



# GWG (Cyprus) Limited

**DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2021**

*Regulated by the Cyprus Securities and Exchange Commission License no. 291/16*

## DISCLOSURE

*The Disclosure and Market Discipline Report for the year 2021 has been prepared by GWG (Cyprus) Limited as per the requirements of Regulation (EU) 2019/2033 issued by the European Commission.*

*GWG (Cyprus) Limited states that any information that was not included in this report was either not applicable on the Company's business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.*

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

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



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<b>Abbreviation</b>	<b>Full description</b>
BoD	Board of Directors
CAR	Capital Adequacy Ratio
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
CIF	Cyprus Investment Firm
CRD IV	Capital Requirements Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
ECB	European Central Bank
EMIR	European Market Infrastructure Regulation
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
FATF	Financial Action Task Force
FOH	Fixed Overheads
GDPR	General Data Protection Regulation
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICF	Investors Compensation Fund
IFD	Investment firm Directive
IFR	Investment Firm Regulation
IFRS	International Financial Reporting Standards
IOM	Internal Operations Manual
MIFID II	Markets in Financial Instruments Directive 2014
OECD	Organisation for Economic Co-Operation and Development
OTC	Over the Counter
PRIIP	Packaged Retail and Insurance-based Investment Products
PSP	Payment Service Provider
RAG	Red-Amper-Green
RAS	Risk Appetite Statement
RBS-F	Risk Based Supervision Framework
RMF	Risk Management Framework
RWA	Risk Weighted Assets
SME	Small and Medium-sized Enterprise
CySEC	Cyprus Securities and Exchange Commission



## 1. Introduction

### 1.1. Investment Firm

Company's Information	
CIF AUTHORIZATION DATE	20/01/2016
CIF LICENSE NUMBER	291/16
COMPANY REGISTRATION DATE	21/04/2015
COMPANY REGISTRATION NUMBER	HE 342580
<b>INVESTMENT SERVICES:</b>	
➤ Reception and transmission of orders in relation to one or more financial instruments	
➤ Execution of orders on behalf of clients	
<b>ANCILLARY SERVICES:</b>	
➤ Safekeeping and administration of financial instruments, including custodianship and related services	
➤ Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	
➤ Foreign exchange services where these are connected to the provision of investment services	

Table 1: Company information

### 1.2. Purpose

The present report is prepared by GWG (Cyprus) Limited (the “Company”), a Cyprus Investment Firm (“CIF”) authorized and regulated by the Cyprus Securities and Exchange Commission (the “CySEC”, the “Commission”) under the license number 291/16 and operates in harmonisation with the Markets in Financial Instruments Directive (“MiFID II”).

In accordance with Regulation (EU) No. 2019/2033 (the Investment Firm Regulation, “IFR”), which was introduced in June 2021, the Company is required to disclose information relating to its risk exposure and management, capital structure, capital adequacy as well as the most important characteristics of the Company’s corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants.

This document is updated and published annually; it will, however, be published more frequently if there are significant changes to the business (such as changes to the scale of operations, range of activities, etc.). CySEC is responsible for implementing and enforcing the European Capital Requirements legal framework, a capital adequacy framework consisting of three ‘pillars’:

- **Pillar I** sets minimum capital requirements comprising of base capital resources requirements
- **Pillar II** requires firms to undertake an overall internal assessment of their capital adequacy, taking into account all the which the firm is exposed to and whether additional capital should be held to cover risks not adequately covered by Pillar I requirements. This is achieved through the Internal Capital Adequacy Assessment Process (“ICAAP”)



- **Pillar III** complements Pillars I and II and improves market discipline by requiring firms to disclose information on their capital resources and Pillar I capital requirements, risk exposures and their risk management framework

The 2021 Pillar III Disclosures Report sets out both quantitative and qualitative information required in accordance with part six of the IFR and in particular articles 46 to 53, which set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure Report is audited by the Firm's external auditors and published on the Company's website at [www.gwglobalfx.com](http://www.gwglobalfx.com) on an annual basis.

Furthermore, the Board of Directors and the Senior Management have the overall responsibility for the internal control systems in the process of capital adequacy assessment and they have established effective processes to ensure that the full spectrum of risks faced by the Company is properly identified, measured, monitored, and controlled to minimise adverse outcomes.

