The Group's objective is to take a consistent approach to rewarding employees for contributing to MeritKapital's success, whilst maintaining financial stability and a robust risk management system. The Policy shall not create incentives that may allow Relevant Persons to favour their own interest, or to favour the Company's interest at the expense of the clients' interests.

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. Finally, 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.

### Remuneration Committee

It is noted that the Company has considered its size, internal organisation and the nature, scope and complexity of its activities and it does not deem as necessary the establishment of a specific remuneration committee. Remuneration practices are currently set by the Senior Management, in its supervisory capacity. In case the Company shall deem necessary to establish a Remuneration Committee in the future, then this section shall be updated as applicable.

### Remuneration System

The remuneration system and policy is concerned with practices 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 Group'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 remuneration is a significant method of attracting and retaining key employees whose talent can contribute to the short- and long-term success of the business.



The remuneration mechanisms employed are well known management and human resources tools that take into account the various factors in order to determine the remuneration of each staff member.

The remuneration system takes into account the highly competitive sector in which the Group operates, and the considerable number 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.

The total remuneration of staff currently consists of a fixed and a variable component.

### **Fixed Remuneration**

Fixed 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.

This fixed amount of remuneration includes salary, fixed pay allowance and other cash allowances and all are determined based on the role and position of each employee, taking into account the experience, seniority, education, responsibility, and market conditions. The Company ensures that the salaries are matching the role and the location of the market, i.e. Cyprus.

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 Company's fixed remuneration is approved by the Board of Directors for all the relevant employees and it is reviewed by the Company at such intervals, as it shall decide at its sole discretion, without affecting the other terms of employment

### **Variable Remuneration**

In addition to the Fixed Remuneration, employees are entitled to Variable Remuneration which 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. Variable remuneration shall be based on:

- i. Incentive Compensation, subject to the Key Measures are satisfied. Where the Key Measures are not satisfied or partly satisfied, or cause complaint from a client, the formula may be altered upon decision of the Remuneration Committee during extraordinary meeting.
- ii. Discretionary Variable Compensation based on decision of the Management and the Remuneration Committee.



On an annual basis the Board of Directors shall approve the budget for variable remuneration payments. In case of financial difficulties, the Company reserves the right to distribute Bonuses fully on discretionary basis and/or not to distribute at all.

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.

Furthermore, there no remuneration is 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 the does not have non-cash instrument, such as shares or other equivalent non-cash instrument, in place.

### Control Functions

The Company must ensure that employees engaged in Control Functions:

- Are independent from the business units they oversee;
- Have appropriate authority; and
- Are remunerated:
  - Adequately to attract qualified and experienced staff; and
  - In accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

Further to the above, the Policy is designed to manage the conflicts of interest which might if other business areas had undue influence over the remuneration of employees within Control Functions. Moreover, the need to avoid undue influence is particularly important where employees from the Control Functions are embedded in other business areas.

