

# **EXNESS (CY) LTD**

## **Pillar III Disclosures**

**For the Year Ended 31 December 2022**

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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## Table of Contents

<b>1</b>	<b>INTRODUCTION, SCOPE AND PURPOSE OF THIS DOCUMENT</b>	<b>4</b>
<b>1.1</b>	<b>REGULATORY CONTEXT</b>	<b>6</b>
1.1.1	THE THREE PILLARS	6
<b>1.2</b>	<b>PILLAR III DISCLOSURE POLICY</b>	<b>7</b>
1.2.1	INFORMATION TO BE DISCLOSED	7
<b>1.3</b>	<b>RUSSIAN INVASION TO UKRAINE</b>	<b>7</b>
<b>2</b>	<b>GOVERNANCE AND RISK MANAGEMENT</b>	<b>8</b>
<b>2.1</b>	<b>ORGANIZATIONAL STRUCTURE</b>	<b>8</b>
<b>2.2</b>	<b>THE BOARD OF DIRECTORS</b>	<b>8</b>
<b>2.3</b>	<b>DIVERSITY POLICY FOR THE SELECTION OF MEMBERS OF THE MANAGEMENT BODY</b>	<b>9</b>
<b>2.4</b>	<b>NUMBER OF DIRECTORSHIPS HELD BY BOARD MEMBERS</b>	<b>10</b>
<b>2.5</b>	<b>BOARD COMMITTEES</b>	<b>11</b>
2.5.1	RISK MANAGEMENT & PRODUCT GOVERNANCE COMMITTEE	11
2.5.2	INVESTMENT COMMITTEE	11
<b>2.6</b>	<b>RISK MANAGEMENT</b>	<b>12</b>
2.6.1	RISK MANAGEMENT FRAMEWORK AND POLICY	13
2.6.2	RISK APPETITE STATEMENT	14
2.6.3	RISK CULTURE	14
<b>2.7</b>	<b>RISK MANAGEMENT FUNCTION</b>	<b>15</b>
<b>2.8</b>	<b>COMPLIANCE FUNCTION</b>	<b>15</b>
<b>2.9</b>	<b>ANTI-MONEY LAUNDERING COMPLIANCE FUNCTION</b>	<b>15</b>
<b>2.10</b>	<b>INTERNAL AUDIT FUNCTION</b>	<b>16</b>
<b>2.11</b>	<b>RISK MANAGEMENT STRATEGIES AND CAPITAL MANAGEMENT</b>	<b>17</b>
<b>2.12</b>	<b>INTERNAL CAPITAL ADEQUACY AND RISK ASSESSMENT (ICARA) REPORT</b>	<b>17</b>
<b>2.13</b>	<b>INFORMATION FLOW ON RISK MANAGEMENT TO THE BOARD OF DIRECTORS</b>	<b>17</b>
<b>2.14</b>	<b>BOARD RISK STATEMENT</b>	<b>18</b>
<b>3</b>	<b>OWN FUNDS</b>	<b>19</b>
<b>4</b>	<b>MINIMUM CAPITAL REQUIREMENTS</b>	<b>21</b>
<b>4.1</b>	<b>FIXED OVERHEAD REQUIREMENT (“FOR”)</b>	<b>21</b>
<b>4.2</b>	<b>PERMANENT MINIMUM CAPITAL REQUIREMENT (“PMCR”)</b>	<b>21</b>
<b>4.3</b>	<b>K-FACTOR REQUIREMENT</b>	<b>21</b>
<b>5</b>	<b>PRINCIPAL RISKS</b>	<b>23</b>
<b>5.1</b>	<b>RISK TO CLIENT</b>	<b>23</b>
5.1.1	K-CMH	23
<b>5.2</b>	<b>RISK TO MARKET</b>	<b>24</b>