The Company's business effectiveness is based on the guidelines of the risk management policies and procedures put in place. The Board of Directors, Internal Audit, Risk Manager, Compliance and Anti-Money Laundering Officer control and supervise the overall risk system so that all units charged with risk management perform their roles effectively on a continuous basis.

The Company is making the disclosures on a solo basis. This report has been prepared using the Audited Financial Statements.

### 1.3. The Company

GWG (Cyprus), as a CIF, operates in Cyprus, offering Contracts for Difference ("CFD") products and has 7 employees located in Cyprus.

The Company has a stable business model and this is reflected in a well-balanced capital allocation between the Company's operations.

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

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



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

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

#### **1.4. Regulatory Supervision**

The minimum capital requirements as at 31 December 2021 were calculated in accordance with the Investment Firm Regulation. All CIFs under CySEC's authority must meet the requirements with respect to capital adequacy and market discipline, which are comprised by the following:

- Law 87(I)/2017: Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereafter "the Law")
- Regulation (EU) No. 2019/2033 – Investment firm Regulation (IFR)
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation
- Directive (EU) 2019/2034 – Investment firm Directive (IFD)
- Directive (EU) 2019/878 – amending the Capital Requirements Directive IV as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (CRD V)
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV





## 2. Governance and Risk Management

Implementing a high-performance and efficient risk management structure is a critical undertaking for the Company, in all businesses, markets and regions in which it operates, as are maintaining a strong risk culture and promoting good corporate governance. The Company's risk management supervised at the highest level is compliant with the regulations enforced by CySEC and the European regulatory framework.

### 2.1.Types of Risks

Given the diversity and evolution of the Company's activities, risk management involves the following main categories:

- **Credit and Counterparty risk** (including Country risk): risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments. Credit risk includes Counterparty risk linked to market transactions (Replacement risk) and securitisation activities. In addition, Credit risk may be further amplified by Concentration risk, which arises from a large exposure to a given risk, to one or more counterparties, or to one or more homogeneous groups of counterparties; Country risk arises when an exposure (loan, security, guarantee or derivative) becomes liable to negative impact from changing political, economic, social and financial conditions in the country of exposure.
- **Market risk**: risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets.
- **Operational risks** (including Accounting and Environmental risks): risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss.
- **Liquidity risk**: risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.
- **Compliance risk** (including Legal and Tax risks): risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company's activities.
- **Reputational risk**: risk arising from a negative perception on the part of customers, counterparties, shareholders, investors or regulators that could negatively impact the Company's ability to maintain or engage in business relationships and to sustain access to sources of financing.
- **Strategic risk**: risks inherent in the choice of a given business strategy or resulting from the Company's inability to execute its strategy.
- **Business risk**: risk of lower than anticipated profits or experiencing losses rather than a profit.



## 2.2. Risk Appetite

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

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

Furthermore, the positioning of the business in terms of risk/return ratio as well as the Company's risk profile by type of risk will be analysed and approved by the BoD. The Company's risk appetite strategy will be implemented by the Senior Management in collaboration with the BoD and applied by all divisions through an appropriate operational steering system for risks, covering:

- Governance (decision-making, management and supervisory bodies)
- Management (identification of risk areas, authorisation and risk-taking processes, risk management policies through the use of limits and guidelines, resource management)
- Supervision (budgetary monitoring, reporting, leading risk indicators, permanent controls and internal audits)

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

## 2.3. Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process ("ICAAP") requires institutions to identify and assess risks not adequately covered in Pillar I, maintain sufficient capital to face these risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward-looking basis, i.e., internal capital supply to exceed internal capital demand.

The Company maintains compliance with the ICAAP as required under Pillar II of Basel III and its local implementation in Cyprus, through risk management and governance framework, methodologies, processes and infrastructure. The company has updated its ICAAP during 2021, in which each risk has been taken into account and was stress tested.



