

# **EXNESS (CY) LTD**

## **Pillar III Disclosures**

**For the Year Ended 31 December 2021**

This document has been prepared, for information purposes only, by Exness (CY) Ltd (authorized and regulated by the Cyprus Securities and Exchange Commission under license number CIF 178/12 dated 5 September 2012). The information herein is provided as at the date of this document according to Part Six of Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014.

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## 1 Introduction, Scope and Purpose of this Document

Exness (CY) Ltd (“Exness” or the “Company”) was incorporated in Cyprus on the 2<sup>nd</sup> of September 2011 as a private limited liability Company under the provisions of the Cyprus Companies Law, Cap. 113 with registration number HE 293057 and LEI code 213800TS6IQF7NLQSP32.

The Company is authorized and regulated by the Cyprus Securities and Exchange Commission (“CySEC” or the “Commission”) under license number 178/12 for the conduct of designated investment business in the Republic of Cyprus and is classified as a “full scope Cyprus Investment Firm”. The Company is a Class 2 Cyprus Investment Firm (“CIF”) and is required to hold €750k of initial capital set in accordance with Article 14 of Regulation (EU) 2019/2033 (the “Investment Firm Regulation” or “IFR”) and Article 9 of EU Directive 2019/2034 (the “Investment Firm Directive” or “IFD”).

The Company’s operating license from CySEC permits it to undertake regulated investment services consisting of the services indicated in the table that follows and analysed further below.

The Company has terminated the business relationships with all Retail and Elective Professional clients on 28 January 2020 as it has decided to focus on a Business-to-Business Model (“B2B”) strategy and to offer its services only to Per Se Professional Clients and Eligible Counterparties.

**Table 1-Company License Information**

		Investment Services and Activities								Ancillary Services						
		1	2	3	4	5	6	7	8	1	2	3	4	5	6	7
Financial Instruments	1	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-
	2	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-
	3	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-
	4	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-
	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	<input checked="" type="checkbox"/>	-	-	-
	6	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-
	7	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-
	8	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-
	9	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-
	10	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	-	-	-

The Company is authorized to provide the following Investment Services, in accordance with the Law 87(I)/2017 regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets (hereinafter, the “Law”):

1. Reception and transmission of orders in relation to one or more financial instruments
2. Execution of orders on behalf of clients
3. Dealing on own account
4. Portfolio Management.

The Company is also authorized to provide the following Ancillary Services:

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

The Company is authorized to provide the investment services of Reception and Transmission of orders, Execution of Orders on client's behalf, Dealing on Own Account and Ancillary Services, for the following Financial Instruments, in accordance with the Law:

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

The Company is authorized to provide the investment service of Portfolio Management, for the following financial instruments in accordance with the Law:

1. Transferable Securities
2. Money Market Instruments
3. Units in Collective Investment Undertakings
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.

## 1.1 Regulatory Context

The Pillar III Disclosures Report (the “Report”) has been prepared in accordance with the Part Six of the IFR, Section 50(1)(f) of Law 165(I)/2021 of the CySEC for the Prudential Supervision of Investment Firms, which harmonises the IFD with local legislation and the European Banking Authority’s (“EBA”) Final Report (EBA/ITS/2021/02) setting out Draft Implementing Technical Standards on reporting requirements for investment firms under Article 54(3) and on disclosures requirements under Article 49(2) on Regulation (EU) 2019/2033.

The aforementioned legislative documents and accompanying EBA guidelines have become applicable on 26<sup>th</sup> of June 2021 and have replaced the previous prudential framework comprising of the Capital Requirements Regulation (“CRR”) and Directive (“CRDIV”) for the majority of EU investment firms (specifically, for Class 2 and Class 3 investment firms). The purpose of the newly introduced IFR/IFD package is to address the specific vulnerabilities and risks inherent to investment firms by means of proportionate and appropriate prudential requirements on capital adequacy and overall risk management arrangements. The new rules introduce several changes to the methodologies that investment firms are required to apply for quantifying their exposure to risk and deriving their Capital Adequacy ratio, as well as to their required level of initial capital, their Internal Capital Adequacy Assessment Process (“ICAAP”) which is replaced by the Internal Capital Adequacy & Risk Assessment (“ICARA”) Process, and a newly introduced Liquidity Requirement according to which they are required to maintain liquidity levels equal to at least one third of their Fixed Overhead Requirement, among others.

### 1.1.1 The 3 Pillars

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

- Pillar I establishes minimum capital requirements, ensuring that the Company maintains at all times a sufficient amount of capital above the minimum requirement, as calculated using prescribed methods set by the IFR.
- Pillar II (ICARA) requires firms and supervisors to take a view on whether a firm should hold additional capital against risks that are not fully captured by the Pillar I process (e.g. credit concentration risk); those risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk); and factors external to the firm (e.g. business cycle effects). Pillar II connects the regulatory capital requirements to the Company’s ICARA process and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and institutions on a continuous basis and to evaluate how well the institutions are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.
- Pillar III - Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of Own Funds.

According to the IFR, the risk management disclosures should be provided in one medium or location, where possible. The Pillar III disclosure requirements are contained in relevant Articles of Part Six of the IFR. In addition, these disclosures must be verified by the external auditors of the CIF, in accordance with CySEC’s expectations. The CIF will be responsible to submit its external auditors’ verification report

to CySEC.

The Company has included its risk management disclosures as per the IFR on its website as it does not publish its financial statements. Verification of these disclosures has been made by the external auditors and sent to CySEC.

## **1.2 Pillar III Disclosure Policy**

The disclosures included in this Report are made on a solo basis and are published annually. This Report should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2021 which are prepared in accordance with the International Financial Reporting Standards (“IFRS”). The date of this document is 29 July 2022. Where “reference date” is mentioned, this refers to 31 December 2021.

Unless stated otherwise, all amounts are in thousands of Euro (“€” or “EUR”).

The following provides a summary of certain important items of the Company’s Pillar III Disclosure Policy:

### **1.2.1 Information To Be Disclosed**

#### ***Frequency***

The Company’s policy is to publish the disclosures required on an annual basis as per the Company’s obligations under the relevant laws and regulations.

#### ***Medium and Location of Publication***

The Company’s Pillar III disclosures are published on the Company’s website. Please refer to the following link: [www.exness.eu](http://www.exness.eu).

#### ***Verification***

The Company has commissioned its External Auditors to verify its Pillar III Disclosures, in accordance with the expectations of the CySEC, which require the submission by CIFs of their External Auditor’s Pillar 3 verification report within five months of each financial year-end (Note: For this year, CySEC has granted an extension to this deadline by one month).