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5.2.1	K-NPR .....	24
<b>5.3</b>	<b>RISK TO FIRM .....</b>	<b>25</b>
5.3.1	K-TCD.....	25
5.3.2	K-DTF.....	26
<b>6</b>	<b>OTHER RISKS .....</b>	<b>27</b>
<b>6.1</b>	<b>REPUTATION RISK .....</b>	<b>27</b>
<b>6.2</b>	<b>STRATEGIC RISK.....</b>	<b>27</b>
<b>6.3</b>	<b>BUSINESS RISK .....</b>	<b>27</b>
<b>6.4</b>	<b>CAPITAL MANAGEMENT RISK .....</b>	<b>27</b>
<b>6.5</b>	<b>REGULATORY RISK .....</b>	<b>27</b>
<b>6.6</b>	<b>LEGAL AND COMPLIANCE RISK .....</b>	<b>28</b>
<b>6.7</b>	<b>IT RISK .....</b>	<b>28</b>
<b>6.8</b>	<b>REPORTING RISK.....</b>	<b>28</b>
<b>6.9</b>	<b>LIQUIDITY RISK .....</b>	<b>28</b>
<b>7</b>	<b>REMUNERATION POLICY .....</b>	<b>29</b>
<b>7.1</b>	<b>REMUNERATION SYSTEM.....</b>	<b>29</b>
<b>7.2</b>	<b>PERFORMANCE APPRAISAL.....</b>	<b>30</b>
<b>7.3</b>	<b>REMUNERATION OF SENIOR MANAGEMENT PERSONNEL AND DIRECTORS .....</b>	<b>31</b>
	<b>APPENDIX I – MAIN FEATURES OF OWN FUNDS .....</b>	<b>32</b>

## 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. 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”), as the latter has been harmonized with local legislation through the issuance of the Cyprus Law 165(I)/2021 for the Prudential Supervision of Investment Firms.

The Company’s operating license from CySEC permits it to undertake regulated investment and ancillary services, as these are 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
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 in points (1) to (3) above and the ancillary services of points (1) and (2) above 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.

Moreover, 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

This 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 and Commission Delegated Regulation 2021/2284 laying down implementing technical standards for the application of Regulation (EU) 2019/2033 of the European Parliament and of the Council with regard to supervisory reporting and disclosures of investment firms.

Since 26<sup>th</sup> of June 2021, the Company abides by the prudential rules set by the IFR & IFD framework. The IFR & IFD framework addresses the prudential requirements of Class 2 and Class 3 investment firms in a more customized and risk-sensitive manner than the previous, CRR & CRD framework, and has been established with the purpose of avoiding disproportionate administrative burden on this category. Moreover, a transitional period of five years from initial implementation is allowed, where necessary, to help investment firms adjust to the new risk quantification methodologies, by enabling them to adopt gradually the Pillar I methodologies set by the IFR.

### 1.1.1 The Three Pillars

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

- Pillar I establishes minimum capital and liquidity requirements, ensuring that the Company maintains at all times a sufficient amount of capital and liquid assets that are above the minimum required thresholds, calculated using prescribed methods set by the IFR.
- Pillar II (Internal Capital Adequacy and Risk Assessment - “ICARA” - Process) requires investment firms and supervisors to take a view on whether a firm should hold additional capital and/or liquid assets 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, Strategic risk, Reputation risk, Regulatory Compliance risk); and factors external to the firm (e.g. business cycle effects). Pillar II connects the regulatory capital and liquidity 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 investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital and liquidity needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital- and liquidity-to risk.
- Pillar III requires the disclosure of information regarding the key risk management objectives and policies of the Company, its risk governance, its remuneration policies and practices, as well as the results of its capital adequacy calculations, on an annual basis.

According to the IFR, the Pillar III 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 makes available its annual Pillar III disclosures on its website as it does not publish its financial statements. In addition, the Company arranges for verification of these disclosures to be carried out by its external auditors and sent to CySEC.

## 1.2 Pillar III Disclosure Policy

The disclosures included in this Report are made on a solo basis. This Report should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2022 which are prepared in accordance with the International Financial Reporting Standards (“IFRS”). The date of this document is 28 April 2023. Where “reference date” is mentioned, this refers to 31 December 2022.

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 its obligations under the IFR.

#### ***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 following CIFs’ financial year-end.

## 1.3 Russian invasion to Ukraine

The geopolitical situation in Eastern Europe intensified on February 24, 2022, between Russia and Ukraine. The crisis between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed. The crisis is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as rising inflation and global supply-chain disruption. Because of its broader impact on these macroeconomic conditions, many companies globally and locally may need to consider the crisis effect on both operational and financial reporting matters. The degree to which entities are or will be affected by them largely depends on their operations, the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets.