## 2.4. Stress Tests

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

- Understanding the risk profile of the Company
- The evaluation of the Company's capital adequacy in absorbing potential losses under stressed conditions: This takes place in the context of the Company's ICAAP on an annual basis
- The evaluation of the Company's strategy: Senior management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows senior management to determine whether the Company's exposures correspond to its risk appetite
- The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios

The ultimate responsibility and ownership of the Company's stress testing policy rests with the Board of Directors. If the stress testing scenarios reveal vulnerability to a given set of risks, the management should make recommendations to the Board of Directors for mitigation measures or actions. These may vary depending on the circumstances and include one or more of the following:

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

The Company performs financial modelling and stress analysis on a frequent basis especially when year-end financial results are available or when it revises its business plan.

The Company has performed a qualitative analysis of the material Pillar II risks, as well as weighted them against the Company's future development. By doing so, it has been deduced that in the future, whilst the probability of occurrence of any material risk is likely to remain the same, the associated/respective financial cost is likely to increase in light of the future enlargement of the organisation. The Company has thus, reached the decision that in planning its projected Capital for Pillar II purposes for the 3 years projected period, it shall maintain the same assumptions as it did in the first year's Risk Register calculations in terms of the probability of risk occurrence and probability/impact Matrix, while it will only amend the financial impact element of each risk.



## 2.5. Risk Management Committee

The Risk Management Committee (“RMC”) advises the Board of Directors on the overall strategy and the appetite to all kinds of risks, both current and future, and helps the Board when it verifies that this strategy is implemented. In particular, it is responsible for:

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

The Company has established and adopted certain processes and mechanisms in place to manage the risks, with special consideration to risks arising from operations of the Brokerage Department in the process of receipt and transmission of client orders.

The Risk Management Committee reports directly to the Board of Directors.

The Company does not currently have a Risk Management Committee due to its current size. However, the Company plans to establish a Risk Management Committee as soon as the management of the CIF deems that it is beneficial for the best interest of the Company.

## 2.6. Diversity Policy

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

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

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



## 2.7. Board Recruitment

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

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

Factors considered in the review of potential candidates include:

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

The Company has established a dedicated recruitment policy in relation to the BoD.

## 2.8. Remuneration

Remuneration refers to payments or compensations received for services or employment. The remuneration system includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment and shall be appropriate to the CIF's size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the relevant Laws and Regulations.

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

The total remuneration of staff consists of fixed and variable components. Fixed and variable components are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component.



<i>Figures in EUR</i>	No. of staff	No. of staff as at 31/12/2021	Fixed	Variable	Total as at 31/12/2021
Back Office	2	1	31,576.71	2,912.38	34,489.09
Finance, Accounting & IT	2	1	88,267.60	5,575.46	93,843.06
Trading & Sales	3	2	37,513.32	1,635.39	39,148.71
Compliance Personnel	2	1	13,969.32		13,969.32
Senior Management and other staff whose actions have a material impact on the risk profile of the Institution	4	2	136,904.67	7,383.32	144,287.99
<b>Grand Total</b>	<b>13</b>	<b>7</b>	<b>308,231.62</b>	<b>17,506.55</b>	<b>325,738.17</b>

Table 2: Aggregate Quantitative Information on Remuneration broken down by business area

It shall be noted that the ratio

### 2.9. Performance Related Pay

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

- The individual
- The business unit concerned
- The overall results of the Company

Examples of qualitative criteria include compliance with regulatory requirements (especially conduct of business rules) and internal procedures, fair treatment of clients and client satisfaction.

The Company implements a performance appraisal program, mainly to foster talent and promote healthy competition amongst personnel, which is based on a set of Key Performance Indicators and Targets, developed for each department.

The remuneration Committee ensures that any forms of performance related pay schemes do not give rise to any potential conflict of interest between the firm and the employees or the firm and the clients.