## **1.3 Russian invasion to Ukraine**

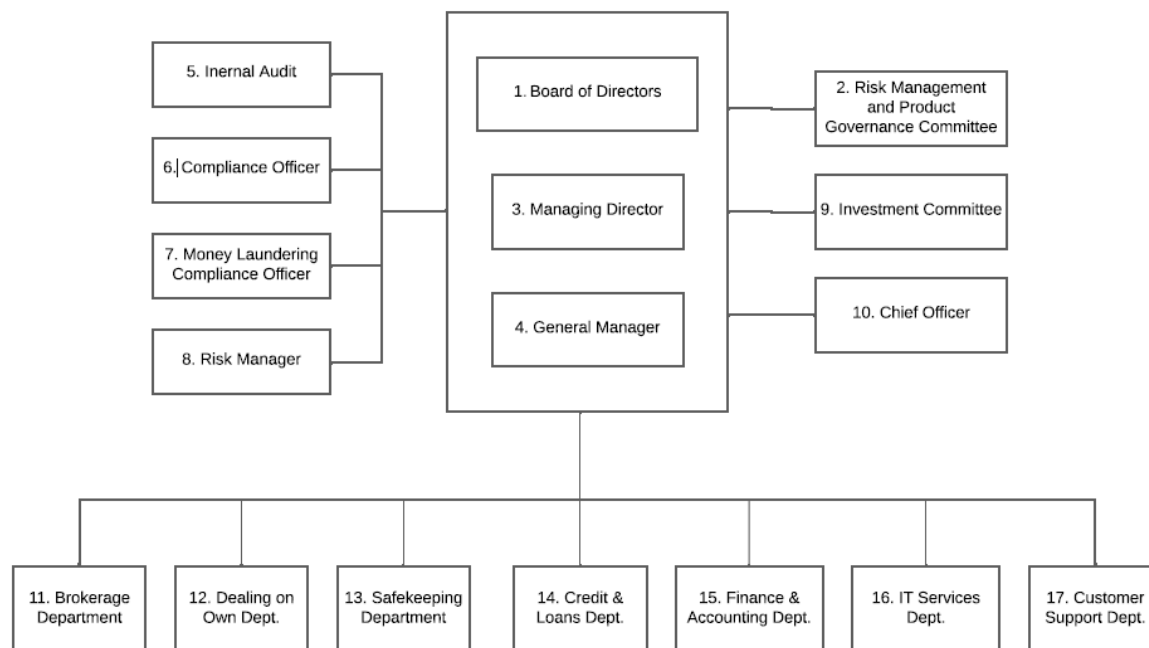
The Company has evaluated the potential impact of Russia's invasion to Ukraine and the resulting sanctions on individuals and companies and does not expect to be impacted from the said situation.

## **2 Governance and Risk Management**

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

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

## 2.1 Organizational Structure



## 2.2 The Board of Directors

The Company's Board of Directors (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 Company has in place the Internal Operations Manual ("IOM") which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff constituting the Company.

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

The Board is required to assess and review the effectiveness of the policies, arrangements and procedures put in place for the Company to comply with its obligations under the Law, as subsequently amended or replaced, as well as the relevant CySEC Laws, Directives and the IFR, and to take appropriate measures to address any deficiencies. In particular, when managing and/or assessing risks, the responsibilities of the Board of Directors and Senior Management may be summarized as follows:

- Ensure that the Company complies with its obligations under primary and secondary legislation. The Board ensures that the Management Body defines, oversees and is accountable for the implementation of the governance arrangements that ensure effective and prudent management of the Company, including the segregation of duties in the Company and the prevention of conflicts of interest and in a manner that promotes the integrity of the market and interest of Clients.
- Have the overall responsibility for the Company and approve and oversee the implementation

of the Company’s strategic objectives, risk strategy and internal governance.

- Ensure that it shall receive on a frequent basis, and at least annually, written reports regarding Internal Audit, Compliance, Money Laundering & Terrorist Financing, Risk Management and ICARA issues, indicating, in particular, whether the appropriate remedial measures have been taken in the event of any deficiencies.
- Review the process of disclosure and announcements and be responsible for providing effective supervision of Senior Management.
- Monitor the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and of any unlawful transactions and to ensure the identification of risks and the timely and adequate flow of information.

On 31 December 2021, the Board of Directors of the Company comprised of two Executive Directors and three Non- Executive Directors of which two were independent.

**Table 2-Exness (Cy) Ltd Board of Directors 2021**

Name	Position
Mr. Socratis Fekkas	Managing Director, Executive Director, part of “4-Eyes”, CY- based
Mrs. Marina Spanou	General Manager Executive Director, part of “4-Eyes”, CY-based
Mr. Andreas Tifas	Independent Non-Executive Director, CY-based
Mr. Andreas Matsas	Independent Non-Executive Director, CY-based
Petr Valov (until 28/05/2021) *Mrs. Vaso Mavromoustaki	Non-Executive Director, CY-based

\* Appointed on 28/05/2021

### 2.3 Diversity Policy for the Selection of Members of the Management Body

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy and developing talent at every level within the organization.

### 2.4 Number of Directorships held by Board Members

All members of the Board commit sufficient time to perform their functions in the Company. The number of directorships which may be held by a member of the Board at the same time shall take into account individual circumstances and the nature, scale and complexity of the Company’s activities. Unless representing the Republic, members of the Board of a CIF that is significant in terms of its size, internal organization 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.

The table below provides the number of directorships each member of the management body of the Company holds at the same time in other entities. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below. Executive or non-executive directorships held within the same group, are considered as a single directorship.

**Table 3-Number of directorships held by the Company's Board members**

Name	Position	Executive Directorships*	Non-Executive Directorships*
Mr. Socratis Fekkas	Executive Director- Managing Director	1	2
Mrs. Marina Spanou	Executive Director	1	-
Mr. Andreas Tifas	Independent Non-Executive Director	1	1
Mr. Andreas Matsas	Independent Non-Executive Director	-	4
Mrs. Vaso Mavromoustaki**	Non-Executive Director	2	1

\*Including position in Exness

\*\* Appointed on 28/05/2021

## 2.5 Board Committees

### 2.5.1 Risk Management & Product Governance Committee

The Board has established a Risk Management & Product Governance Committee to oversee on behalf of the Board all matters relating to risk management and regulatory compliance. The Risk Management & Product Governance Committee's arrangements put in place are proportionate to the size, complexity and the risk profile of the Company. The Committee acts independently from the management of the Company.