The management is continuously monitoring the situation and is performing all the relevant actions. As of today the Company has not experienced any disruption in their operations and has evaluated contingency plans to avoid any disruptions in the foreseeable future. However, there is currently a wide range of uncertainty associated with the crisis’ possible outcomes and the economic impact depends on variables that are difficult to predict.

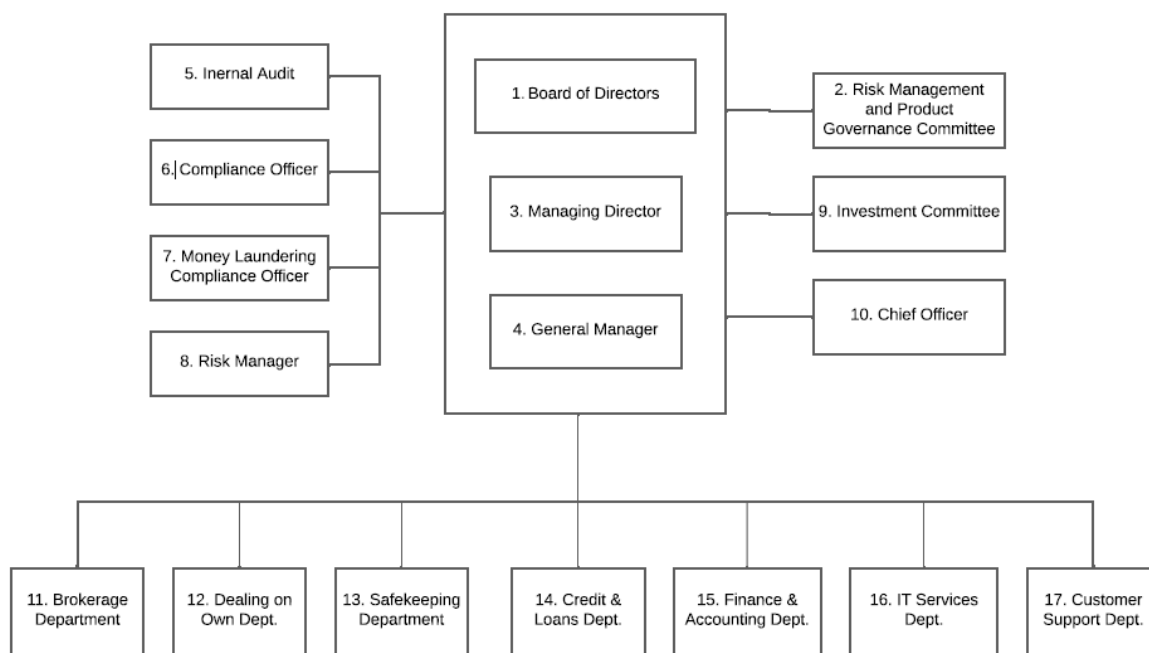
## 2 Governance and Risk Management

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, as well as 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.

Taking into consideration that, based on its assessment and in accordance with the provisions of CySEC Circular C487, the Company was not considered a “Significant CIF” for the year ended 31 December 2022, the establishment of a Nomination or a Remuneration Committee was not deemed necessary at the present stage. The Company nevertheless maintains a Risk Management & Product Governance Committee, as indicated in the organizational structure provided below.

### 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 its Board, Committees, Senior Management and staff.

The Company implements and maintains adequate risk management policies and procedures which identify the risks relating to its 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 can 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 receives 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 2022, 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 2022**

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
Mrs. Vaso Mavromoustaki	Non-Executive Director, CY-based

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

The Company is committed to encouraging equality and diversity among its workforce and eliminating unlawful discrimination. The aim is for its workforce to be truly representative of all sections of society and our customers, and for each employee to feel respected and able to give their best. The Company, in providing its services, is also committed against unlawful discrimination of customers or the public.

The purpose of the Company’s Diversity Policy is to:

- Provide equality, fairness and respect for all in its employment, whether temporary, part-time or full-time.