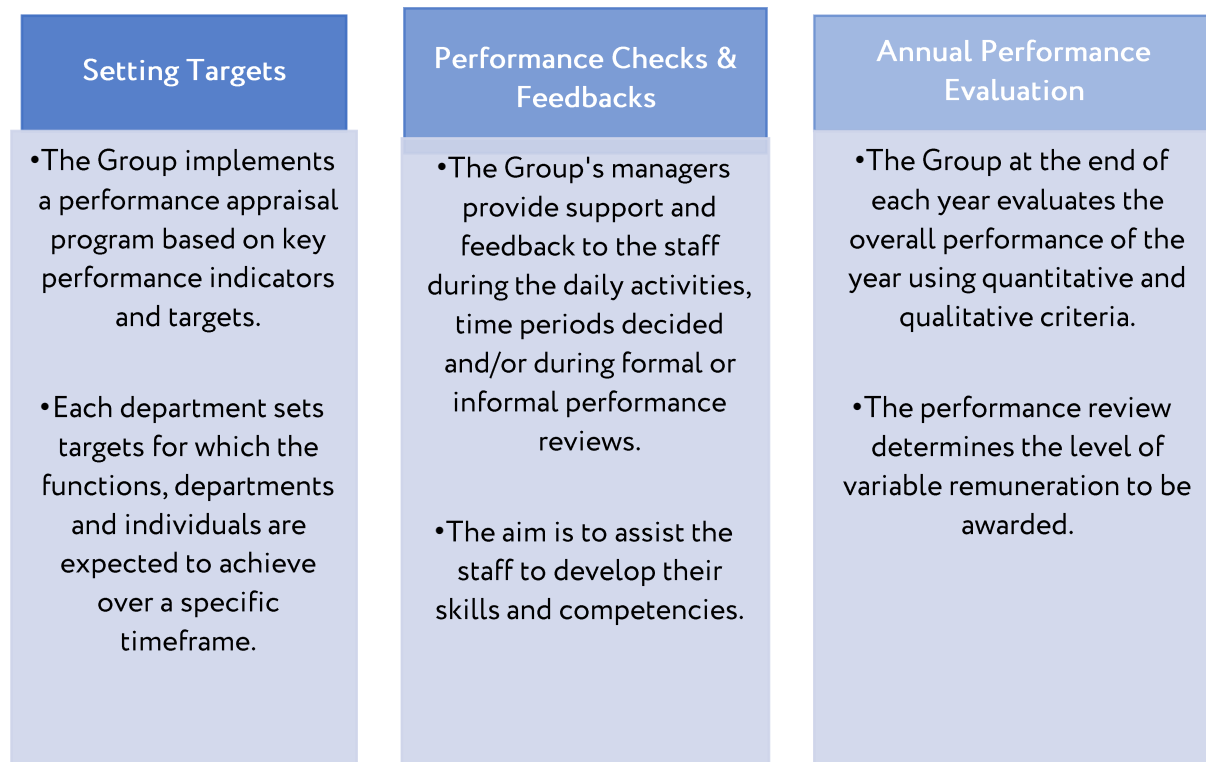
### Performance Appraisal

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

Further to the above, the Group 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 motivate them to be improved. At 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 a medium and short-term basis, and the performance indicators of this type of performance appraisal include quantitative as well as qualitative criteria. The appraisal is being performed as follows:



### 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 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 table below provides information on the remuneration of Executive Directors, Senior Management and other staff whose activities have a material impact on the risk profile of the Company, broken down by fixed and variable remuneration.

**Table 27: Remuneration split of Material Risk Takers**

Annual Remuneration as at 31 December 2023			
Position	Executive Directors \$	Key Management Personnel \$	Non-Executive Directors \$
Fixed reward	114,150	273,295	12,500
Variable reward	21,710	209,861	-
<b>Total</b>	<b>135,860</b>	<b>483,156</b>	<b>12,500</b>

The variable to fixed remuneration ratio as at 31 December 2023 was 58%.

The Article 32 of the IFD sets, among others, the conditions on variable remuneration paid to employees:

- at least 50% of the variable remuneration shall consist of shares/ share-linked instruments/ equivalent non-cash instruments that adequately reflect the credit quality of the IF as a going concern, or non-cash instruments which reflect the instruments of the portfolios managed;
- at least 40% of the variable remuneration is deferred over the three-to-five-year period.

Following the Article 32(4)(a) of the IFD, these points don't apply to the Company since the Company does not fall under the definition of 'significant CIF' (off-balance sheet assets is on average less than €100m over the preceding four-year period).

Moreover, according to Article 34(4) of IFD, Investment Firms 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 is not applicable to the Company.

During the year there were no deferred remuneration, sign-on or severance payments.

The aggregate remuneration of the Company's personnel for the year ended 31 December 2023, broken down by business area, is presented in the following table:

**Table 28: Remuneration split by business area**

Annual Remuneration as at 31 December 2023			
Business Area	Fixed \$	Variable \$	Total \$
Control functions*	273,955	48,527	322,482
Brokerage Department	52,000	171,107	223,107
Dealing on Own Account Department	61,490	11,937	73,427
<b>Total</b>	<b>387,445</b>	<b>231,571</b>	<b>619,016</b>

\*Control functions include the Executive Directors, Compliance Officer, Risk Manager and Money Laundering Compliance Officer

## 7. 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 does not disclose the requirements regarding investment policy.

## 8. ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

From 26 December 2022, investment firms shall disclose information on environmental, social and governance risks (ESG risks), including physical risks and transition risks, as defined in the EBA's report referred to in Article 35 of the IFD. The information on ESG shall be disclosed once in the first year and biannually thereafter.

Investment Firms which meet the criteria of Paragraph 26(8)(a) of the Law, and whose average on-and-off balance sheet assets over the 4-year period are less than €100m, are exempted from the disclosure of information on environmental, social and governance risks, including physical risks and transition risks as per Article 35 of IFD.