The Risk Management & Product Governance Committee, inter alia, scrutinizes and decides on various risks inherent with the operation of the Company, with the view to formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company. Moreover, the Committee reviews the risk management procedures in place (monitors and controls the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department).

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify. The Risk Management & Product Governance Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties. The Committee meets at least quarterly, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Committee, as well as by the Risk Manager.

As at 31 December 2021 the Risk Management & Product Governance Committee comprised of 2 Executive Directors, 1 Independent Non-Executive Director, the Company's Head of Dealing on Own Account Department and the outsourced Risk Manager. All members of the Committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy, risk appetite, risk management policies and risk management practices of the Company. During 2021 the Risk Management & Product Governance Committee convened four times.

The main responsibilities of the Risk Management & Product Governance Committee are as follows:

- To ensure that all material risks are identified, measured and properly reported.
- To scrutinize and decide on various risks associated with the operation of the Company with the view to increase the awareness of, formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company.
- To review the risk management procedures in place.

- To review, discuss, elaborate and amend, if necessary, the ICARA of the Company, on a yearly basis, prior to the approval of the Board.
- To monitor and control the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department.
- To ensure that the Company has clear policy in respect of the assumption, follow up and management of risks duly notified to all interested parties or organizational units of the Company.
- To consider, to the extent possible, risk factors affecting costs, the price at which competitors offer the same services, and the cost-benefit ratio for each service, and verify that such information is utilized by the Risk Management Department in the carrying out of their duties specifically, with respect to liquidity risk and market risk and review the policies of the Risk Management Department.
- To ensure that the Board of Directors' instructions on the Company's overall current and future risk appetite and strategy and assist the board of directors in overseeing the implementation of that strategy by senior management.
- To review the Company's Product Governance Policy.

**Table 4-Risk Management and Product Governance Committee**

Name	Position
Mr. Socratis Fekkas	Managing Director
Mrs. Marina Spanou	General Manager and ex officio and without any voting rights
Mr. Michail Safranov*	Head of Dealing on Own Account Department
Grand Thornton Fund Services (Cyprus) Ltd (Mr. Yiannos Ashiotis is the person in charge)	Risk Manager
Mr. Andreas Tifas	Independent Non-Executive Director

\* Appointed on 13/09/2021

### 2.5.2 Investment Committee

An Investment Committee has been formed to ensure the implementation of a prudent investment policy and the monitoring of the provision of adequate investment services to Clients. The Investment Committee shall convene at least quarterly, either in the Company's offices or via a conference call. The Investment Committee reports directly to the Senior Management and its members are shown in the table below:

**Table 5-Investment Committee**

Name	Position
Mr. Socratis Fekkas	Managing Director
Mrs. Marina Spanou	General Manager and ex officio and without any voting rights
Mr. Michail Safranov*	Head of Dealing on Own Account Department
Mr. Andreas Tifas	Independent Non-Executive Director

\* Appointed on 13/09/2021

The Investment Committee is responsible, inter alia:

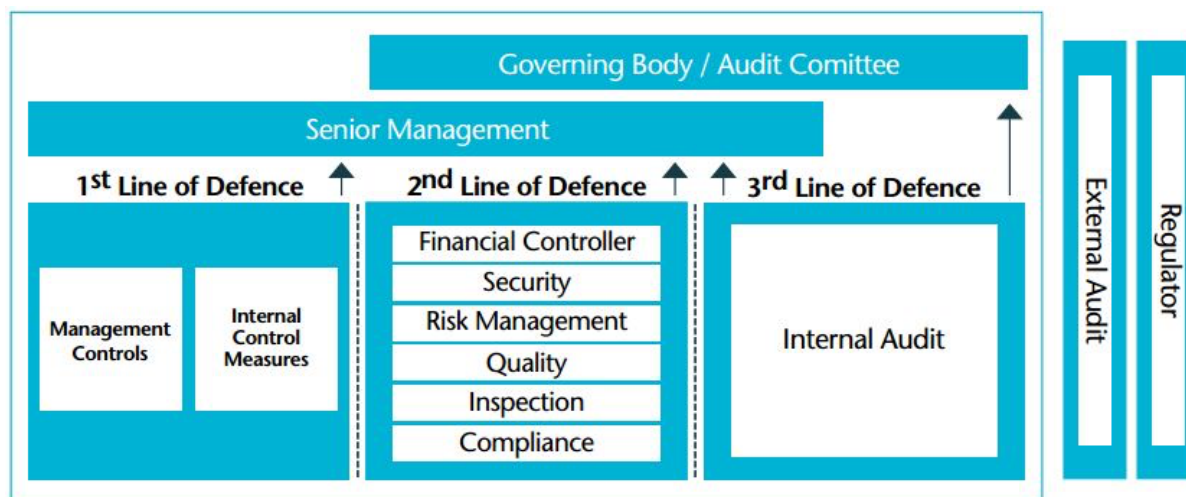
- To supervise the proper choice of investments (framework for investment decisions).
- To analyze the investment potential and contribute to the elaboration of the investment policy,

- as applicable.
- To determine the Company's pricing policy.
  - To decide upon the markets and types of Financial Instruments in which the Company shall be active.
  - To establish, approve, adjust and monitor the Company Investment Policy in relation to the Portfolio Management Department by using the recommendations of the Head of the Department through the Investment Reports, as applicable.
  - To establish risk profile categories for each Client (e.g. cautious, balance, growth, aggressive).
  - To brief the Internal Auditor, as applicable.
  - To review the Company Investment Policy whenever a material change occurs.
  - To analyze the economic conditions and the investment alternatives based on a thorough examination of third-party reports.
  - To select appropriate benchmarks for different type of portfolios, where applicable.
  - To examine the returns and the associated risks of the Client portfolios, as applicable.
  - To annually review the established dealing on own account policy and to use the recommendations of the Head of the Dealing on Own Account Department. Such a review shall also be carried out whenever a material change occurs.
  - To monitor the collection of the Client information through the filling of the Investment Questionnaire, or information obtained through interviews.

## 2.6 Risk Management

Risk is inherent to the Company's business and activities. The Company's ability to identify, monitor and manage each type of risk to which it is exposed is an important factor in its financial stability and performance and to the achievement of its strategic objectives.

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



Source: Chartered Institute of Internal Auditors

**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 organizational risk appetite and are fully compliant with 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 formalize 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 reviews the Company's relevant policies and procedures. Internal Audit works closely with the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.