- Not unlawfully discriminate, based on the Equal Treatment and Labor Law of 2004 (Law 58(i)/2004), protected characteristics of race or ethnical origin, religion or belief, age or sexual orientation in the field of employment.
- Not unlawfully discriminate and treat equally, based on the Disabled Persons Law of 2000 (Law 127(i)/2000), people with disabilities.
- Oppose and avoid all forms of unlawful discrimination. This includes in pay and benefits, terms and conditions of employment, dealing with grievances and discipline, dismissal, redundancy, leave for parents, requests for flexible working and selection for employment, promotion, training, or other developmental opportunities.

The Company's Diversity Policy is fully supported by Senior Management and has been agreed with trade unions and/or employee representatives.

## 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. In accordance with Section 9(4) of the Law, 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.

As previously mentioned, based on its internal assessment in relation to the conditions triggering "significance" under the Law as per CySEC Circular C487, the Company did not consider itself to be a Significant CIF for the year ended 31<sup>st</sup> of December 2022.

The table below provides the number of directorships each member of the Company's management body held at the same time in other entities, including the position in the Company, on 31 December 2022. 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	1
Mrs. Marina Spanou	Executive Director	1	-
Mr. Andreas Tifas	Independent Non-Executive Director	1	1
Mr. Andreas Matsas	Independent Non-Executive Director	-	3
Mrs. Vaso Mavromoustaki	Non-Executive Director	3	1

*Note: The information presented in the table above is based on representations made by the company.*

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## 2.5 Board Committees

### 2.5.1 Risk Management & Product Governance Committee

The Board has 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 Committee, inter alia, scrutinizes and decides on various risks inherent in 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, and the level of compliance with 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.

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. 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. During 2022 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 a clear policy in respect of the assumption, follow up and management of risks, duly notified to all interested parties or organizational units of the Company.
- 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 are followed, and to assist the Board of Directors in overseeing the implementation of that strategy by senior management.
- To review the Company's Product Governance Policy.

### 2.5.2 Investment Committee

The 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

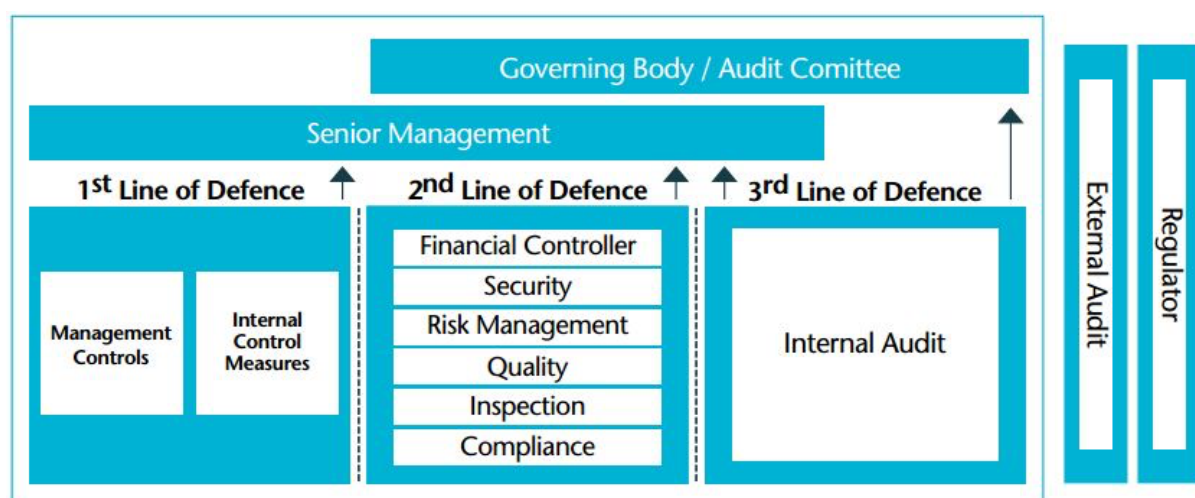
Committee shall convene at least quarterly, either in the Company's offices or via a conference call. The Investment Committee reports directly to the Senior Management and is responsible for the following:

- 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 by using information obtained through interviews.