## 2.10. Directorships held by Members of the Management Body

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

No.	Position in the Company	Directorships (Executive)	Directorships (Non-Executive)
1.	Executive Director	1	0
2.	Executive Director	1	1
3.	Independent Non-Executive Director	0	3
4.	Non-Executive Director	1	1
5.	Independent Non-Executive Director	0	1

Table 3: Directorships held by Members of the Management Body



## 2.11. Reporting and Control

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

Report Name	Report Description	Owner	Recipient	Frequency	Due Date/ Extension*
<b>Annual Compliance Report</b>	To inform the Senior Management & the BoD of the Company regarding the Performance of Compliance function during the year	Compliance Officer	BoD, CySEC	Annual	<b>30/04/2022</b>
<b>Annual Internal Audit Report</b>	To inform the Senior Management & the BoD of the Company regarding the Internal Auditor during the year	Internal Auditor	BoD, CySEC	Annual	<b>30/04/2022</b>
<b>Annual Risk Management Report</b>	Represents the work & activities undertaken by the Risk Manager during the year	Risk Manager	BoD, CySEC	Annual	<b>30/04/2022</b>
<b>Pillar III Disclosures (Market Discipline and Disclosures)</b>	The Company is required to disclose information regarding its risk management, capital structure, capital adequacy and risk exposures	Risk Manager	BoD, CySEC, Public	Annual	<b>30/04/2022</b> <b>30/06/2022</b>
<b>Independent Auditors Verification on the Pillar III Report</b>	The verification of the Pillar III Disclosures (Market Discipline and Disclosures) Report by the Independent Auditor	External Auditor	BoD, CySEC	Annual	<b>31/05/2022</b> <b>31/07/2022</b>
<b>Financial Reporting</b>	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual	<b>30/06/2022</b>
<b>Capital Adequacy Reporting</b>	A measure of the CIF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world	Risk Manager / Accounting	Senior Management, CySEC	Quarterly	<b>11/02/2022</b> <b>12/05/2022</b> <b>11/08/2022</b> <b>11/11/2022</b> <b>31/05/2022</b> <b>31/07/2022</b>
<b>ICAAP (Pillar II) Report</b>	The Internal Capital Adequacy Assessment Process, relating to the monitoring and assessment of the risks that are not fully covered by Pillar I	Risk Manager	BoD, CySEC	Annual	<b>N/A</b>

\*It is noted that CySEC has granted an **extension** to all annual reports mentioned above for 2022 submissions.

Table 4: Periodic Reporting Summary





### 3. Capital Management and Adequacy

#### 3.1. The Regulatory Framework

In response to the financial crisis of recent years, the Basel Committee, mandated by the G20, has defined the new rules governing capital and liquidity aimed at making the financial sector more resilient. The new Basel III rules were published in December 2010. They were translated into European law by a directive (CRDIV) and a regulation (CRR), which were replaced by The Investment Firm Regulation, and the Investment Firm Directive on 26th of June 2021.

The general framework defined by Basel III is structured around three pillars, as in Basel II:

- Pillar I sets the minimum solvency requirements and defines the rules that institutions, that are required to comply with the regulation, must use to measure risks and calculate associated capital requirements, according to standard or more advanced methods
- Pillar II relates to the discretionary supervision implemented by the competent authority, which allows them – based on a constant dialogue with supervised credit institutions – to assess the adequacy of capital requirements as calculated under Pillar I, and to calibrate additional capital requirements with regard to risks
- Pillar III encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to make a better assessment of a given institution's capital, risk exposure, risk assessment processes and, accordingly, capital adequacy

In terms of capital, the main new measures introduced to strengthen institutions' solvency were as follows:

- The complete revision and harmonisation of the definition of capital, particularly with the amendment of the deduction rules, the definition of a standardised Common Equity Tier 1 (or CET1) ratio, and new Tier 1 capital eligibility criteria for hybrid securities
- New capital requirements for the counterparty risk of market transactions, to factor in the risk of a change in CVA (Credit Value Adjustment) and hedge exposures on the central counterparties (CCP)
- The set-up of capital buffers that can be mobilised to absorb losses in case of difficulties. The new rules require regulated liquidity providers to create and maintain a capital conservation buffer and allows supervisory authorities to enforce an additional countercyclical buffer, aimed to preserve the institution's solvency in the event of adverse conditions
- The set-up of restrictions on distributions, relating to dividends, Additional Tier 1 instruments and variable remuneration, via the maximum distributable amount (MDA) mechanism. At end-2015, the European Banking Authority (EBA) issued a clarifying statement, which indicated that the MDA should be applied when an institution no longer complies with its CET1 ratio requirements, including those of Pillar II and capital buffers
- In addition to these measures, there will be measures to contain the size and consequently the use of excessive leverage. To this end, the Basel Committee defined a leverage ratio, for which the definitive regulations were published in January 2014. The Basel leverage ratio compares the



institution's Tier 1 capital to the balance sheet and off-balance sheet items, with restatements for derivatives and pensions. Full scope institutions have been obliged to publish this ratio since 2015.