### **2.6.1 Risk Management Framework and Policy**

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

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

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

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

The Risk Management Manual forms part of the Company's internal control and corporate governance arrangements. It explains the Company's underlying procedures with respect to risk management and documents the roles and responsibilities of the Risk & Compliance Committee, the Risk Manager and other key parties. It also outlines key aspects of the risk management process and identifies the main reporting procedures. In addition, it describes the process followed by the Risk Management Committee in order to evaluate the effectiveness of the Company's internal control procedures.

Processes and mechanisms are in place to manage the risks, with special consideration to risks arising from the operations of the Dealing Room and the Own Account Trading departments in the process of the receipt and transmission of client orders, execution of clients' orders and trading on the Company's behalf.

### **2.6.2 Risk Appetite Statement**

Risk Appetite is the amount and type of risk that the Company is able and willing to accept in pursuing

its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the Board and management confidence to avoid risks that are not in line with the strategic objectives.

The Company has established a robust Risk Appetite Framework. The Board expresses the Risk Appetite through a number of key measures which define the level of risk acceptable across three categories:

**Table 6-Risk Appetite Areas**

Risk Area	Risk Types
<b>Financial</b>	Credit Risk Market Risk Liquidity Risk
<b>Reputational</b>	Conduct Risk Customer Risk Regulatory Risk External reputational Risk
<b>Operational &amp; People</b>	The risk associated with the failure of key processes or systems and the risks of not having the right quality and quantity of people to operate those processes

The Risk Appetite framework has been designed to create links to the strategic long-term plan, capital planning and the Company's risk management framework. The Board approves the Company's corporate strategy, business plans, budget, long term plan and ICARA. The Company employs mitigation techniques defined within the Company's policies, to ensure risks are managed within Risk Appetite.

The Company's Management believes that it is taking all the necessary measures to maintain the viability of the Company and the smooth conduct of its operations in the current business and economic environment. Management has considered the unique circumstances and the risk exposures of the Company and has concluded that there is no significant impact in the Company's profitability position.

### 2.6.3 Risk Culture

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

The Company is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to take accountability for them.

The Company embraces a culture where each of the business areas is encouraged to take risk-based decisions, while knowing when to escalate or seek advice.

## 2.7 Risk Management Function

The Company operates a dedicated Risk Management function under which the Risk Manager is

responsible for implementing the Risk Management Policy, as this is set by the Board of Directors and the Risk Management & Product Governance Committee and ensuring that this is properly followed under the supervision and control of the said Committee.

The Risk Management function is tasked with the following duties and responsibilities:

- Implementing policies on risk management and internal control.
- Identifying and evaluating the fundamental risks faced by the Company for consideration by the Risk & Compliance Committee.
- Providing adequate information in a timely manner to the Risk Management & Product Governance Committee on the status of risks and controls.
- Providing reports to the Risk Management & Product Governance Committee and the Managing Director/General Manager, with details of the Company's total exposure across all instruments. These reports include information about clients' positions and the positions opened by the Company as part of its hedging activity.
- Undertaking reviews on the effectiveness of the system of internal control and providing a report to the Risk Management & Product Governance Committee.
- Providing training to relevant employees.

## **2.8 Compliance Function**

The Board ensures regulatory compliance through a comprehensive and pro-active compliance strategy. To this end, the Board appoints a Compliance Officer in order to establish, implement and maintain adequate and effective policies and procedures, as well as appropriate systems and controls designed to detect any risk of failure by the Company to comply with its obligations. Further to this, the Compliance Officer is responsible to put in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively. The Compliance Officer reports to the Board of the Company.

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

The major objectives of the Compliance officer are:

- Liaising with all relevant business and support areas within the Company.
- Monitoring and assessing the level of compliance risk that the Company faces, taking into account the investment and ancillary services provided, as well as the scope of financial instruments traded and distributed.
- Monitoring the adequacy and effectiveness of the measures and procedures of the Company.
- Advising and assisting the relevant persons responsible for carrying out the investment services to be in compliance with the Law.

## **2.9 Anti-Money Laundering Compliance Function**

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 report to the Senior Management and the Board of the Company.

The main responsibilities of the AMLCO include:

- The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income.
- To decrease the probability of appearance among the Customers of the Company of any persons/organizations engaged in illegal activity and/or related with such persons/organizations.
- To prepare/update the risk management and procedures manual to deal, inter alia, with cases which could be related to money laundering and terrorist financing (hereinafter, the “AML Manual”).
- To receive information from the Company’s employees which are considered to know or suspect money laundering or terrorist financing activities.
- To provide advice and guidance to the employees of the Company on subjects related to money laundering and terrorist financing.
- To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing.
- To ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities.

## **2.10 Internal Audit Function**

The role of the Internal Audit function is the provision of ongoing review and evaluation of the operations and activities of the Company in all respects, as well as the provision of recommendations and advice to ensure that the Company operates at the highest standards and in accordance with best practices while remaining in line with the applicable legal and regulatory framework. The Internal Auditor is an independent and autonomous function with direct reporting line to the Board of Directors.

The Internal Auditor is responsible for applying the Internal Control System (hereinafter, the “ICS”), which confirms the accuracy of the reported data and information. Furthermore, the role of the Internal Auditor is the programming, on an at least annual basis (as applicable), of checks on the degree of application of the required ICS.

The Internal Auditor has clear access to the Company’s personnel and books. Likewise, the Company’s employees have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided. The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions shall be taken. The Board ensures all issues are dealt with and prioritized according to the Board’s assessment.

The key responsibilities of the Internal Audit function include:

- Providing an objective and independent appraisal of all Company activities (financial, operational and others).
- Giving assurance to the Board on all control arrangements, including management and corporate governance.
- Assisting the Board by evaluating and reporting the effectiveness of the controls for which the Board is responsible and issuing recommendations and suggestions.
- Keeping records and books with regards to the internal audit work performed.
- Establishing, implementing and maintaining an audit plan to examine and evaluate the adequacy and effectiveness of the Company’s systems, internal control mechanisms and arrangements.
- Submitting the Annual Internal Auditor’s report to the Board of Directors over the activities performed by the Internal Auditors.

## **2.11 Risk Management Strategies and Capital Management**

The Company deploys several risk management strategies in order to control its risks, which include maximum overall exposure levels and value at risk indicators. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the regulatory environment. The Capital Management framework of Exness is designed to manage its capital needs on a permanent basis. The Company has in place internal guidance in order to ensure that capital adequacy ratio remains well above the regulatory minimum.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit standing and healthy capital ratios in order to support its business and maximize shareholder value.