## 2.6 Risk Management

Risk is inherent in 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 in 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, the defined thresholds. The 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, as well as 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 by 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:** Comprises of the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of the 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), and also 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 it:

- Undertakes adequate risk identification and management
- Establishes the necessary policies and procedures
- Sets and monitors relevant limits, and
- Complies with 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 Management & Product Governance 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 & Product Governance 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 Reception and Transmission of Client orders, the Execution of Clients' orders and the 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 4-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 Company's strategic long-term plan, capital planning and the 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 on 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 a 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, 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 Management & Product Governance Committee.
- Providing adequate information on 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 of the Company so as to command the necessary authority.

The AMLCO leads the Company's Anti-Money Laundering Compliance procedures and processes and reports to the Senior Management and the Board of the Company.

The main responsibilities of the AMLCO include:

- Improving the mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income.
- Decreasing 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.
- Preparing/updating 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").
- Receiving information from the Company's employees which are considered to have knowledge or suspicion of money laundering or terrorist financing activities.
- Providing advice and guidance to the employees of the Company on subjects related to money laundering and terrorist financing.
- Minimizing 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.
- Ensuring compliance with anti-money laundering laws and directives issued by CySEC as well as identifying and properly reporting any money laundering activity to the relevant authorities.

## **2.10 Internal Audit Function**

The role of the Internal Audit function is the 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 are taken. The Board ensures that 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 Internal Auditor’s annual report to the Board of Directors for review and approval.

## **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 the capital adequacy ratio remains well above the regulatory minimum thresholds. This is achieved through the preparation on a monthly basis of accounts to monitor the financial and capital position of the Company. In addition, the Company ensures that it maintains its liquid resources at sufficient levels that exceed the minimum liquidity requirement.

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 (ICARA) Report**

The Company has replaced the former Internal Capital Adequacy and Assessment Process (ICAAP) with the ICARA process. The ICARA forms the basis of the Company’s Pillar II requirement, which consists of the assessment of the need for keeping aside additional capital and liquidity in order to cover the Company’s exposures to the various risks it incurs, and which may have been only partially reflected by the Pillar I capital requirements, or not reflected at all. The objective of the ICARA Report is to document the assessment and quantification of the Company’s required capital and liquidity, how the Company mitigates and controls risks and how much current and future capital and liquidity are 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 degree of risk that it is prepared to accept, as well as the capital and liquidity 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, capital and liquidity 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.

## **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 5-Information Flow on Risk To Management Body**

	<b>Report Name</b>	<b>Owner of Report</b>	<b>Recipient</b>	<b>Frequency</b>
<b>1</b>	Risk Management Report	Risk Manager	CySEC, Board	Annual
<b>2</b>	ICAAP/ICARA Report	Risk Manager	CySEC (upon request), Board	Annual or more frequent as deemed necessary
<b>3</b>	Compliance Report	Compliance Officer	CySEC, Board	Annual
<b>4</b>	Internal Audit Report	Internal Auditor	CySEC, Board	Annual or more frequent upon management request
<b>5</b>	Anti-money laundering report	Anti-money laundering Compliance Officer	CySEC, Board	Annual
<b>6</b>	Investment Committee decisions	Risk Manager	Board	Upon request
<b>7</b>	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 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 2022, the Company complied fully with all capital and liquidity requirements and operated well within the regulatory requirements.

As per the 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.

Tables 5 and 6 have been prepared using the format set out in Commission Implementing Regulation (EU) 2021/2284 laying down implementing technical standards for the application of Regulation (EU) 2019/2033 with regard to supervisory reporting and disclosures of investment firms. Table 5 presents the composition of the Company's Own Funds as at 31 December 2022, while Table 6 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 of 31 December 2022 consisted solely of CET1 capital resources and amounted to €6.251K.