The Company's average on and off-balance sheet assets for the preceding four-year period are less than €100m and as such it meets the criteria of the paragraph 26(8) of the Law. Therefore, the Company is exempted from the disclosure requirement regarding ESG.

## 9. APPENDIX – SPECIFIC REFERENCES TO THE IFR

IFR Reference	High Level Summary	Section
<i>Scope of disclosure requirements</i>		
46 (1)	Requirement to publish market disclosures, on the date of publication of the annual financial statements.	<a href="#">1.2</a>
46 (2)	Requirement to publish market disclosures for small and non-interconnected IFs	N/A
46 (3)	Requirement to publish market disclosures for IFs which do not longer meet the criteria of small and non-interconnected IF	N/A
46 (4)	Market disclosures to be published in an appropriate medium, or provide clear cross-references to other media.	<a href="#">1.4</a>
<i>Risk management objectives and policies</i>		
47	Disclosure of the risk management objectives and policies for each separate category of risk set out in Parts Three, Four and Five of the IFR, including a summary of the strategies and processes to manage those risks and a concise risk statement approved by the investment firm’s management body succinctly describing the investment firm’s overall risk profile associated with the business strategy	<a href="#">1.5</a> , <a href="#">4.1</a> , <a href="#">4.5</a>
<i>Governance</i>		
48 (a)	Disclosure of the number of directorships held by members of the management body	<a href="#">2.3</a>
48 (b)	The policy on diversity with regard to the selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved	<a href="#">2.2</a> , <a href="#">2.4</a>
48 (c)	whether or not the investment firm has set up a separate risk committee and the number of times the risk committee has met annually	<a href="#">2.13</a>
<i>Own Funds</i>		
49 (1) (a)	Full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and applicable filters and deductions applied to own funds of the investment firm and the balance sheet in the audited financial statements of the IF;	<a href="#">3.3</a>
49 (1) (b)	Description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the IF	<a href="#">3.2</a>

49 (1) (c)	Description of all restrictions applied to the calculation of own funds in accordance with the IFR and the instruments and deductions to which those restrictions apply	<a href="#">3.1</a>
49 (2)	EBA shall develop implementation standards for points (a), (b), (c) above.	N/A
<b>Own Funds Requirements</b>		
50 (a)	Summary of IF's approach to assessing adequacy of its internal capital to support current and future activities.	<a href="#">4.2</a>
50 (b)	Result of ICAAP upon request of the competent authority.	<a href="#">5</a>
50 (c)	K-factor requirements calculated in aggregate form for RtM, RtF, and RtC, based on the sum of the applicable K-factors	<a href="#">4.1.3</a>
50 (d)	Fixed overheads requirement	<a href="#">4.1.2</a>
<b>Remuneration policy and practices</b>		
51	Remuneration policy, including aspects related to gender neutrality and the gender pay gap, for those categories of staff whose professional activities have a material impact on the risk profile	<a href="#">6</a>
51 (a)	Design characteristics of the remuneration system, including the level of variable remuneration and criteria for awarding variable remuneration, payout in instruments policy, deferral policy and vesting criteria	<a href="#">6</a>
51 (b)	Ratios between fixed and variable remuneration	<a href="#">6</a>
51 (c)	Aggregated quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investment firm	<a href="#">6</a>
51 (c)(i)	The amounts of remuneration awarded in the financial year, split into fixed and variable remuneration, and the number of beneficiaries	<a href="#">6</a>
51 (c)(ii)	The amounts and forms of awarded variable remuneration	<a href="#">6</a>
51 (c)(iii)	The amounts of deferred remuneration awarded for previous performance periods	N/A
51 (c)(iv)	The amount of deferred remuneration due to vest in the financial year	N/A
51 (c)(v)	The guaranteed variable remuneration awards during the financial year and the number of beneficiaries of those awards	N/A
51 (c)(vi)	The severance payments awarded in previous periods, that have been paid out during the financial year	N/A
51 (c)(vii)	The amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of	N/A



	beneficiaries of those payments and the highest payment that has been awarded to a single person	
51 (d)	Whether the IF benefits from a derogation laid down in Article 32(4) of the IFD	<a href="#">6</a>
<i>Investment policy</i>		
52	Not applicable due to criteria referred to in point (a) of Article 32 (4) of the IFD	<a href="#">7</a>
<i>Environmental, social and governance risks</i>		
53	Not applicable due to criteria referred to in point (a) of Article 32 (4) of the IFD	<a href="#">8</a>