## **2.12 Internal Capital Adequacy and Risk Assessment Report**

The Company is in the process of updating its existing ICAAP in order to prepare its first ICARA Process. This will form the basis of the Company's Pillar II requirements that the Company views as the additional amount of capital and liquidity it needs to hold against any risks that are not covered by Pillar I. The objective of the ICARA Report is to document the assessment and quantification of the Company's required capital, how the Company mitigates and controls risks and how much current and future capital is required.

In addition, the ICARA Report aims to capture the Company's capital management process and methodologies as stipulated in accordance with the relevant EBA Guidelines. These Guidelines address the distinct components and framework for the implementation of the ICARA, which is a key part of risk management, providing guidelines on how the provisions in terms of the ICARA should be interpreted and applied in practice.

The ICARA Report is the document submitted to the CySEC, upon the latter's request, explaining how the Company has implemented and embedded the ICARA process within its business, describing its risk profile and the extent of risk appetite that it is prepared to accept, as well as the capital that it considers as adequate to be held against all the risks that it is exposed to. The Company has developed stress testing modules in order to quantify the financial impact by risk type on its projected financial position based on a forward-looking 3-year period. The selected scenarios take into account the projected forecasts of the macroeconomic, business and regulatory environment of the Contract for Difference ("CFD") sector.

The submission of the ICARA Report to CySEC serves as the basis for reviewing the ICARA under the Supervisory Review and Evaluation Process ("SREP"). The CySEC, under the SREP, shall review the arrangements, strategies, processes and mechanisms implemented by the Company to comply with the IFR/IFD framework.

## **2.13 Information Flow on Risk Management to the Board of Directors**

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 below:

- Through the Annual Report of the Risk Manager or other reports and/or communication of risks to the Management and the Board by the Risk Manager in case of emergency and/or once a material risk emerges.

- Through the ICARA Report.
- Through decisions of the Risk and Product Governance Committee which are communicated to the Board.
- Through presentation of the Annual Financial Statements by the external auditors and the CFO.
- Through the Annual Compliance, Anti Money Laundering and Internal Audit reports and other reports and/or communication performed throughout the year once risks and/or deficiencies are identified.
- Through updates to the Management and the Board by the Heads of the Departments.
- Through the Suitability Report by the external auditors.

**Table 7-Information Flow on Risk To Management Body**

	Report Name	Owner of Report	Recipient	Frequency
1	Risk Management Report	Risk Manager	CySEC, Board	Annual
2	ICAAP/ICARA Report	Risk Manager	CySEC (upon request), Board	Annual or more frequent as deemed necessary
3	Compliance Report	Compliance Officer	CySEC, Board	Annual
4	Internal Audit Report	Internal Auditor	CySEC, Board	Annual or more frequent upon management request
5	Anti-money laundering report	Anti-money laundering Compliance Officer	CySEC, Board	Annual
6	Investment Committee decisions	Risk Manager	Board	Upon request
7	Audited Financial Statements	External Auditor	CySEC, Board	Annual

## 2.14 Board Risk Statement

The risk strategy of the Company is to ensure substantial growth in combination with a moderate risk profile through the establishment of an effective risk management framework. The Board assesses the risk that the Company is willing to take through a number of key measures which define the level of acceptable risk across three main categories, taking into consideration the Company's size, services offered and complexity of operations:

1. Financial: Credit, market, interest rate risk and funding liquidity risks.
2. Reputational: Money laundering and terrorist financing risk, compliance risk, regulatory risk and reputational risk.
3. Operational: The risk associated with the failure of key processes or systems and the risk of not having the right quality and quantity of people to operate those processes and systems, including information and technology risk.

## 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. The Company is required to hold Own Funds in sufficient quantity and quality in accordance with the IFR & IFD prudential framework, which sets out the

characteristics and conditions for Own Funds.

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. During the 12-month accounting period to 31 December 2021, the Company complied fully with all capital requirements and operated well within the regulatory requirements.

As per the new rules set by the IFR, investment firms are required to maintain 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:

1. Common Equity Tier 1 Capital of at least 56% of Own Funds Requirements.
2. Common Equity Tier 1 Capital and Additional Tier 1 Capital of at least 75% of Own Funds Requirements.
3. Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital of at least 100% of Own Funds Requirements.

Table 8 and Table 9 have been prepared using the format set out in the Final Report on the Draft Implementing Standards issued by the EBA on reporting and disclosure requirements of investment firms under the IFR (EBA/ITS/2021/02). Table 8 presents the composition of the Company's Own Funds as at 31 December 2021, while Table 9 indicates how these Own Funds reconcile with the Company's audited Balance Sheet as of this date. As shown below, the Company's Own Funds as at 31 December 2021 consisted solely of CET1 capital resources and amounted to €6.245K.

**Table 8-Template EU IF CC1.01 - Composition of Regulatory Own Funds**

<b>Template EU IF CC1</b>			
<b>Ref</b>	<b>(€'000)</b>	<b>31 Dec 2021 (€'000)</b>	<b>Source based on reference numbers/letters of the Balance Sheet in the audited Financial Statements (cross reference to EU IF CC2)</b>
<b>1</b>	<b>OWN FUNDS</b>	<b>6.245</b>	
<b>2</b>	<b>TIER 1 CAPITAL</b>	<b>6.245</b>	
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>6.245</b>	
4	Fully paid up capital instruments	40	Ref 1 (Shareholders' Equity)
5	Share premium	6.033	Ref 2 (Shareholders' Equity)
6	Retained earnings	(208)	Ref 3 (Shareholders' Equity)
7	Accumulated other comprehensive income	470	Ref 3 (Shareholders' Equity)
10	Adjustments to CET1 due to prudential filters	(0)	
27	CET1: Other capital elements, deductions and adjustments	(90)	Ref 1 & 3 (Assets)
<b>28</b>	<b>ADDITIONAL TIER 1 CAPITAL</b>	-	
<b>40</b>	<b>TIER 2 CAPITAL</b>	-	