**Table 6-Template EU IF CC1.01 - Composition of Regulatory Own Funds**

Template EU IF CC1			
Ref	Own Funds component	31 Dec 2022 (€'000)	Source based on reference numbers/letters of the Balance Sheet in the audited Financial Statements (cross reference to EU IF CC2)
<b>1</b>	<b>OWN FUNDS</b>	<b>6.251</b>	
<b>2</b>	<b>TIER 1 CAPITAL</b>	<b>6.251</b>	
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>6.251</b>	
4	Fully paid up capital instruments	40	Ref 1 (Shareholders' Equity)
5	Share premium	6.033	Ref 2 (Shareholders' Equity)
6	Retained earnings	270	Ref 4 (Shareholders' Equity)
8	Other reserves	(29)	Ref 3 (Shareholders' Equity)
10	Adjustments to CET1 due to prudential filters	(0)	
27	CET1: Other capital elements, deductions and adjustments	(63)	Ref 1 & 3 (Assets)
<b>28</b>	<b>ADDITIONAL TIER 1 CAPITAL</b>	-	
<b>40</b>	<b>TIER 2 CAPITAL</b>	-	

**Table 7-Template EU IF CC2: Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements**

Template EU IF CC2			
(€'000)		Balance Sheet as in audited Financial Statements	Cross reference to EU IF CC1
		31 December 2022	
<b>Ref</b>	<b>Assets</b>		
1	Financial assets at fair value through other comprehensive income	56	Ref. 27
2	Other Non-current assets	402	
3	Cash and cash equivalents (Minimum cash buffer of 3 per thousand of the eligible funds and financial instruments of clients)	7	Ref. 27
4	Cash and cash equivalents (Other)	6.204	
5	Other current Assets	2.675	
	<b>Total Assets</b>	<b>9.344</b>	
	<b>Liabilities</b>		
1	Non-current liabilities	-	
2	Current liabilities	3.030	
	<b>Total liabilities</b>	<b>3.030</b>	
	<b>Shareholders' Equity</b>		
1	Share capital	40	Ref. 4
2	Share premium	6.033	Ref. 5
3	Other reserves	(29)	Ref. 8
4	Retained earnings	270	Ref. 6
	<b>Total Shareholders' Equity</b>	<b>6.314</b>	

## 4 Minimum Capital Requirements

Under the IFR & IFD framework, Class 2 investment firms are required to derive their Minimum Capital Requirements 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.

### 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, according to which the Company shall hold own funds of at least one quarter of its fixed overhead expenses of the preceding year. The Fixed Overheads Requirement as at 31 December 2022 amounted to €415K.

### 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.

### 4.3 K-Factor Requirement

The Company’s K-factor requirement is calculated in accordance with Articles 16 through to 33 of the IFR.

Table 7 below breaks down the Pillar I Minimum Capital Requirements that the Company was required to hold as of 31<sup>st</sup> of December 2022.

**Table 8-Minimum Capital Requirements**

Minimum Capital Requirements		
K-Factor Requirement		31 December 2022 (€'000)
Risk-to-Client (RtC)	k-AUM	-
	k-CMH	11
	k-ASA	-
	k-COH	-
Risk-to-Market (RtM)	k-NPR	648
	k-CMG	-
Risk-to-Firm (RtF)	k-TCD	1
	k-DTF	4
	k-CON	-
<b>Total K-Factor Requirement</b>		<b>664</b>
<b>Fixed Overhead Requirement – FOR</b>		<b>415</b>
<b>Permanent Minimum Capital Requirement – PMCR</b>		<b>750</b>

Table 7 above shows that the total K-factor Requirement of €664K is the highest amount of Minimum Capital Requirement that the Company must hold at all times.

As at 31 December 2022, the Company adopted the transitional provisions that are set out in point (b) of Article 57(4) of the IFR, according to which it is allowed to benefit from reduced Minimum Capital Requirements during the first five years of IFR/IFD implementation (i.e. up until 26 June 2026), by replacing the PMCR amount in the Minimum Capital Requirements equation, by the initial capital to which it used to be subject under the previous, CRR & CRD framework, subject to an annual increase of €5K.

Table 8 below presents the components of the Company's Capital Adequacy Ratio as at the end of 2022, under both transitional and fully phased-in arrangements. As it can be seen, the Company had excess Own Funds of €5.501K on a fully phased-in and €5.516K on a transitional basis, over the minimum it is required to hold. This is reflected by a Capital Adequacy Ratio of 833,53% and 850,54% respectively, both of which are well above the minimum required threshold of 100% set out in Article 9(1)(c) of IFR.