### 3.2. Regulatory Capital

According to the International Financial Reporting Standards (IFRS), the Company's regulatory capital consists of Common Equity Tier 1 and Tier 2 Capital.

#### Common Equity Tier 1 Capital (CET1 Capital)

According to IFD/IFR, Common Equity Tier 1 capital is made up primarily of the following:

- Ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts
- Retained earnings
- Other reserves
- Funds for general banking risk

Deductions from Common Equity Tier 1 capital essentially involve the following:

- Losses for the current financial year
- Goodwill and intangible assets
- Deferred tax assets that rely on future profitability
- All investments in own CET1 instruments, whether held directly or indirectly
- Non-significant & significant holdings of CET1 capital of financial sector entities - FSEs
- Investors' Compensation Fund ('ICF') & the additional cash buffer of ICF

#### Tier 2 Capital

Tier 2 capital includes:

- Capital Instruments including subordinated loans as that qualify as Tier 2 instruments
- Share premium resulting from the issue of instruments included in the Tier 2 capital
- General Credit risk adjustments of up to a maximum of 1.25% of credit risk RWAs calculated under the standardised approach

Deductions of Tier 2 capital essentially apply to the following:

- All investments in own T2 instruments, whether held directly or indirectly
- Non-significant holdings of T2 capital of FSEs (only BB holdings)
- Significant holdings of T2 capital of FSEs

### 3.3. Solvency Ratio (Capital Ratio or Capital Adequacy Ratio)

The solvency ratio is calculated by comparing the institutions' equity with the Higher of the K-Factor Requirement, the Fixed Overheads requirement, and the Permanent minimum capital requirement.

Since 26th of June 2021, the new regulatory framework sets minimum requirements to be met for the CET1 ratio and the Tier 1 ratio. The minimum requirement for CET1 is 56% and that of Tier 1 75%, with an overall ratio of 100% (including Tier 2).



### 3.4. Capital Management

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

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

The Company determines its internal solvency targets in accordance with these.

In line with the above, the Company is obligated to calculate and report on a quarterly basis (see section on Reporting and Control), under IFR, its capital requirements, which is the higher of the Permanent minimum capital requirement, fixed overhead requirement and the K-Factor requirement, the result of which, i.e. solvency/capital ratio, needs to be above 100% (Calculated based on the section above) at all times.

As at 31 December 2021, the total own funds ratio of the Company including the transitional requirements was 88.22%.



<b>EUR</b>	<b>Dec 31, 2021 (Audited)</b>
CAR Ratio	78.72%
CAR Ratio surplus	-21.28%
CAR Ratio (including transitional requirements)	88.22%
CAR Ratio surplus (including transitional requirements)	-11.78%
Capital Adequacy (CET1) ratio	78.72%
CET1 Capital	118,079
Tier 1 Capital	118,079
Tier 2 Capital	-
Total Own Funds	118,079
Total Own Funds surplus	(31,921)
Permanent minimum capital requirement	150,000
K-Factor Requirement	6
Fixed Overhead Requirement	133,845
Capital requirement	150,000
Capital requirement (including transitional requirements)	133,845

Table 5: Capital Requirements



	<b>Dec 31, 2021</b>
<b>Common Equity Tier 1 (CET 1) capital: instruments and reserves</b>	<b>EUR</b>
Capital instruments and the related share premium accounts	826,000
Retained earnings	-1,763,374
Accumulated other comprehensive income (loss), net of tax	-615,121
Other	1,725,568
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	173,073
<b>Common Equity Tier 1 (CET 1) capital: regulatory adjustments</b>	<b>EUR</b>
Goodwill and other intangible assets (net of related tax liabilities)	0
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	0
Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities	0
Other regulatory adjustments	-54,994
Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital	-54,994
Common Equity Tier 1 (CET 1) capital	118,079
Additional Tier 1 Capital	0
Tier 1 Capital	118,079
Tier 2 Capital	0
Total Capital	118,079
<b>Capital Ratios</b>	
Common Equity Tier 1 (CET 1) capital ratio	78.72%
Tier 1 Capital ratio	78.72%
Total Capital ratio	78.72%
CET 1 Ratio (including transitional requirements)	88.22%
Tier 1 Ratio (including transitional requirements)	88.22%
Own Funds Ratio (including transitional requirements)	88.22%