**Table 9-Template EU IF CC2: Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements**

<b>Template EU IF CC2</b>
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(€'000)		Balance Sheet as in audited Financial Statements	Cross reference to EU IF CC1
		31 December 2021	
<b>Ref</b>	<b>Assets</b>		
1	Financial assets at fair value through other comprehensive income	85	Ref. 27
2	Other Non-current assets	92	
3	Cash and cash equivalents (Minimum cash buffer of 3 per thousand of the eligible funds and financial instruments of clients)	5	Ref. 27
4	Cash and cash equivalents (Other)	5.289	
5	Other current Assets	2.763	
	<b>Total Assets</b>	<b>8.234</b>	
	<b>Liabilities</b>		
1	Non-current liabilities	-	
2	Current liabilities	1.899	
	<b>Total liabilities</b>	<b>1.899</b>	
	<b>Shareholders' Equity</b>		
1	Share capital	40	Ref. 4
2	Share premium	6.033	Ref. 5
3	Retained earnings / (accumulated losses)	262	Ref. 6 & Ref. 7
	<b>Total Shareholders' Equity</b>	<b>6.335</b>	

## 4 Minimum Capital Requirements

The new framework (IFR/IFD) introduces a different approach for calculating the Minimum Capital Requirements, which dictates for Class 2 investment firms, that they are derived by taking the highest of the Fixed Overhead Requirement ("FOR"), the Permanent Minimum Capital Requirement ("PMCR") and the K-factors that apply to each investment firm, according to Article 11 of IFR.

### 4.1 Fixed Overhead Requirement ("FOR")

The Company monitors its FOR at least on a quarterly basis. The Company complies with Article 13 of the IFR stating that the Company shall hold own funds of at least one quarter of the fixed overhead expenses of the preceding year. The Fixed Overheads Requirement as at 31 December 2021 amounted to €315K.

### 4.2 Permanent Minimum Capital Requirement ("PMCR")

The Company monitors its Own Funds on a continuous basis and ensures that they remain above the Permanent Minimum Capital Requirement of €750K, which corresponds to the initial capital that applies to the Company in accordance with Article 9 of the IFD.

The Company's K-factor requirement is calculated in accordance with Articles 16 through to 33 of the IFR. Table 10 below breaks down the Pillar I minimum capital requirement that the Company was required to hold as of 31<sup>st</sup> of December 2021.

**Table 10-Minimum Capital Requirements**

<b>Minimum Capital Requirements</b>		
<b>K-Factor Requirement</b>		<b>31 December 2021 (€'000)</b>
Risk-to-Client (RtC)	k-AUM	-
	k-CMH	7
	k-ASA	-
	k-COH	-
Risk-to-Market (RtM)	k-NPR	843
	k-CMG	-
Risk-to-Firm (RtF)	k-TCD	59
	k-DTF	(0)
	k-CON	-
<b>Total K-Factor Requirement</b>		<b>909</b>
<b>Fixed Overhead Requirement – FOR</b>		<b>315</b>
<b>Permanent Minimum Capital Requirement – PMCR</b>		<b>750</b>

Table 10 above shows that the total K-factor Requirement of €909K is the highest amount of minimum capital requirement that the Company must hold at all times.

Table 11 below indicates that the Company has excess capital of €5.336K above the minimum it is required to hold. This is reflected by a Capital Adequacy Ratio of 687,26%, which is above the minimum threshold of 100% set out in Article 9(1)(c) of IFR.

Table 11-Capital Excess/Ratio

(€'000) - 31 December 2021	Fully-phased in	Reference
<b>Capital</b>		
Common Equity Tier 1	6.245	
Additional Tier 1	-	
Tier 2	-	
<b>Total Own Funds</b>	<b>6.245</b>	<b>a</b>
<b>Own Funds Requirement</b>		
K-factor Requirement	909	b
Fixed Overhead Requirement	315	c
Permanent Minimum Capital Requirement	750	d
<b>Minimum Own Funds Requirement</b>	<b>909</b>	<b>e = (higher of b, c, d)</b>
<b>Capital Excess/Ratio</b>		
Capital Excess	<b>5.336</b>	<b>a-e</b>
<b>Capital Ratio</b>	<b>687,26%</b>	<b>a/e</b>

## 5 Principal Risks

As part of its business activities, the Company faces a variety of risks, the most significant of which are described further below.

### 5.1 Risk to Client

Risk to Client ("RtC") is the risk covering the business areas of investment firms from which harm to clients can conceivably be generated in case of problems.

There are four K-factors under 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. During the year under review, the Company did not provide portfolio management or investment advice services, thus the Company was not subject to the risk relating to this K-factor.
- **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 provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. As part of its business, the Company holds funds on behalf of its customers, in order to enable them to perform transactions in financial instruments, and to this end, it is subject to the risk captured by this K-factor.

- **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 their own balance sheet or in third-party accounts. The safeguarding of clients' positions in CFD products is captured under K-CMH in consideration of the nature of CFD products, thus this K-factor does not apply.
- **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. The Company executes its clients' orders by acting as principal to their trades, therefore the risk reflected by this K-factor does not apply.

### 5.1.1 K-CMH

The Company holds clients' funds as part of its day-to-day trading operations. As such, the Company has in place adequate arrangements to safeguard the Clients' rights and prevent the use of Client funds for its own account. Further to the above, the Head of Safekeeping shall be responsible for ensuring that the Company does not mix its own funds with Clients' funds in accordance with the client money rules set out in the CySEC's Directive DI87-01 for the Safeguarding of Client Assets, Product Governance Obligations and Inducements. The client bank accounts are segregated from the bank accounts of the Company and the external auditors of the Company report annually to CySEC on the Adequacy of arrangements so as to safeguard the clients' ownership rights and to prevent the use of the client funds for the Company's own account.

## 5.2 Risk to Market

Risk to Market ("RtM") is the risk that an investment firm poses to the financial markets it operates in and the counterparties it trades with.

- **K-NPR (Net Position Risk)** - K-NPR is based on the rules for Market risk for positions in interest rate instruments, equities, foreign exchange and commodities in accordance with Regulation (EU) No 575/2013. Therefore, K-NPR captures the market risk, which is defined as the risk that the value of an investment will decrease due to changes in market factors (such as currency fluctuations, changes in interest rates and movements in equity and commodity prices). The Company's exposure to Market risk at any point in time depends primarily on short-term market conditions and client activities during the trading day. The Company is subject to Market Risk as a result of its trading activities where it acts as a counterparty to its clients' CFD transactions.
- **K-CMG (Clearing Margin Given)** - This is an alternative to K-NPR to provide for Market risk for trades that are subject to clearing as set out in Article 23 of IFR. CMG means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. This K-factor was not applicable to the Company for the year ended 31 December 2021.

### 5.2.1 K-NPR

Market risk is defined as the risk that the Company's income or the value of its holdings of financial instruments will change due to a change in market risk factors. The four standard market risk factors

are market prices, non-trading book interest rates, non-trading book foreign exchange rates, and commodity prices.