**Table 9-Capital Excess/Ratio**

(€'000) - 31 December 2022	Fully phased-in	Transitional	Reference
<b>Capital</b>			
Common Equity Tier 1	6.251	6.251	
Additional Tier 1	-	-	
Tier 2	-	-	
<b>Total Own Funds</b>	<b>6.251</b>	<b>6.251</b>	<b>a</b>
<b>Own Funds Requirement</b>			
K-factor Requirement	664	-	b
Fixed Overhead Requirement	415	-	c
Permanent Minimum Capital Requirement	750	-	d
<b>Minimum Own Funds Requirement</b>	<b>750</b>	<b>735</b>	<b>e = (higher of b, c, d)<sup>1</sup></b>
<b>Capital Excess/Ratio</b>			
Capital Excess	<b>5.501</b>	<b>5.516</b>	<b>a-e</b>
<b>Capital Ratio</b>	<b>833,53%</b>	<b>850,54%</b>	<b>a/e</b>

*Note 1: Applicable only in the fully phased-in calculation*

## 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 whether arrangements exist to ensure 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 and safeguards 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. For the year under review, the Company’s clients traded solely in CFD products, which due to their inherent nature are captured under K-CMH, thus this K-factor did not apply to the Company.
- **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 is 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 captures the exposure towards 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). K-NPR is measured according to the Pillar I rules that apply under the CRR for Market risk exposures arising from an investment firm’s positions in interest rate instruments, equities, foreign exchange and commodities. 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 2022.

### 5.2.1 K-NPR

Exposure to Market risk at any point in time depends primarily on short-term market conditions and the levels of 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 its open positions on CFDs. The Company’s exposure to Market 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 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, “natural hedging” is achieved to a considerable extent.
- **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**

Foreign Exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. It arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company's Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

As at 31 December 2022, the Company did not have any proprietary open positions in CFDs other than FX and Gold 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 for specified Trading Book transactions, where such transactions include but are not limited to derivatives such as CFDs. 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 fund requirements to manage concentration to a single counterparty or an issuer of financial instruments, or to 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 2022 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

For the referenced year the Company's TCD risk resulted from its open CFD positions towards its clients, 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 for 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 it 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 per 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 it could 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 degree.

## **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 owed 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 client 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 liquid assets (proprietary, not client-related) equal to at least one third of its Fixed Overhead Requirement. As at 31 of December 2022 the Company had available liquid assets amounting to €4.415K, which exceeded the minimum threshold of €138K, and hence satisfied the

Liquidity Requirement.

## **7 Remuneration Policy**

The Company has established a remuneration policy in accordance with the relevant legal and regulatory requirements, in a way and to the extent that it 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 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 ensures the review and update of the Policy where necessary. 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 is concerned with Company practices for those categories of staff whose professional activities have a material impact on its risk profile. 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 salaries 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.

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 Remuneration Committee. Decisions on these matters are taken at Board level, while the remuneration policy is subject to periodic review.

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 qualifications, 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 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 the fixed component of the total compensation for each individual. In addition, the shareholders of the CIF may approve a higher maximum level of the ratio between the fixed and variable components of remuneration, provided that the overall level of the variable component does not exceed 200% of the fixed component of the total remuneration for each individual.

## **7.2 Performance Appraisal**

The Company ensures 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 provided that conflicts of interest are mitigated, as described in the 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 table:

**Table 10-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	742	65
<b>Other staff</b>	1	44	10
<b>Total</b>	<b>9</b>	<b>786</b>	<b>75</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, Credits and Loans Department and Finance and Accounting Department.
2. The variable remuneration paid by the Company during 2022 was entirely in the form of cash.

Furthermore, the Company:

- Awarded deferred variable remuneration in 2021 amounting to €4k and €2k to members of Senior Management and to Other staff respectively, which was paid in 2022.
- Awarded during 2022 deferred variable remuneration of €4k and €2k to members of Senior Management and to Other staff respectively, which was paid in early 2023.
- Did not award any guaranteed variable remuneration during 2022.
- Did not award any severance payments in previous periods, that have been paid out during 2022.
- Did not award any severance payments in 2022.

## 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)	213800TS6IQF7NLQSP32
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