Table 6: Regulatory Capital



## 4. Capital Requirements

In accordance with the Investment firm regulation, the Capital requirement for the company is equal to the highest of the following:

- K-Factor Requirement
- Permanent Minimum Capital Requirement
- Fixed Overheads Requirement

As at 31 December 2021, the Company's Capital requirement was equal to the Permanent Minimum Capital requirement which is equal to EUR 150,000, according to the IF's license. However, due to the transitional requirements, the permanent minimum capital requirement (PMCR) will be fully in effect by 26<sup>th</sup> of June 2026, increasing by EUR 5,000 each year of the transitional period and therefore the the Company's Capital requirement was equal to EUR 125,000 as at the end Q4 2021.

### 4.1. K-Factor Requirement

The Company calculates its own funds requirement by reference to a set of K-factors which capture:

**Risk-To-Client ('RtC')** which captures client assets under management and ongoing advice (K-AUM), client money held (K-CMH), assets safeguarded and administered (K-ASA), and client orders handled (K-COH).

**Risk-to-Market ('RtM')** which captures the net position risk (K-NPR) in accordance with the market risk provisions of Regulation (EU) No 575/2013.

**Risk-to-Firm ('RtF')** which captures an investment firm's exposure to the default of their trading counterparties (K-TCD), concentration risk in an investment firm's large exposures to specific counterparties (K-CON), and operational risks from an investment firm's daily trading flow (K-DTF).

The K-Factor breakdown, as at 31 December 2021, can be seen on the table below.



EUR	K-Factor Requirement
<b>TOTAL K-FACTOR REQUIREMENT</b>	<b>6</b>
<b>Risk to client</b>	<b>6</b>
Assets under management	-
Client money held - Segregated	2
Client money held - Non - segregated	-
Assets safeguarded and administered	-
Client orders handled - Cash trades	4
Client orders handled - Derivatives Trades	-
<b>Risk to market</b>	<b>-</b>
K-Net positions risk requirement	-
Clearing margin given	-
<b>Risk to firm</b>	<b>-</b>
Trading counterparty default	-
Daily trading flow - Cash trades	-
Daily trading flow - Derivative trades	-
K-Concentration risk requirement	-

Table 7: K-Factor Breakdown



## 5. Operational Risk

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

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

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

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of operational risk is highly dependent on the effective and efficient management practices and high standards of corporate governance.

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

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

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

- The development of operational risk awareness and culture
- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value





- Established a “four-eye” structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management. The Board further reviews any decisions made by the Management while monitoring their activities
- Detection methods are in place in order to detect fraudulent activities
- Comprehensive business contingency and disaster recovery plan

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

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

### **5.1.Fixed Overheads Risk**

Fixed Overhead Risk is the risk that the company holds sufficient eligible capital to accommodate fluctuations in a firm's levels of business. The requirement is to hold eligible capital of at least one-quarter of the fixed overheads of the previous year. For the operational risk in relation to the capital adequacy returns, the Company now uses the fixed overhead requirement, which is taken into account if and only if the summation of credit and market risk falls below a calculated limit of Fixed overheads.

The risks and uncertainties faced by the company are those inherent to the industry. The Board seeks to mitigate this risk by constant review and strict control of fixed overhead costs by optimising resources and reducing unnecessary expenses.

As at 31 December 2021, the Fixed overheads capital requirement was EUR 133,845.



## 6. Environmental, Social, and Governance Risks

### 6.1. Pandemic Risk

Further to the recent developments of the COVID-19 outbreak, which is a current major worldwide issue, the Company follows all of the government and health authorities' guidelines and instructions, regarding the protection measures against the virus. Moreover, the company implements additional health and safety measures enabling the company to continue its operations in a smooth and moderate manner.