Exposure to market risk at any point in time depends primarily on short term market conditions and the levels of retail and institutional client activity. The Company implements market position limits for operational efficiency and does not take proprietary positions based on an expectation of market movements. As a result, not all net client exposures are hedged, and the Company may have a substantial net position in any of the financial markets in which it offers products. The Company aims to set market position limits and actions that reflect its risk appetite, for each financial instrument or markets in which the Company's clients can trade.

The Company has implemented a real-time market position monitoring system. This enables it to continually monitor its market risk exposure against these limits so that relevant action is initiated. This can include the initiation of appropriate hedging strategies or limit locks, without any more exposure being accepted.

**Market Price Risk**

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Company is exposed to fluctuations in market prices on open positions on CFDs. The Company's exposure to price risk mainly depends on market conditions and client activities during the trading day. The exposure is constantly monitored by the Risk Management department. If there is a significant exposure, then immediate actions are taken by the Risk Management department to mitigate it. As there is a broad client base, with its different trading strategies, there is a significant level of "natural hedging".

**Interest Rate Risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company's income and operating cash flows are substantially independent of changes in market interest rates as the Company has no significant interest-bearing assets. The Company's Management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

**Foreign Exchange Risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. As at 31 December 2021 the Company was exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar, Australian Dollar, British Pound and Russian Rubles. The Company's Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

As at 31 December 2021, the Company did not have any proprietary open positions in CFDs other than FX and Gold CFDs, and was therefore not subject to Market risk in relation to interest rate, equity or commodity CFDs.

### 5.3 Risk to Firm

Risk to Firm ('RtF') is the risk that an investment firm faces through its trading activity and market participation.

There are three K-factors under RtF:

- **K-TCD (Trading Counterparty Default)** - K-TCD captures the Counterparty Credit Risk arising from an investment firm's exposure to the default of its trading counterparties. In particular, TCD means the exposures in the trading book of an investment firm in specific instruments and transactions (includes positions with both clients and liquidity providers) giving rise to the risk of trading counterparty default.
- **K-DTF (Daily Trading Flow)** - K-DTF captures the Operational Risk related to the value of trading activity that an investment firm conducts. It reflects the risk of transactions that an investment firm enters through dealing on own account or executing orders on behalf of clients in its own name.
- **K-CON (Concentration Risk)** - K-CON seeks to apply additional own funds requirements to manage concentration to a single counterparty / issuer of financial instruments or a group of connected counterparties / issuers to which an investment firm incurs Trading Book exposures, and which exceed prescribed limits. Concentration risk is partly being addressed through diversification of counterparties, namely banking institutions. The Company's experience in the collection of trade receivables has never caused debts which are past due and have to be impaired. The Company has a policy in place to monitor debts overdue by preparing debtors ageing reports. In addition, as at 31 December 2021 the prescribed K-CON limits were not exceeded. Hence, the Company considers that its exposure to this K-factor for the referenced period was maintained at low levels.

#### 5.3.1 K-TCD

TCD risk reflects the Counterparty Credit Risk that arises from the possibility of a Company's counterparty on specified Trading Book positions defaulting and the Company not being able to recover amounts due to it. For the referenced year the Company's TCD risk resulted from its open CFD positions towards its clients and hedging counterparties, which were classified into the Trading Book. The Company offers a real-time mark-to-market leveraged trading facility where clients are required to deposit collateral (margin) against positions, which acts as a mitigant of its TCD risk. Any profits and losses generated by clients are credited and debited automatically to their account.

**Liquidation Process** - This is the process of closing a client's open position if the total equity is not sufficient to cover a predefined percentage of required margin for the portfolio held. The Company's Leverage Policy clarifies its approach to liquidation management, detailing the fully automated liquidation process. This Policy and the practice applied ensure a consistent and timely approach to the processing of liquidation orders and ultimately aim to minimize client credit risk exposure. Pre-emptive processes are also in place where clients' free equity (defined as the total of clients' equity less total margin requirements) becomes negative. At this point, the clients are requested to deposit additional funds and are restricted from increasing their positions.

**Position Limits** - Position limits can be implemented both at an instrument and at a client level. The instrument level enables the Company to control the total exposure the Company takes on in a single instrument. At a client level this ensures that the client can only reach a pre-defined size of overall

portfolio.

### **5.3.2 K-DTF**

The Company is primarily exposed to operational risks regarding potential system / trading platform failures or delays, inadequate or failed internal processes, people, systems or external events, as well as other risks such as fraud, legal, physical and environmental risks. The Company is partially dependent on third parties, including its own Group, for the key technological systems, infrastructure suppliers, data providers and data sources.

The Company's operations are highly dependent on technology and advanced information systems. Its ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of its business. This dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that, where possible, multiple providers and data routes are utilized. To remain competitive, the Company continues to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

The Company has business continuity procedures and policies in place which are designed to allow it to continue trading in its core markets. Its systems are designed to mitigate the risk of failure of any component, enabling it to continue to function in the event of an incident, adverse event or business disruption. Moreover, the Company has developed and implemented an operational risk portal through which any operational risk incidents are reported, evaluated and mitigated in a timely manner. Furthermore, the Company has developed a Key Risk Indicators' framework for each business and functional area, enabling it to monitor at regular intervals its performance versus key operational risk areas.

## **6 Other Risks**

### **6.1 Reputation Risk**

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

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

### **6.2 Strategic Risk**

Strategic Risk could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

### **6.3 Business Risk**

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

### **6.4 Capital Management Risk**

Capital Management Risk is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company. Such procedures are explained in the Procedures Manual of the Company.

The Company is further required to report on its capital adequacy quarterly. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of management accounts to monitor its financial and capital position.

### **6.5 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, which 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 considered to be very low.

### **6.6 Legal and Compliance Risk**

Legal and Compliance Risk could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and could have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews conducted by the Internal Auditors. The structure of the Company is such as to promote clear coordination of duties and the management consists of individuals with 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 once a quarter to discuss such issues and any suggestions to enhance compliance are implemented by management.

### **6.7 IT Risk**

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

maintenance, the use of the internet and anti-virus protection in order for materialization of this risk to be minimized to the lowest possible level.

## **6.8 Reporting Risk**

The Company maintains a system in place to record any risk event incurred on a special form duly completed by personnel of each department and is submitted to the Compliance officer and Risk manager when such event occurs.