Furthermore, the company has adapted a dynamic business model, ready to withstand possible market volatilities and anomalies, that are caused due to the rapid developments of the virus.

### 6.2. Political Risks

The consequences of the Russian-Ukrainian conflicts, and the sanctions imposed by the European Council against Russia considerably affected the industry. The Company's governance and controls that are in place aim to protect the company from risks associated with the said conflict. The conflict had a minor effect on the company's operations and financial performance.

## 7. Liquidity risk

Liquidity risk corresponds to the risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.

The Company's primary objective is to ensure the funding of its activities in the most cost-effective way by managing liquidity risk and adhering to regulatory constraints. The liquidity system aims at providing a balance sheet framework with assets and liabilities target structure that is consistent with the risk appetite defined by the Board of Directors:

- The assets structure should allow the businesses to develop their activities in a way that is liquidity-efficient and compatible with the target liabilities structure
- The liabilities structure is based on the ability of the businesses to collect financial resources from customers and the ability of the Company to sustainably raise financial resources on the markets, in accordance with its risk appetite

The principles and standards applicable to the management of liquidity risks are defined by the Company's governing bodies, whose duties in the area of liquidity are listed below:

- The Company's Board of Directors (i) establishes the level of liquidity risk tolerance as part of the Risk Appetite exercise, (ii) meets regularly to examine the Company's liquidity risk situation, on a quarterly basis



- The Senior Management (i) sets budget targets in terms of liquidity (ii) allocates liquidity to the pillars

To minimize its exposure to liquidity risk, the CIF implements the below Liquidity Risk Mitigation Strategies:

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

The Company has undertaken a specific review of its liquidity risks and believes that it is able to meet its upcoming maturities. As at 31/12/2021, the Company held enough capital in its bank accounts, to meet its short-term obligations.

Furthermore, the Company is taking due care in safeguarding the client assets held in fiduciary capacity (in segregated accounts) and performs the following mitigation strategies:

- These assets are held by the Company in a fiduciary capacity and are not included in the Company's funds nor its financial statements
- The funds are held in client segregated bank accounts
- Frequent reconciliations are performed internally



## 8. Compliance, Reputational and Legal Risks

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

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

By ensuring that these rules are observed, the Company works to protect its customers and, in general, all of its counterparties, employees, and the various regulatory authorities to which it reports.

### Compliance System and Department

Independent compliance structures have been set up within the Company's different business lines around the world to identify and prevent any risks of non-compliance.

The Compliance Officer verifies that all compliance laws, regulations and principles applicable to the Company's services are observed, and that all staff respect codes of good conduct and individual compliance. The Compliance Officer also monitors the prevention of reputational risk and provides expertise for the Company performs controls at the highest level and assists with the day-to-day operations. The Compliance Officer is responsible for:

- The Company's financial security (prevention of money laundering and terrorism financing; know-your-customer obligations; embargoes and financial sanctions)
- Developing and updating consistent standards for the function, promoting a compliance culture, coordinating employee training and managing Company regulatory projects
- Coordinating a compliance control mechanism within the Company (second-level controls), overseeing a normalised Compliance process, oversight of personnel operations and, finally, managing large IT projects for the function
- Preventing and managing conflicts of interest
- Proposing ethical rules to be followed by all Company employees
- Training and advising employees and raise their awareness of compliance issues
- Building and implementing steering and organisational tools for the function: Compliance and Reputational Risk dashboards, forums to share best practices, meetings of functional compliance officers
- Generally monitoring subjects likely to be harmful to the Company's reputation



## 8.1. Compliance Transformation Programme

In light with the changes arising from MiFID II, which came into force since January 1<sup>st</sup>, 2018, the Company launched a programme to transform and improve the Compliance function, in particular to raise the monitoring standards and better fulfil the increasing requirements of regulatory authorities.

Among other things, this programme strengthened governance and increased the resources made available to the function, both by recruiting additional resources and by investing in streamlining the Compliance function's existing IT applications and strengthening alert controls and management.

It targets the continued enhancement of priority functions, the central tools for monitoring regulatory application (including training, harmonisation, and regulatory oversight), financial security, constant oversight, customer protection, market integrity (including preventing conflicts of interest), and reporting quality.