## **6.9 Liquidity Risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its financial liabilities when due, under both normal circumstances and stressed conditions.

Positions can be closed at any time by clients and can also be closed by the Company, in accordance with the Company's margining rules. If after closing a position a client is in surplus, then the amount owing is immediately repayable on the client's demand by the Company. When client positions are closed, corresponding positions relating to the hedged position are closed with hedging counterparties / brokers. Accordingly, the Company releases cash margin, which is repaid by the hedging counterparties / brokers to the Company on demand.

In accordance with the CySEC clients' money rules, the Company holds in segregated, clearly designated as clients' money bank accounts, all the funds of its clients. Therefore, the Company considers liquidity risk in relation to all clients' trading activity to be significantly low.

According to Article 43 of IFR, the Company is required to maintain a basic Liquidity Requirement equal to at least one third of its Fixed Overhead Requirement. As at 31 of December 2021 the Company satisfied the Liquidity Requirement.

## **7 Remuneration Policy**

The Company has established a remuneration policy, in accordance with the applicable requirements of Law in relation to conflicts of interests, conduct of business rules and rules for the Prudential Supervision of Investment Firms, as well as CySEC Circular 031 previously Guidelines GDIF-07, on remuneration policies and practices, the Circular C138 for Remuneration policies and practices, Circular C145 on Clarifications for Circular C138 and ESMA's Q&A – Relating to the provision of CFDs and other speculative products to retail investors under MiFID (ESMA/2016/904) published on the 1<sup>st</sup> of June 2016 (as updated on the 31<sup>st</sup> of March 2017 as ESMA 35-36-794), where these comply with specific principles in a way and to the extent that is appropriate to the Company's size, internal organization and the nature, scope and complexity of its activities.

The remuneration policy aims to provide for sufficient incentives so as for the personnel of the Company, including key persons, to achieve the business targets, to deliver an appropriate link between reward and performance, whilst at the same time consisting of a comprehensive, consistent and effective risk management tool that prevents excessive risk taking and /or miss-selling practices in light of financial incentives, which could lead to compliance risks for the Company in the long-run.

The Board of the Company has overall responsibility for the implementation, monitoring and review of this Policy, while it is also responsible for the maintenance of the Policy up to date and thus will review

and update the Policy where necessary at least on an annual basis. In addition, the Company's Management is responsible to ensure that all persons remunerated by the Company have knowledge of and understand the remuneration policy.

## 7.1 Remuneration System

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

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

- Personal performance of each individual manager meeting their own targets as set out by the Board;
- The financial viability of the Company;
- The general financial situation and the state in which the Company operates;
- Each employee's personal objectives (such as personal development, compliance with the Company's systems and controls, compliance with regulatory requirements, commitment and work ethics);
- Each employee's professional conduct with Clients (such as acting in the best interest of the Client, fair treatment of Clients and inducing Client satisfaction), as applicable.

The Company's remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff. The remuneration includes all forms of benefits provided by the Company to its staff and can be financial or non-financial remuneration.

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

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

The total remuneration of staff currently consists of a fixed and a variable component. The Fixed Remuneration (FR) has the purpose of attracting and retaining capable and experienced employees. This fixed amount of remuneration includes salary, fixed pay allowance, other cash allowances, as well as other perks and benefits. The Fixed Remuneration is determined by the role and position of each employee, taking into account the experience, seniority, education, responsibility, and market conditions. On the other hand, the variable remuneration is a performance-based remuneration which

motivates and rewards staff members based on their results in relation with the targets set in the beginning of the year. This kind of remuneration is not guaranteed, and the Board 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. The maximum limit on variable remuneration does not exceed 100% of fixed component of the total compensation for each individual.

## **7.2 Performance Appraisal**

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

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

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.

In general, performance appraisal is performed in order to ensure that the appraisal process is based on longer-term performance and that in the future (i.e. when applicable), the actual payment of performance-based components of Remuneration will be spread over a period which will take into account the Company's underlying business cycle and risks.

Additionally, performance appraisal on medium and short-term is being performed as follows:

- Objectives can be set in the beginning of each year, semi-annually or quarterly (depending on the department appraisal process) defining what the Company functions, departments and individuals are expected to achieve.
- Performance checks and feedbacks: managers provide support and feedback to the concerned staff, during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.
- Performance review: the variable elements of the Remuneration depend on the performance evaluation of each employee the fulfilment of their performance related targets and the financial performance of the Company.

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

The remuneration of the senior management is intended to ensure that the Company will attract and retain the most qualified Executive Board members. Moreover, the remuneration of the Company's non-executive directors is fixed and it is set at a level that is aligned to the market and reflects the qualification and competencies required based on the Company's size and complexity, the responsibilities and the time that the non-executive directors are expected to consume in order to serve the Company.

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

**Table 12-Quantitative information on remuneration by Exness**

Description	No. of beneficiaries	Fixed Remuneration €'000	Variable Remuneration €'000
<b>Senior Management</b> (including Executive & non-Executive Directors)	8	626	89
<b>Other staff</b>	1	41	2
<b>Total</b>	<b>9</b>	<b>667</b>	<b>91</b>

**Notes:**

1. The 'Senior Management' category includes the Executive and Non-Executive Directors, the Head of Dealing on Own Account Department, the Chief Officer and the Head of Safekeeping Department.
2. The variable remuneration paid by the Company during 2021 was entirely in the form of cash. During the abovementioned period, the Company awarded remuneration amounting to €13.350 for the previous performance period of 2020, which was paid in 2021. There was also €6.147 remuneration awarded for 2021 and paid in 2022. The Company did not pay or award any deferred remuneration that was reduced through performance adjustments, any severance payments or any guaranteed variable remuneration.

## Appendix I – Main Features of Own Funds

Template EU IF CCA	Common Equity Tier 1 instruments
1 Issuer	Exness (CY) Ltd
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 Law
5 Instrument type	Ordinary Shares
6 Amount recognised in regulatory capital (in EUR)	40.000
7 Nominal amount of instrument	40.000
8 Issue price (in EUR)	EUR 1
9 Redemption price	N/A
10 Accounting classification	Shareholders' equity
11 Original date of issuance	02/09/2011 25,000 shares
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	N/A
<i>Coupons / dividends</i>	
17 Fixed or floating dividend/ coupon	Floating
18 Coupon date 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 info	N/A
30 If convertible, specify issuer of instrument it converts into	N/A
31 Write-down features	No
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	No
37 If yes, specify non-compliant features	N/A
38 Link to the full term and conditions of the instrument (signposting)	N/A