## 8.2. Prevention of Money Laundering and Terrorism Financing

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

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

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

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



## 9. Appendix

		Amounts	Source based on reference numbers/letters of the balance sheet in the audited financial statements
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>			
1	<b>OWN FUNDS</b>	118,079	N/A
2	<b>TIER 1 CAPITAL</b>	118,079	N/A
3	<b>COMMON EQUITY TIER 1 CAPITAL</b>	118,079	N/A
4	Fully paid up capital instruments	3,000	Share Capital
5	Share premium	823,000	Share Premium
6	Retained earnings	(1,763,374)	Accumulated Losses
7	Accumulated other comprehensive income	-	
8	Other reserves	1,725,568	Other reserves
9	Minority interest given recognition in CET1 capital	-	
10	Adjustments to CET1 due to prudential filters	-	
11	Other funds	-	
12	<b>(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1</b>	<b>(615,121)</b>	
13	(-) Own CET1 instruments	-	
14	(-) Direct holdings of CET1 instruments	-	
15	(-) Indirect holdings of CET1 instruments	-	
16	(-) Synthetic holdings of CET1 instruments	-	
17	(-) Losses for the current financial year	(615,121)	Total comprehensive loss of the year
18	(-) Goodwill	-	
19	(-) Other intangible assets	-	
20	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	
21	(-) Qualifying holding outside the financial sector which exceeds 15% of own funds	-	
22	(-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds	-	
23	(-) CET1 instruments of financial sector entities where the institution does not have a significant investment	-	

24	(-) CET1 instruments of financial sector entities where the institution has a significant investment	-	
25	(-) Defined benefit pension fund assets	-	
26	(-) Other deductions	-	
27	CET1: Other capital elements, deductions and adjustments	(54,994)	Investor's Compensation Fund
28	<b>ADDITIONAL TIER 1 CAPITAL</b>	-	
29	Fully paid up, directly issued capital instruments	-	
30	Share premium	-	
31	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
32	(-) Own AT1 instruments	-	
33	(-) Direct holdings of AT1 instruments	-	
34	(-) Indirect holdings of AT1 instruments	-	
35	(-) Synthetic holdings of AT1 instruments	-	
36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	-	
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment	-	
38	(-) Other deductions	-	
39	Additional Tier 1: Other capital elements, deductions and adjustments	-	
40	<b>TIER 2 CAPITAL</b>	-	
41	Fully paid up, directly issued capital instruments	-	
42	Share premium	-	
43	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
44	(-) Own T2 instruments	-	
45	(-) Direct holdings of T2 instruments	-	
46	(-) Indirect holdings of T2 instruments	-	
47	(-) Synthetic holdings of T2 instruments	-	
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	-	
49	(-) T2 instruments of financial sector entities where the institution has a significant investment	-	
50	Tier 2: Other capital elements, deductions, and adjustments	-	

Table 8: EU IF CC1.01 - Composition of regulatory own funds



		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to EU IF CC1
		As at period end	As at period end	
<b>Assets - Breakdown by asset classes according to the balance sheet in the published/audited financial statements</b>				
1	Property, plant and equipment	€ 2,930	N/A	N/A
2	Right-of-use assets	€ 33,967	N/A	N/A
3	Investor's compensation fund	€ 54,994	N/A	N/A
4	Trade and other receivables	€ 43,616	N/A	N/A
5	Cash and cash equivalents	€ 123,596	N/A	N/A
	<b>Total Assets</b>	<b>€ 259,103</b>		
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the published/audited financial statements</b>				
1	Lease liabilities	€ 15,336	N/A	N/A
2	Trade and other payables	€ 48,807	N/A	N/A
3	Shareholders' current accounts - credit balances	€ 2,014	N/A	N/A
4	Lease liabilities	€ 19,873	N/A	N/A
	<b>Total Liabilities</b>	<b>€ 86,030</b>		
<b>Shareholders' Equity</b>				
1	Share capital	€ 3,000	N/A	4
2	Share premium	€ 823,000	N/A	5
3	Other reserves	€ 1,725,568	N/A	8
4	Accumulated losses	-€ 2,378,495	N/A	6
	<b>Total Shareholders' equity</b>	<b>€ 173,073</b>		

Table 9: EU IFCC2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements

