

ANNUAL DISCLOSURE & MARKET DISCIPLINE REPORT (PILLAR III) - SOLO BASIS

Scope Markets is the brand name used by SM Capital Markets Ltd, a company registered in Cyprus under registered number: HE 346068 and registered address Gladstonos, 116, M. Kyprianou House, 3rd&4th Floor 3032, Limassol, Cyprus.

SM Capital Markets Ltd is authorized and regulated by the Cyprus Securities and Exchange Commission (License Number: 339/17) as a Cypriot Investment Firm ("CIF").

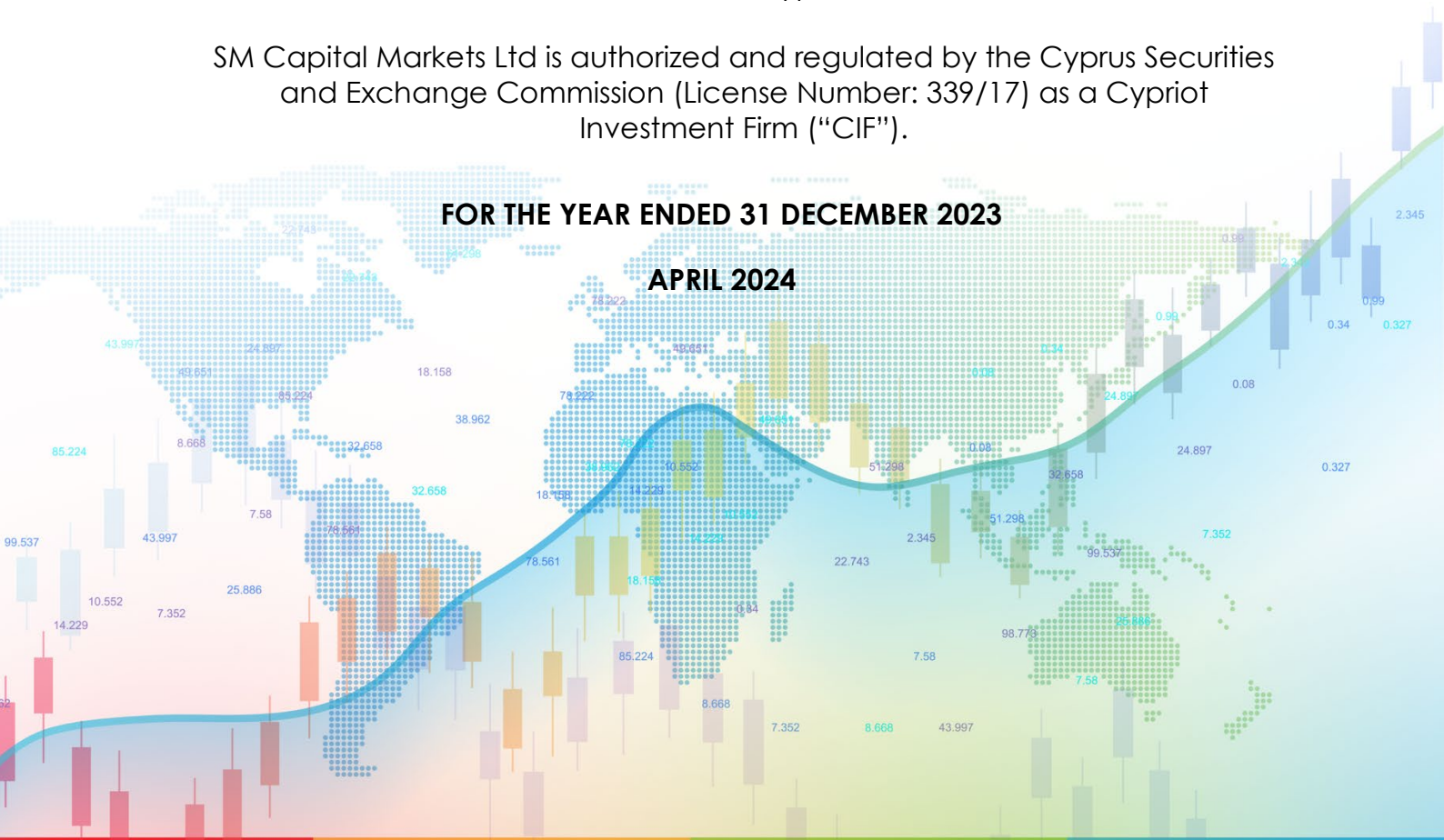


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1. Definitions

SM Capital Markets Ltd: the “Company”.

Cyprus Securities and Exchange Commission: “CySEC”.

EU Regulation 575/2013 (“the Regulation or “CRR”) and Directive 2013/36/EU of European Commission for the Prudential Supervision and Capital Requirements of Investment Firms (the “Directive”).

Frequency: The Company will be making these disclosures annually.

Media and Location: The disclosure will be published on Company's website: www.scopemarkets.eu.

Scope of report: The disclosures are in accordance with the audited financial statements of the Company for the year ended 31 December 2023. The information contained in the Pillar III Market Discipline and Disclosure report is verified by the Firm's external auditors.

2. Corporate Information

SM Capital Markets Ltd is a Company registered in Cyprus under registration number HE346068 and LEI Code 549300SS5YL3DNCPHI21. The Company is authorized and regulated by the Cyprus Securities and Exchange Commission (License Number 339/17) as a CIF to provide investment and ancillary services to its clients.

The registered address of the Company is Gladstonos, 116, M. Kyprianou House, 3rd&4th Floor 3032, Limassol, Cyprus.

The Company does not fall into the significant category in terms of its size, internal organization and the nature, the scope, and the complexity of its activities, according to the definition of significance as provided by CySEC Circular C487 and to this end, it does not deem necessary to establish a Nomination or a Remuneration Committee for the year under review.

The Company operated under the brand name of Scope Markets and has the license to provide the following investment and ancillary services in relation to the financial instruments outlined below:

Investment Services:

- a) Reception and transmission of orders in relation to one or more financial instruments.
- b) Execution of orders on behalf of clients.

Ancillary Services:

- a) Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
- b) Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.
- c) Foreign exchange services where these are connected to the provision of investment services.

Financial Instruments:

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, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forwards 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 other than by reason of default or other termination event.
6. Options, futures, swaps, and any other derivative contracts relating to commodities that can be physically settled, provided that they are traded on a regulated market and/or an MTF or an OTF.
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point (6) above and not being for commercial purposes, which have the characteristics of other derivative financial instruments.
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 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, other than by reason of a default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, 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.

3. Regulatory Framework

The Disclosures have been prepared in accordance with the following:

- Part Six of the Investment Firms Regulation (EU) 2019/2033 ('IFR') known as the new prudential requirements regulation for Investment Firms.
- Investment Firms Directive (IFD): Directive (EU) 2019/2034, known as the new prudential requirements directive, as this has been transposed into Cyprus legislation through the issuance of Law 165(I)/2021 of CySEC for the Prudential Supervision of Investment Firms.
- Commission Implementing Regulation (EU) 2021/2284 laying down implementing technical standards for the application of Regulation (EU) 2019/2033 with regards to supervisory reporting and disclosures of investment firms.

These Pillar III Disclosures present the evaluation and management of the various risks faced by the Company during the year ended 31 December 2023. As part of the Disclosures, the Company presents amongst others, information on its capital structure, regulatory capital requirements, concentration risk and liquidity requirements.

Information in the Pillar III Disclosures is presented in thousands of Euros ("€'000"), unless otherwise indicated.

The Company has established a subsidiary entity which is an investment firm authorized and regulated by the Capital Markets Authority in Kenya during the year 2019, as a result of which it is subject to consolidated supervision in accordance with Article 7 of the IFR. As a Class 2 investment firm based on IFR/IFD rules and its CIF license, the Company prepares both solo and consolidated Pillar III. The present Disclosures concern the Company's Pillar III information on a solo basis at the level of SM Capital Markets Ltd. Furthermore, the Company prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time.

Further to the above, the Company is subject to, and takes any action necessary to adhere to, the regulatory requirements that arise from the following legislative documents:

- Law 87(I)/2017 regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets (hereafter "the Law"), as subsequently amended.

- Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

Since 26 June 2021, the Company, as the majority of EU investment firms, has been subject to the capital adequacy and overall risk management requirements that arise from the investment firm European prudential framework, which consists of IFR and IFD, as the latter has been harmonized into local legislation through the issuance of the Law for the Prudential Supervision of Investment Firms (165(I)/2021).

The IFR and IFD rules focus on specific 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 & Risk Assessment ("ICARA") Process, and the Liquidity Requirement, among others.

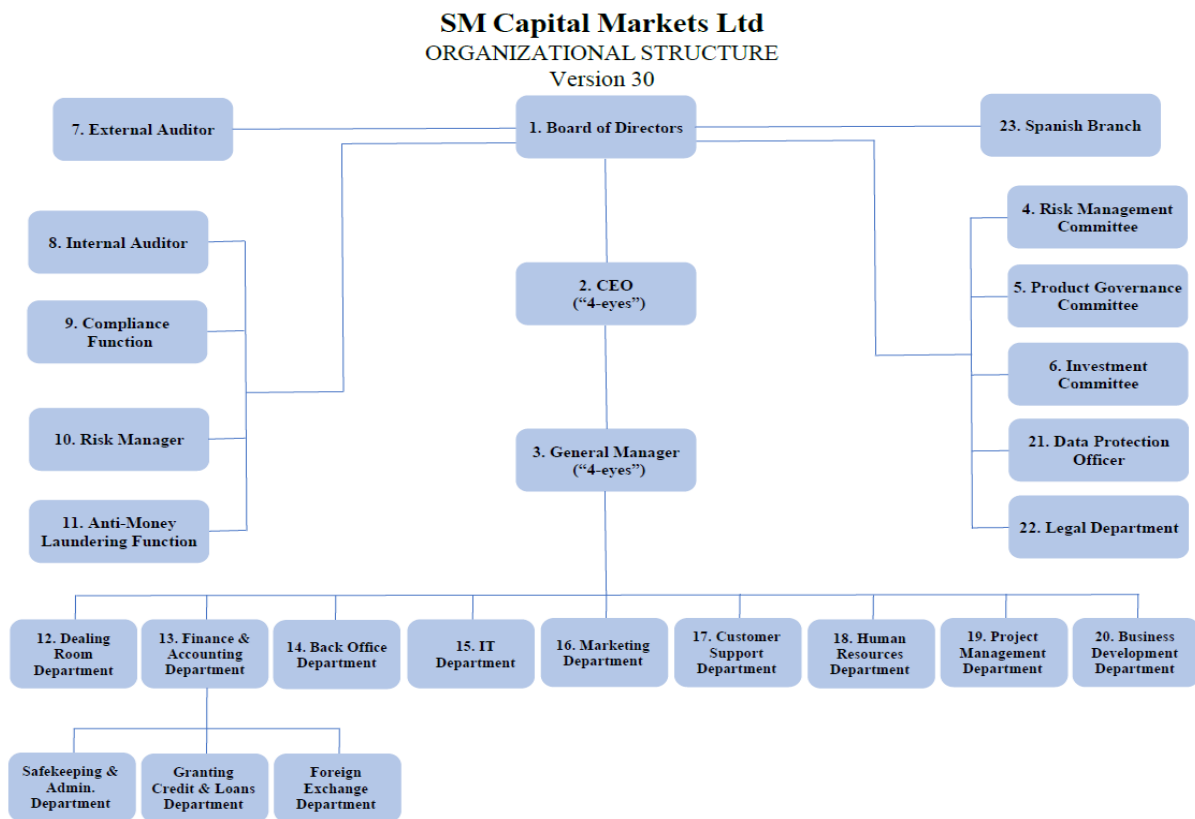
As per the IFR/IFD, investment firms are required to maintain Own Funds consisting of the sum of their Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, and shall meet all the following conditions at all times:

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

The Company publishes the Pillar III Disclosures on an annual basis on its website and can be found [here](#).

4. Corporate Governance

Diagram of Organizational Structure as at 31/12/2023.



4.1. Board of Directors

The Board assesses and periodically reviews the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law, take appropriate measures to address any deficiencies and set the strategy of the Company. The Board is responsible for the monitoring of the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and the prevention of any unlawful transactions, the identification of risks, and the timely and adequate flow of information.

All the supervisory functions (i.e. Compliance, Anti-Money Laundering ("AML") Compliance, Risk Management, and Internal Audit) of the Company have an open line of communication with the Board in order to communicate any findings and/or deficiencies they identify in a timely manner and ensure that those will be resolved through the guidance of the management body. In addition, the Risk Management Product Governance, and Investment Committees are communicating their suggestions and findings to the Board, as and if necessary.

As of 31 December 2023, the Company's Board of Directors comprised of the following directors:

Table: Members of the Company's Board of Directors

Full name of Director	Position/Title/Capacity	Country
Mr. Constantinos Shakallis	CEO, Executive Director, "4 eyes"	Cyprus
Mr. Michalis Sarris	General Manager, Executive Director, "4 eyes"	Cyprus
Mr. Daniel Anthony Lawrance	Non-Executive Director	Cyprus
Mr. Nicolaos Kelepeniotis	Independent Non-Executive Director	Cyprus
Mrs. Mikaela Messiou	Independent Non-Executive Director	Cyprus
Mr. Roger Ian Hambury	Non-Executive Director	Jersey

Note: Mr. Plattner resigned on the 3rd of January 2023 and Mr. Constantinos Tsiialis (Executive Director) and Mr. Roger Ian Hambury appointed on the 3rd of February 2023 and 7th of January 2023 respectively. Mr. Constantinos Tsiialis (Executive Director) resigned on the 26th of May 2023. Mr. Michalis Sarris (Executive Director) appointed on the 26th of July 2023.

During the year 2022, the Company submitted to CySEC a notification of a change of shareholding. Following the required assessment, on 17th of October 2022, the Company received from CySEC a provisional approval for ROSTRO GROUP LIMITED to become a 100% shareholder of the CIF.

In this respect, on the 17th of January 2023, the Company submitted to CySEC the final letter with respect to the change of shareholder, including the submission of Form HE57, HE4, the updated IOM, and the AML Manual. Further, on the 31st of January 2023, the indirect shareholder Mr. Jacob resigned as Executive Director of the CIF, while the CIF appointed the indirect shareholder Mr. Roger Ian Hambury as a non-Executive Director, as per CySEC request.

Additionally, on the 29th of December 2022, the Company proposed Mr. Constantinos Tsiialis as the new Executive Director of the CIF as a replacement of Mr. Jacob Herrman Plattner, a move that received CySEC's approval on the 3rd of February 2023, signifying a pivotal moment in the organization's leadership transition. Therefore, the Company proceeded with the required changes, leading to the reception of an updated Certificate of Directors on the 10th of February 2023.

In addition to these changes, it's noteworthy that on the 1st of April 2023, Marios Poullitziis was appointed as the internal Risk Manager of SMCM and took on the role of a Risk Management Board Committee member, contributing to our enhanced risk management practices. Furthermore, Mr. Constantinos Tsialis concluded his role as Executive Director of SMCM on the 26th of May 2023, marking another significant change in our leadership landscape.

Following this transition, approval was received for Michalis Sarris as an Executive Director on July 26th, 2023, further enhancing the leadership team of the company. The organizational structure as of the 10th of February 2023 is presented below.

4.2. Board of Directors Declaration

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

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

4.3. Committees

- **Product Governance Committee**

The Product Governance Committee is formed with the view to enhance the level of investor protection and ensure that the Company monitors the products that its offering through all of their life cycle. Further to that, the Committee shall ensure that the Company always acts on the best interest of the Clients.

Following the aforementioned, the Company shall maintain a robust Product Governance Policies and Procedures, in which the Target Market shall be identified, and the Company shall comply with the relevant laws in an appropriate and proportionate manner, taking into account the nature of the instruments offered, as well as the risks involved distributing the said the instruments.

During 2023, the Board of Directors has decided to separate the Product Governance and Risk Management Committees in order to perform their duties in a standalone basis.

The members of the Product Governance Committee are appointed by the Board of Directors. The Committee, which reports directly to the Board of Directors, consists of 5 participants (2 Non-Executive Directors, 1 Executive Director and the 2 members of Risk Management Department, the Internal and Outsourced Risk Manager who are both acting ex officio and without voting rights) and during 2023 it held two (2) meetings.

The role of the Committee is essential to:

- (a) review and assess all the instruments offered by the Company,
- (b) review and assess any new instruments introduced by the Company,
- (c) review all the existing policies and procedures in regard to the Product Governance Arrangements,
- (d) identify all the risks involved while offering the selected financial instruments,
- (e) identify the target market of end clients within the relevant category of clients for each financial instrument,
- (f) identify the distribution strategy so as to ensure that it is consistent by the product governance arrangements,
- (g) identify, manage, and prevent any conflicts of interest related to product governance,
- (h) ensure that the company has in place adequate product governance arrangement to ensure that the products and services, it intends to offer are compatible with the needs, characteristics, and objectives of an identified target market,
- (i) identify the negative target market as well as the grey target market,
- (j) review and evaluate the effectiveness of the appropriateness test and suitability test,
- (k) detect any risk of failure to comply with the product governance arrangements,
- (l) ensure that the staff possesses the necessary expertise to understand the characteristics and risks of the products that the Company is offering or intends to offer.

The Product Governance Committee decisions shall relate to general and overall decisions, as far as the investments are concerned, which correspond to the Company's Product Governance, as applicable. These general and overall decisions relate to various sectors of the economy across multiple regions and countries, general macroeconomic indicators, types of Financial Instruments, types of financial markets and market segments. Further, these decisions are notified to the relevant Head of the Department of the Company, as necessary, to enable discharging of their duties in an effective manner. As far as investments are concerned and when related to specific investment strategies, these decisions are of a prescribed content.

- **Risk Management Committee**

The Risk Management Committee is formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general.

Towards this direction, the Company shall form a robust ICAAP and adopt and maintain risk management policies, which identify the risks relating to the Company's activities, processes and systems and set the risk tolerance levels of the Company. The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of the ICAAP and of the risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures.

During 2023, the Board of Directors has decided to separate the Product Governance and Risk Management Committees in order to perform their duties in a standalone basis.

The members of the Risk Management Committee are appointed by the Board of Directors. The Committee, which reports directly to the Board of Directors, consists of 5 participants (2 Non-Executive Directors, 1 Executive Director and the 2 members of Risk Management Department, the Internal and Outsourced Risk Manager who are both acting ex officio and without voting rights) and during 2023 it held twenty-one (21) meetings.

The role of the Committee is essential to:

- (a) all material risks are identified, measured, and properly reported,
- (b) 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,
- (c) review the risk management procedures in place,
- (d) review, discuss, elaborate and amend, if necessary, the ICAAP of the Company, on a yearly basis, prior to the approval of the Board,
- (e) monitor and control the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department,
- (f) 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. Specifically, such policy shall ensure that all parties involved in the provision of investment services are aware of:

- the particular features of each investment service, Financial Instrument, and risk inherent in the provision of the services in respect thereof,
 - the interrelation between the volume of the projected returns and the gravity of the risks undertaken by the Company,
- (g) 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,
- (h) specifically, with respect to liquidity risk and market risk, review the policies of the Risk Management Department on:
- acceptable maximum risk assumption limits per class of risk,
 - breakdown of such risk limits further where necessary, for example, per class of investment service or Financial Instrument, or Client or market,
 - implementing stop loss-control limits,
 - following up open positions within the approved limits,
- (i) prior to expanding its operations to any new financial instruments or investment services, the Committee shall be satisfied that the Company incorporated such expansion projects into its strategic development plan, located and accurately assessed the inherent risks, by implementing the necessary risk management procedures, and resolving any legal issues associated with the execution of the relevant transactions as well as the issues relating to their monitoring,
- (j) ensure the immediate tracking down and scrutiny of important abrupt changes in the Company's financial figures, procedures, or personnel, as well as the regular control of the volume and causes underlying deviations between projections and corporate end results, as submitted to the Board, so as to enable the assessment of the performance of each of the Company's separate organizational units by reference to the set targets,
- (k) approve Client and counterparty limits,
- (l) approve policy description concerning information systems and monitor the information systems in place,
- (m) appoint the responsible security user/super user for the provision of access rights to the various database and monitor the security measures in place,
- (n) establish policy regarding the amount of information provided to Clients about the nature and risks of Financial Instruments according to the Client classification,
- (o) maintain systematic supplier cooperation with the information services' end-users in all phases of development, operation, and evaluation of the information applications of the Company's system,
- (p) supervise the Disaster Recovery Plan,
- (q) supervise the proper choice of investments (framework for investment decisions),
- (r) determine the Company's pricing policy,
- (s) decide upon the markets and types of Financial Instruments, in which the Company shall be active,
- (t) determine the mode, content and frequency of the Client's briefing.
- (u) brief the Internal Auditor, as applicable,

- (v) analyze the economic conditions and the investment alternatives, based on a thorough examination of third-party reports,
- (w) 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.

The Risk Management Committee decisions shall relate to general and overall decisions, as far as the investments are concerned, which correspond to the Company's risk profile, as applicable. These general and overall decisions relate to various sectors of the economy across multiple regions and countries, general macroeconomic indicators, types of Financial Instruments, types of financial markets and market segments. Further, these decisions are notified to the relevant Head of the Department of the Company, as necessary, to enable discharging of their duties in an effective manner. As far as investments are concerned and when related to specific investment strategies, these decisions are of a prescribed content.

- **Investment Committee**

An Investment Committee is formed to ensure the practice of a proper investment policy and the monitoring of the provision of adequate investment services to Clients.

The members of the Investment Committee are appointed by the Board of Directors. The Committee, which reports directly to the Board of Directors, consists of 3 participants (2 Non-Executive Directors, 1 Executive Director) and during 2023 it held three (3) meetings.

The role of the Committee is essential to:

- (a) to supervise the proper choice of investments (framework for investment decisions),
- (b) to analyze the investment potential and contribute to the elaboration of the investment policy, as applicable,
- (c) to determine the Company's pricing policy,
- (d) to decide upon the markets and types of Financial Instruments in which the Company shall be active,
- (e) to determine the mode, content, and frequency of the Client's briefing. Also, to monitor that Clients are informed about their right to request different time frequency of the provision of their periodic statement by the Company, about their investment transactions,
- (f) to brief the Internal Auditor, as applicable,
- (g) to review the Company Investment Policy whenever a material change occurs,
- (h) to establish risk profile categories for each Client (e.g. cautious, balance, growth, aggressive),
- (i) to analyze the economic conditions and the investment alternatives based on a thorough examination of third-party reports,

- (j) to select appropriate benchmarks for different type of portfolios, where applicable,
- (k) to examine the returns and the associated risks of the Client portfolios, as applicable,
- (l) to monitor the collection of the Client information through the filling of the Investment Questionnaire, or information obtained through interviews.

The Investment Committee decisions shall relate to *general and overall decisions* as far as the investments are concerned which correspond to the Client's risk profile categories as applicable. These *general and overall decisions* relate to various sectors of the economy across multiple regions and countries, general macroeconomic indicators, types of Financial Instruments, types of financial markets and market segments. Further, these decisions are notified to the relevant Heads of the Departments of the Company, as necessary, to enable discharging of their duties in an effective manner. As far as investments are concerned and when related to specific investment strategies, these decisions are of a prescribed content.

4.4. Risk Management Function

The Risk Manager ensures that all the different types of risks taken by the Company follow the Law and the obligations of the Company under the Law, and that all the necessary procedures relating to risk management are in place. The Risk Manager reports to the Board of Directors of the Company.

As an addition to the above, the Company is operating a Risk Management Committee, which is responsible for monitoring and controlling the Risk Manager in the performance of his duties. The Risk Management Committee is also formed with the view to enhance the level of investor protection and ensure that the Company monitors the products that its offering through all of their life cycle.

4.5. Compliance Function

The Compliance Officer of the Company has the required knowledge and expertise in order to perform his duties effectively. Moreover, the duties of the Compliance Officer are to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, and 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 is independent and has the necessary authority, resources, expertise, and access to all relevant information.

4.6. Anti-Money Laundering Compliance Officer

The Anti-Money Laundering Officer reports directly to the Board of Directors and is responsible for:

- Ensuring implementation of the procedures described in the Company's AML Procedures Manual.
- Ensuring that Company employees attend training sessions on anti-money laundering and terrorist financing procedures.
- Ensuring that all clients' accounts are opened only after the relevant pre-account opening due diligence and identification measures and procedures have been conducted, according to the principles and procedures set in the AML Manual.
- Compliance with high standards of AML practice in all markets and jurisdictions in which the Company operates.
- Ensuring the implementation of the "know your client" procedures of the Company.
- Gathering information with regards to the new customers of the Company.
- Analyzing the customers' transactions.
- Continuous improvement of the existing control procedures.
- Providing a written annual report to the Board of Directors on the matters of own responsibility, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.

4.7. Internal Audit Function

The Internal Auditor reviews and evaluates the adequacy and effectiveness of the Company's systems of internal controls and the quality of operating performance when compared with established standards on an ongoing basis. The recommendations that the Internal Auditor makes to the Senior Management and the Board regarding the internal controls and the management of the various risks that are associated with the operations, aim to secure a controlled environment in the Company.

The corporate governance of the Company regarding risk management is considered adequate through the establishment of an effective risk oversight structure. The internal organizational controls are in place to safeguard that the Company has the ability to identify, assess and mitigate the relevant risks. Also, the aim of the Company and in general the risk management function is to quickly recognize potential adverse events, be more proactive and forward-looking and establish the appropriate risk responses where deemed necessary and at all times to comply with the relevant legislation.

The Internal Auditor is separated and independent of the other functions and activities of the Company.

4.8. Number of Directorships held by members of the Board

According to Article 48 of the IFR, Investments Firms shall disclose, at least on an annual basis the number of directorships held by the members of the management body. In accordance with Article 9 of the Law 87(I)/2017 as subsequently amended, the number of directorships which may be held by a member of the Board of Directors of a Significant CIF (within the meaning of CySEC Circular C487), shall not be more than one of the following combinations at the same time:

- a) One executive directorship with two non-executive directorships, or
- b) Four non-executive directorships.

In addition to the above, the following shall count as a single directorship:

- a) executive or non-executive directorships held within the same group, or
- b) executive or non-executive directorships held within:
 - i. institutions which are members of the same institutional protection scheme, provided that the conditions set out in Article 113, paragraph (7) of Regulation (EU) No 575/2013 are fulfilled; or
 - ii. undertakings (including non-financial entities) in which the CIF holds a qualifying holding.

Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit or charitable organizations, are not taken into account for the purposes of the below.

The Board members of the Company hold the following directorships to other entities (including the directorship held in the Company):

Table: Number of directorships held by the Company's Directors

Full name of Director	Position / Title / Capacity	Executive	Non-Executive
Mr. Constantinos Shakallis	CEO, Executive Director, "4 eyes"	1	-
Mr. Michalis Sarris	General Manager, Executive Director, "4 eyes"	1	-
Mr. Daniel Anthony Lawrance	Non-Executive Director	3*	1*

Mr. Nicolaos Kelepeniotis	Independent Non-Executive Director	-	4
Mrs. Mikaela Messiou	Independent Non-Executive Director	1	2
Mr. Roger Ian Hambury	Non-Executive Director	3**	1**

Note 1: The information in the above table is based only on representations made by the directors of the Company.

Note 2*: Mr. Daniel Anthony Lawrance held three (3) directorships as Executive Director and one (1) directorship as Non-Executive Director under the same group which counts as a single directorship.

Note 3:** Mr. Roger Ian Hambury held three (3) directorships as Executive Director and one (1) directorship as Non-Executive Director under the same group which counts as a single directorship.

As already mentioned in Section 2 of this Report, the Company is not considered a significant CIF as per the condition of CySEC Circular C487 and as such, the limitation on directorships referred above is not applied to the Company's Directors for the year 2023.

4.9. Diversity Policy

According to Article 48 of the IFR, Investment Firms must have in place a policy on diversity about the selection of members of the management body.

The Company recognizes the value of a diverse and skilled workforce and management body, as diversity is an asset to organizations and linked to better economic performance.

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 in the organization. For this purpose, the Company takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age and cultural and educational background for the Board appointments. To this end, the Company considers itself diverse regarding its main workforce and has in place a Diversity Policy in relation to its management body and all employees.

The Company considers the following factors for the management body members selection:

- Integrity, honesty, and the ability to generate public confidence.
- Knowledge, skills, and experience with financial institutions ("fit-and- proper").
- Financial literacy and professional experience, including risk management experience.
- Demonstrated sound and independent business judgment.

- Time commitment expected by the members.
- Diversity principles considered.

The main objectives of the Diversity Policy are:

- To engage a broad set of qualities and competences.
- To achieve a variety of views and experiences.
- To facilitate independent opinions and sound decision making within the management body.

5. Risk Management

5.1. Risk Management Framework and Governance

Risk management is “the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analyzing, assessing, treating, monitoring and communicating”. It is an iterative process that, with each cycle, can contribute progressively to organizational improvement by providing management with a greater insight into risks and their impact.

Managing risk effectively in a multifaceted organization, operating in a continuously changing risk environment, requires a strong Risk Management function. To this end, the Company considers that it has established an effective risk oversight structure and the necessary internal organizational controls to ensure that it identifies and manages its risks adequately, establishes the necessary policies and procedures, sets and monitors relevant limits and complies with the relevant legislation. In this respect, the Board and Senior Management of the Company are satisfied that the Risk Management framework is appropriate given the risk profile of the Company and its strategy.

The management and Board recognize that risk is embedded in all activities of the Company. To this end, the Company supports the implementation of a Risk Management framework. In this respect, the Company has established relevant Risk Appetite and Risk Assessment procedures. The Board and the management accept a required level of risk to achieve the required level of return, considering the Risk Identification and Assessment procedures performed.

There is a formal structure for monitoring and managing risks across the Company, comprising of detailed Risk Management frameworks (including policies and supporting documentation) and independent governance and oversight of risk. To ensure effective risk management the Company has adopted the “three lines of defense” model of governance with clearly defined roles and responsibilities.

First line of defense: Managers are responsible for establishing an effective control framework within their area of operations and identifying and controlling all risks so that they are operating within the organizational risk appetite and are fully compliant with Company policies and, where appropriate, defined thresholds.

Second line of defense: 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. Risk 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.

The Compliance Officer reports to the Senior Management of the Company and is responsible to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations and put in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively.

Third line of defense: Comprises of the Internal Audit function which is responsible for providing assurance to the Board and senior management on the adequacy of design and operational effectiveness of the systems of internal controls.

5.2. Risk Management Process

The Company adopted and implemented its risk management process in order to create a robust and standardized procedure to manage each identified risk. The risk management process is an on-going and cyclical process which enables the Risk Management function to set the risk tolerance levels and the manner in which the risks will be identified, assessed, controlled and managed.

The risk management cyclical process of the Company contains five steps which every one of them has its significance. All the steps need to be considered, in order to apply an appropriate and effective risk management process for each risk exposure.

In order for the Company to proceed to the initial assessment of risks, quantitative and qualitative measures are used. Once the assessment controls are set, the Company attempts to mitigate the significant risks identified and to monitor the progress on mitigation actions when defined. The process followed by the Company, could be described from the below cycle:



Figure: Continuous Risk Management Process

The Risk Manager identifies the risks the Company faces and records them in a Risk Register, along with details of the specific risk for each identified risk. Thereafter, each risk in the Risk Register is rated in terms of its probability of occurrence and potential financial impact; both estimated by the Risk Manager based on expert judgement, as well as previous events and experience.

The risks that arise from the implementation of the Company's strategic and business plans are regularly analyzed to ensure the adequacy of the relevant policies, procedures and systems.

The Risk Register is discussed and finalized during a Risk Management Committee's meeting whereby the Senior Management has the opportunity to elaborate on the identified risks and comment on their materiality, as well as the overall methodology of the risk assessment. The Risk Register will be reviewed at least annually by the Risk Manager, the Risk Management Committee, and the Senior Management.

The Company performs Stress Tests on the most significant risks identified; thus, it obtains a forward-looking view of the potential adverse results the risks may potentially have on the Company's Balance Sheet and Capital Adequacy.

The Company has adopted a robust internal governance framework on the basis of which its processes and procedures are governed on a daily basis, and which, combined with additional capital, where deemed necessary, ensures the mitigation of risks within the Company.

5.3. Risk Appetite

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

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

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

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

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

Connecting risk tolerance with strategic planning is usually defined as the "risk appetite" of the Company which is defined as "the amount and type of risk that an organization is willing to take in order to meet their strategic objectives". In this respect the risk appetite finds its existence somewhere between the policies, procedures, and controls.

Conflict between Russia and Ukraine – February 2022

In view of the Russian invasion into Ukraine which took place in February 2022 and has resulted in the imposition of targeted restrictive measures by the European Council and by other non-EU countries to the Russian government and to entities and individuals associated with Russia, the Company notes that it has not been particularly affected by these developments since it does not have any client/business relationship with people which are subject to sanctions/restrictive measures. Furthermore, the Company has as an overall principle to refrain from establishing

business relationships with any natural or legal person who is a holder of the Russian Nationality.

Conflict in Middle East between Israel and Palestine (West Bank and Gaza Strip) – October 2023

The Palestinian militant group Hamas launched an unprecedented assault on Israel on 7 October 2023, with hundreds of gunmen infiltrating communities near the Gaza Strip. European Council and other non-EU countries has proceeded imposition of targeted restrictive measures to the Palestinian militant group Hamas and to entities and individuals associated with Hamas, the Company notes that it has not been particularly affected by these developments since it does not have any client/business relationship with people which are subject to sanctions/restrictive measures. Moreover, the Company will remain vigilant to any new restrictive measures applied by European Council and other non-EU countries.

5.4. Internal Capital Adequacy and Risk Assessment Process ("ICARA")

The purpose of capital is to provide sufficient resources to absorb unexpected losses over and above the ones that are expected in the normal course of business. The Company aims to maintain a minimum risk-to-asset ratio, which will ensure that there is sufficient capital to support the Company during stressed conditions.

Pursuant to Chapter 2 and Paragraph 18 of the CySEC Law 165(I)/2021 on the Prudential Supervision of Investment Firms, as part of its Pillar II Process, the Company should establish sound, effective and comprehensive arrangements, strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital and liquid assets that they consider adequate to cover the nature and level of risks which they may pose to others and to which the investment firms themselves are or might be exposed. These arrangements, strategies and processes shall be appropriate and proportionate to the nature, scale, and complexity of the activities of the Company and they shall be subject to regular internal review.

The ICARA falls within the scope of Pillar II and main objective is to enhance the Company's risk profile, risk management and risk mitigation systems, capital and liquidity levels.

ICARA Process includes, in addition to a Capital Adequacy Assessment Process (ICAAP), a Liquidity Adequacy Assessment Process and Contingent Funding Plan. The Internal Liquidity Adequacy Assessment Process (ILAAP) and all its components, including risk elaboration on liquidity risks that are applicable to the Company and Liquidity stress testing, will be incorporated within the Company's ICARA. the ICARA is considered an enhancement of ICAAP and ILAAP.

In light of the above, the ICARA report will present the main business background aspects and developments of the Company, a summary of the Company's business economic environment, the Company's financial summary for the previous and upcoming years, the business and strategic goals, organizational structure and the risk management framework, the overall assessment of the material risks, as well as a forward-looking capital and liquidity planning.

Following the implementation of the new prudential regulatory framework, the Company is in the process of replacing its existing ICAAP with the ICARA report, by establishing relevant assessments with respect to the liquidity adequacy of the Company, designing financial projections and stress tests to reflect the K-Factor requirements and drafting a report which reflects all provisions under the new regulation. The methodologies of K-Factors and Liquidity Stress tests will be incorporated into the ICARA report as well as the updated Risk Register which will focus on a harm-pose approach, identifying different potential risk events that may affect the Company's overall capital adequacy and liquidity position. The ICARA requires institutions to identify and assess risks not adequately covered in Pillar I. Additionally, the ICARA is used to promote a dialogue between CySEC and the Company, as CySEC assesses the ICARA through the Supervisory Review and Evaluation Process ("SREP").

6. Own Funds Requirements

The Company makes sure that at all times it maintains its Own Funds equal to at least 100% of the Total Capital Requirements. Further analysis of the Own Funds composition can be seen in this Section of the Report.

The Total Capital Requirements are defined as the highest of the following:

- The Fixed Overhead Requirement (25% of the Fixed Overhead expenses).
- The Permanent Minimum Capital Requirement (€150k) which corresponds to initial capital.
- The K-Factor Requirement.

The below table presents the key components of the Capital Adequacy (Own Funds) Ratio as of 31st of December 2023, as calculated on a solo basis at the level of the Company. As it can be seen, as at 31st of December 2023 the Company's Own Funds Ratio amounted to 837,05%, which exceeded the regulatory minimum requirement of 100%.

Table: Capital Adequacy/Own Funds Requirements (Solo)

As of 31 st December 2023	EUR Thousands
Own Funds	
Common Equity Tier 1 Capital	2.628
Tier 1 Capital	2.628
Total Own Funds	2.628
Own Funds Requirements	
Permanent Minimum Capital Requirement	150
Fixed Overhead requirement	314
Total K-Factor requirement	76
Total Own Funds Requirement	314
CET 1 Ratio	837,05%
Tier 1 Ratio	837,05%
Own Funds Ratio	837,05%

Composition of Regulatory Own Funds

The below table illustrates the composition of the Company's Own Funds as of 31st of December 2023, which is made up primarily of the following:

- Ordinary shares and related share premium accounts and,
- Retained earnings.

Deductions from Common Equity Tier 1 capital:

- Losses from the current financial year,
- Significant investments of CET1 instruments in financial sector entity,
- Deferred tax assets that rely on future profitability and arise from temporary differences,
- CET1: Other capital elements, deductions and adjustments such as the Investors Compensation Fund contribution and the 3 per thousand additional cash buffer for the ICF as per CySEC Circular C162 and C334 respectively.

Table: EU IF CC1.01 - Composition of Regulatory Own Funds (Investment firms other than small and non-interconnected)

Ref	Common Equity Tier 1 (CET1) capital: Instruments and reserves	EUR '000	Source based on the balance sheet in audited financial Statements (cross ref. to EU IF CC2)
1	OWN FUNDS	2.628	
2	TIER 1 CAPITAL	2.628	
3	COMMON EQUITY TIER 1 CAPITAL	2.628	
4	Fully paid-up capital instruments	2.267	Ref. 1 (Shareholders' Equity)
5	Share premium	4.307	Ref. 2 (Shareholders' Equity)
6	Retained earnings	(2.375)	Ref. 3 (Shareholders' Equity)
17	(-) Losses for the current financial year	(30)	Ref. 3 (Shareholders' Equity)
20	(-) Deferred tax assets that rely on future profitability and arise from temporary differences net of associated tax liabilities	(155)	Ref. 3 (Assets)
24	(-) CET1 instruments of financial sector entities where the institution has a significant investment	(1.359)	Ref. 1 (Assets)
27	CET1: Other capital elements, deductions, and adjustments	(28)	Ref. 2&4 (Assets)
28	ADDITIONAL TIER 1 CAPITAL	-	
40	TIER 2 CAPITAL	-	

Note: On 15th of February 2023, the Company increased its authorized share capital from €17.300 divided to 17.300 ordinary shares of €1 each to €267.300 divided to 267.300 ordinary shares of €1 each. On 28th of June 2023, the Company increased its authorized share capital from €267.300 divided to 267.300 ordinary shares of €1 each to €2.267.300 divided to 2.267.300 ordinary shares of €1 each.

Reconciliation of Regulatory Own Funds

The below table illustrates the Company's reconciliation of Regulatory Own Funds with the audited Balance Sheet as of 31st of December 2023.

Table: EU IFCC2: Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the audited financial statements (Solo basis)

Ref	Balance Sheet item	Balance sheet as in audited financial statements EUR '000	Under regulatory scope of consolidation	Cross reference to EU IF CC1
As at 31/12/2023				
Assets – Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Investments in subsidiaries	1.359	N/A	Ref. 24
2	Deposit with Investors' Compensation Fund	28	N/A	Ref. 27
3	Deferred tax assets	155	N/A	Ref. 20
4	Cash and cash equivalents (Additional Cash Buffer)	1.185	N/A	Ref. 27
5	Non-current assets (other)	44	N/A	
6	Current assets (other)	307	N/A	
	Total Assets	3.078	N/A	
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Current Liabilities	414	N/A	
	Total Liabilities	414	N/A	
Shareholders' Equity				
1	Share capital	2.267	N/A	Ref. 4
2	Share premium	4.307	N/A	Ref. 5
3	Accumulated losses/ Retained Earnings	(2.405)	N/A	Ref. 6 & Ref. 17
	Total Shareholders' equity	4.169	N/A	

Main features of own instruments issued by the Company

The below table illustrates the main features of the own instruments issued by the Company, as of 31st of December 2023.

Table: EU IF CCA: Own Funds: Main features of own instruments issued by the Company

Ref	EU IF CCA: Own Funds: Main features of own instruments issued by the Company	Common Equity Tier 1 Instruments
1	Issuer	SM Capital Markets 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 (types to be specified by each jurisdiction)	Share capital
6	Amount recognised in regulatory capital (as of most recent reporting date)	EUR 2.267,3 thousand
7	Nominal amount of instrument	EUR 1
8	Issue price	EUR 1
9	Redemption price	N/A
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	10/08/2015 – 28/06/2023
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
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	N/A
23	Noncumulative or cumulative	N/A
24	Convertible or non-convertible	N/A
25	If convertible, conversion trigger(s)	N/A

26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	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

6.1. K Factor Requirement

The K-factor requirement shall amount to the sum of the own fund requirements emanating from the following K-factors:

- Risk to Client (RtC)
- Risk to Market (RtM)
- Risk to Firm (RtF)

6.2. Fixed Overhead Requirement

As per Article 13 of the IFR, the Fixed Overhead Requirement (FOR) is the amount that the Company is required to hold as eligible capital and is equal to at least one-quarter of its fixed overheads for the preceding year. Under IFR it is required to report the Fixed Overhead Requirement on a quarterly basis.

Table: Fixed Overhead Requirement

31 December 2023	Amount (EUR '000)
Fixed Overhead Requirement	314
Total expenses of the previous year after distribution of profits	1.270
(-) Total deductions	(15)

6.3. Risk to Client

The K-factors under RfC capture client assets under management and ongoing advice (K-AUM), client money held (K-CMH), assets safeguarded and administered (K-ASA), and client orders handled (K-COH).

Table: Risk to Client K-Factor Requirements

As at 31 December 2023	K- Factor Requirement EUR '000
K-AUM	0
K-CMH	31
K-ASA	0
K-COH	2
Total RfC k-factor requirement	33

Client Money Held

Client Money Held ('CMH') means the amount of client money that an investment firm holds, considering the legal arrangements in relation to asset segregation and irrespective of the national accounting regime applicable to client money held by the investment firm.

For the year ended 31st of December 2023 the Company was subject to K-CMH since it held client money under a custodian capacity, and to this end it took all necessary and required measures to safeguard such money in accordance with the rules set by the CySEC in its Directive DI87-01 for the Safeguarding of Client Assets, Product Governance Obligations and Inducements.

The Company follows the guidelines set in the Article 15 and Article 18 of the IFR for the calculation of the K-CMH requirement. Under the said guidelines, the own funds requirements for K-CMH are equal to the EUR21k which correspond to the rolling

average of the value of the total daily client money held, measured at the end of each business day for the previous nine months, excluding the three most recent months and is the arithmetic mean of the daily values from the remaining six months.

Based on the relevant calculations in the Company's capital requirements, the figure calculated shows that the Company's K-CMH as a part of the Risk to Client as of 31 December 2023 was as per below table:

Table: Client Money Held

31 December 2023	Exposure Value (EV) €'000	Coefficient	K-Factor Requirement €'000
CMH - Segregated (average amounts)	2.406	0,4%	10
CMH - Non - Segregated (average amounts)	4.119	0,5%	21

Assets Safeguarded and Administered

Assets Safeguarded and Administered or 'ASA' means the value of assets that an investment firm safeguards and administers for clients, irrespective of whether assets appear on the investment firm's own balance sheet or are in third-party accounts. For the referenced year the Company was subject to K- ASA since it acted as custodian for the positions of its clients in real equities, however due to a small number of assets/securities held under custody, the K-ASA was NIL. As in the case of K-CMH, the Company took all necessary measures to safeguard the rights of its clients with respect to these assets by adhering to the requirements of the CySEC Directive DI87-01 for the Safeguarding of Client Assets, Product Governance Obligations and Inducements.

The Company follows the guidelines set in Article 15 and Article 19 of the IFR for the calculation of the K-ASA requirement.

Client Orders Handled

The Client Orders Handled k-factor reflects the value of orders that an investment firm handles for clients, through the reception and transmission of client orders and through the execution of orders on behalf of clients. During 2023 the Company was subject to this risk as it executed its clients' orders on an agency, Straight-Through-Processing basis.

The Company calculates its K-COH requirement in accordance with Articles 15 and 20 of the IFR, which consider the rolling average of the value of the total daily client orders handled by the Company, measured throughout each business day over the previous six months, excluding the three most recent months, and then the arithmetic mean of the remaining three months is derived.

The Company mitigates exposure to K-COH by complying with best execution requirements, performing due diligence on its liquidity providers, and offering negative balance protection to its clients in order to protect them from realising material losses in the event of unanticipated fluctuations in the prices of instruments they hold.

For the referenced year, the K-COH was EUR3k.

6.4. Risk to Market

Market risk corresponds to the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and the correlations between them. These parameters include but are not limited to exchange rates, interest rates and the price of securities (equity, bonds), commodities, derivatives, and other assets.

Market risk arises from the below major risk areas:

- Foreign Exchange risk: It is the risk of foreign exchange prices moving against the trading book and banking book exposures.
- Commodities risk: It is the risk of commodity prices moving against the Company's exposures in commodities.
- Equity risk: Prices of equities and indices might move against the related exposures in the trading book.
- Interest rate risk: It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Based on the relevant calculations in the Company's capital requirements, the figure calculated shows that the Company's K-NPR, as a part of the Risk to Market as of 31 December 2023 was as per below table:

Table: Net Position Risk

K-Factor Net position risk (K-NPR)	K – factor requirement
Total standardised approach	43
Position risk	-

Equity instruments	-
Debt instruments	-
of which: securitisations	-
Particular approach for position risk in CIUs	-
Foreign exchange risk	43
Commodities risk	-

As it can be seen and based on the Company's license, for the year ended on 31st of December 2023 the Company was only subject to Market FX Risk, as a result of its Balance Sheet assets and liabilities maintained in currencies other than its reporting currency, and specifically in USD and GBP. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

6.5. Risk to Firm

Trading Counterparty Default

Trading Counterparty Default ('TCD') means the exposures in the trading book of an investment firm in instruments and transactions giving rise to the risk of TCD. In other words, the Trading Counterparty Default is the investment firm's exposure to the default of their trading counterparties. See below the list of instruments and transactions that give rise to TCD:

- Derivative contracts
- Long settlement transactions
- Repurchase transactions
- Securities or commodities lending or borrowing transactions
- Margin lending transactions
- Any other type of SFTs
- Credits and loans

It is noted that the Company is not exposed to the risk of TCD as it performs Straight-Through Processing for all its clients' transactions.

Daily Trading Flow

Daily Trading Flow ('DTF') means the daily value of transactions that an investment firm enters through dealing on own account or the execution of orders on behalf of clients in its own name, excluding the value of orders that an investment firm handles for clients through the reception and transmission of client orders and through the

execution of orders on behalf of clients which are already taken into account in the scope of client orders handled.

It is noted that the Company is not exposed to the risk of DTF as it executed all its client trades on an agency basis. These trades are covered under COH.

Concentration Risk (K-CON)

Concentration Risk means the exposures in the trading book of the investment firm to a client or a group of connected clients the value of which exceeds the following limits:

- An investment firm's limit with regard to the concentration risk of an exposure value with regard to an individual client or group of connected clients shall be 25% of its Own Funds.
- Where that individual client is a credit institution or an investment firm, or where a group of connected clients includes one or more credit institutions or investment firms, the limit with regard to concentration risk shall be the higher of 25% of the investment firm's Own Funds or EUR 150 million, but in any case, it shall not exceed 100% of the investment firm's Own Funds.

The Company is not exposed to the risk of K-CON since as of the 31st of December of 2023 it did not maintain a Trading Book. Further to the above, in the below table indicates the detailed information on the Company's K-Factor amount and K-factor requirement as of 31st of December 2023, and as per the relevant Articles of the IFR:

Table: K-factor amount and K-factor requirement (EUR '000) – Solo basis

As of 31 st December 2023	Factor Amount	K – factor requirement
Total K-Factor requirement		76
Risk to Client		33
Assets under management	-	-
Client money held – Segregated	2.406	10
Client money held – Non-segregated	4.119	21
Assets safeguarded and administered	177	0
Client orders handled – Cash trades	9	0
Client orders handled – Derivatives trades	26.083	3
Risk to Market		43
K-Net positions risk requirement		43
Clearing margin given	-	-

Risk to Firm		-
Trading counterparty default	-	-
Daily trading flow – Cash trades	-	-
Daily trading flow – Derivatives trades	-	-
K-Concentration risk requirement	-	-

6.6. Liquidity Risk and Requirement

Liquidity requirement in the scope of the IFR/IFD prudential framework for the investment firms corresponds to the risk that the Company will not be able to meet its cash needs and/or other obligations. In addition to that, CySEC has the power to impose additional or specific liquidity requirements if it deems that elements of Liquidity risk are not sufficiently covered.

Liquidity risk may emerge in the form of insufficient liquid assets to meet liabilities as they fall due. Another source of Liquidity risk is liquidity providers increasing their margin requirements, during periods of high market volatility, requiring additional funds. Inability of matching the margin requirements, may result in closure of open positions and inability to hedge effectively.

As per Article 43 of the IFR, the Liquidity Requirement is the amount that the Firm is required to hold as liquid assets and is equal to at least one third of the investment firm's Fixed Overhead Requirement (note: the calculation of the fixed overhead requirement is explained at the related section of the Disclosures). The below table indicates the liquidity requirement as at 31st of December 2023, compared to the actual liquid assets held by the Company. As it can be seen, the Company's liquid assets exceeded its Liquidity Requirement.

Table: Liquidity Requirement

31 December 2023	Amount (EUR '000)
Liquidity Requirement	105
Total liquid assets	486

The Company assess its liquid assets on an ongoing basis. Additionally, the Company has procedures with the object of minimizing the risk of losses which may arise as a result of an unmatched position by maintaining sufficient cash balance.

7. Residual and Other Risks and Mitigating Controls

Implementing an efficient risk management structure is a critical undertaking for the Company, in all businesses, markets and regions in which it operates. The Company's risk management is supervised at the highest level to be compliant with the regulations enforced by CySEC and the European regulatory framework.

Apart from the risks that were introduced in the K-factor framework by the IFR, which are purely Pillar I risks, as part of the Disclosures the Company also refers to the following risks, some of which are partially reflected in the k-factors, while others are not captured at all by them and are thus regarded as Pillar II risks.

The Company operates in the financial services industry and considers a number of additional risks as also very important, hence they are continuously monitored to be mitigated if required. These risks are discussed further below.

7.1. Credit Risk

Credit risk is the risk of loss that the Company would incur if any counterparty to the Company fails to perform its contractual credit obligations. Country risk arises when an exposure (loan, security, guarantee or derivative) becomes liable to negative impact from changing political, economic, social and financial conditions in the country of exposure.

The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

Clients cannot commence trading unless funds have been deposited into their accounts and their deposits have been cleared. Once trading begins, a given margin is tied, or held as collateral, protecting the Company if the position goes against the client. If account equity drops below a certain predefined level, under normal market conditions all client positions are automatically closed, therefore eliminating the risk that clients will lose more money than already deposited in their account.

During the year of 2023, the geographic distribution of the Company's Credit risk exposures was concentrated in Europe.

7.2. Operational Risk other than DTF

Operational risk is the risk of loss arising from inadequate or failed internal processes, employees and systems, error, omission, inefficiency, systems failure or from external

events. The Company's policies and internal controls outline the processes and procedures to be followed by its employees, the reporting lines in place, and each department's functions and responsibilities. The aim of the policies and controls is to minimize the Operational risk the Company faces. This is supported during the Internal Auditor inspection review every year.

The Company's operations are closely dependent on information technology and subsequently the Company has prepared a comprehensive business contingency and disaster recovery plan with recovery procedures and actions to be followed, in case of damage to any vital part of the Company's structure and to ensure it will continue to operate in the event of the occurrence of circumstances beyond its control.

7.3. Strategic Risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy. A strategy is a long-term plan of action designed to allow the Company to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans;
- Improper implementation of strategic plans; or
- Unexpected changes to assumptions underlying strategic plans.
- Adverse business decisions made by the management.

The Company to mitigate this risk, ensures that it remains at all times in a competitive position and in cases of a turmoil, the management will report to the Board the consequences of the event and will assess the impact of the event on its existing and future business plans.

7.4. Reputation Risk

Reputational risk can arise from direct Company actions or by actions of third parties that the Company may or may not have a relationship with. Such Company actions may include internal security breaches, employee fraud, client misinformation, mistakes in handling client requests and any other actions that can lead to significant negative public opinion and subsequently loss of business and income. Third party actions can include problems with the provision of the outsourced services that can lead to operational interruptions, database hosting and security, spreading of rumors and unsubstantiated information.

The Company strives to preserve its reputation by adhering to applicable laws and regulations, and by following its core values and principles, which include integrity

and good business practice. The Company centrally manages certain aspects of Reputation risk, for example communications, through functions with the appropriate expertise. It also places great emphasis on the information technology security which is one of the main causes of such Reputation risk manifestation.

7.5. Business Risk

This 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 is 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.

7.6. Capital Risk

This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's 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.

The Company is further required to report on its capital adequacy on a regular basis (on a quarterly basis Capital Adequacy Forms are submitted to CySEC) and has to maintain at all times a minimum Capital Adequacy Ratio which is set at 100% for Pillar I purposes, plus any additional capital needs that may arise from its Pillar II assessment process. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements.

7.7. Regulatory Risk

This may arise as a result of negligent actions by the Company's Senior Management and / or staff members, and may lead to fines, loss of license and / or another form of disciplinary action by the regulatory authority. As a result, the Company's reputation will be adversely affected.

The Company maintains strong Compliance and Internal Audit departments, which perform frequent inspections on the Company's processes and procedures. Should a non-compliance issue arise, all appropriate measures are immediately taken to rectify

the issue. Both the Compliance Officer and the Internal Auditor are qualified and well trained and remain abreast with any new regulatory developments. The potential of such risk arising is considered low.

7.8. Legal and Compliance Risk

The Company may, from time to time, become exposed to this type of risks, which could manifest because of non-compliance with local or international regulations, contractual breaches or malpractice.

The probability of such risks manifesting is relatively low due to the detailed internal procedures and policies implemented by the Company and the regular reviews performed by the Compliance Officer. Additionally, the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the Board meets regularly to discuss such issues and any suggestions to enhance compliance are implemented by management. From the Company initiation until the date of this Report, no legal or compliance issues have arisen. Any changes to local, EU and third country Regulations, Directives, and Circulars are being constantly monitored and acted upon, ensuring that the Company is always compliant with them. The Companies Officer established adequate internal policies and procedures that are not only in accordance with regulatory obligations but also with best industry practice.

7.9. Information Technology Risk

Information Technology risk could occur because of inadequate information technology security, or inadequate use of the Company's information technology. For this purpose, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, as well as use of both hardware and software intrusion aversion measures, such as (but not limited to) firewalls, anti-virus software, use of security keys, access restrictions, network fencing and encryption techniques. Materialization of this risk has been minimized to the lowest possible level, given the Company's current complexity of its operations and the services it offers to its clients.

8. Remuneration

The remuneration structure at SM Capital Markets Ltd is an integral part of our corporate governance framework, designed to align with the Company's strategic objectives, business and risk management strategy, and the long-term interests of all

stakeholders. This comprehensive approach to remuneration supports our goal of attracting and retaining top talent, discourages excessive risk-taking, and promotes an ethical corporate culture.

The policy encompasses all forms of payments or benefits, including financial remuneration such as salaries and cash bonuses, as well as non-financial remuneration including career advancement opportunities and training. These components are structured to ensure they do not encourage behavior contrary to our clients' best interests or our corporate ethical standards. The relevant components are divided to Fixed Remuneration component and Variable Remuneration component.

8.1 Fixed Remuneration

Fixed remuneration is systematically determined by the role's demands, including the complexity, responsibility, and the professional skills required. Each position's remuneration is calibrated according to the educational level, experience, and accountability required, ensuring competitiveness within our sector and parity with market conditions.

This component of remuneration includes not just the basic salary but also encompasses various benefits, reflecting the Company's commitment to the welfare of its employees. Such benefits include, but are not limited to, contributions to health insurance, allowances for maternity and paternity leave, and provisions for remote working arrangements. These benefits are provided uniformly across all applicable roles and are not dependent on performance measures, thus fostering a stable and supportive work environment.

8.2 Variable Remuneration

Variable remuneration at SM Capital Markets Ltd is merit-based, designed to acknowledge and reward employees who significantly exceed the performance expectations of their roles. This part of the remuneration policy is crafted to support long-term sustainable results and align employee objectives with the broader strategic goals of the Company.

The structure of variable remuneration is governed by a rigorous set of qualitative and quantitative performance criteria. It includes assessments of individual and team performance, compliance with regulatory standards, and contributions to the Company's risk management practices. The total variable remuneration for any individual does not exceed 100% of the fixed component unless specific conditions are met, whereupon shareholder approval can extend this cap to 200%.

Significantly, the variable component is strictly regulated to prevent conflicts of interest and ensure that it does not encourage risk levels beyond the Company's established risk appetite. In line with regulatory guidelines, this component includes provisions for clawback in cases of non-compliance or if the set performance targets are not met.

Governance of Remuneration

The Board of Directors, with inputs from the Compliance and Risk Management functions, holds the ultimate responsibility for approving and reviewing the Remuneration Policy. This oversight ensures that the policy remains compliant with applicable laws and regulations, including CySEC directives and ESMA guidelines.

The Board also ensures that the remuneration practices do not adversely affect the quality of service to our clients or the competitiveness of the Company. They periodically assess the effectiveness of the remuneration policy in achieving its intended goals, making adjustments as necessary to address any emerging risks or market changes.

Annual Review and Reporting

The remuneration report, which details the entire structure and payouts across different levels of the Company, is reviewed annually. This report is a part of our commitment to transparency and is aligned with our Pillar 3 disclosure requirements. It ensures that all stakeholders, including shareholders and regulatory bodies, are informed of our remuneration practices and their outcomes.

This expanded revision fully integrates the stipulations of the attached Remuneration Policy document, ensuring that all remuneration practices at SM Capital Markets Ltd are transparent, equitable, and aligned with both corporate and regulatory standards.

In addition, for the year under review, the variable component of the total remuneration does not exceed 100% of the fixed component of the total remuneration for each individual. It is noted that, no remuneration is payable under deferral arrangements (with vested or unvested portions) in 2023.

The aggregate amounts of remuneration for financial year 2023, broken down by Senior Management, Non-Executive Directors and members of staff whose actions have a material impact on the risk profile of the Company, are presented below:

Table: Aggregate Remuneration awarded in 2023 broken down by Senior Management and Key Management Personnel

31 December 2023 (EUR '000)	No. of staff	Fixed	Variable	Non-cash	Total
Senior Management (only Executive Directors)	4	284	6	-	290
Non-Executive Directors	3	25	-	-	25
Heads of Departments & Other members of staff whose actions have a material impact on the Company's risk profile	4	147	5	-	152
Grand Total	11	456	11	-	467

Note 1: The first category above relates to the Company's 2 Executive Directors, where the Executive Directors also hold the positions of CEO and General Manager.

Note 2: The second category above relates to the Company's 3 Non-Executive Directors.

Note 3: The second category above relates to officers that during 2023 have served as heads of the Compliance & AML, Risk, Finance & Accounting, Back Office & Customer Support, Dealing Room (Brokerage).

Note 4: All variable remuneration was awarded in the form of cash. The variable remuneration is under deferral arrangement which will be vested in 2024. The relevant amount has been paid in early months of 2024.

Furthermore:

- The Company did not award any guaranteed variable remuneration during 2023.
- The Company did not award any severance payments in previous periods that have been paid out during 2023, and no severance payments were awarded during 2023.

9. Investment Policy

Subject to the conditions specified below, Investment Firms should disclose the following information in accordance with Article 52 of the IFR:

- The proportion of voting rights attached to the shares held directly or indirectly by the investment firm, broken down by Member State and sector,
- A complete description of voting behaviour in the general meetings of companies, the shares of which are held in accordance with paragraph 2 of Article 52 of IFR, an explanation of the votes, and the ratio of proposals put

forward by the administrative or management body of the company which the investment firm has approved,

- An explanation of the use of proxy advisor firms; and
- The voting guidelines regarding the companies the shares of which are held in accordance with paragraph 2 of Article 52 of IFR.

Investment Firms which meet the criteria of Paragraph 26(8)(a) of CySEC Law 165(I)/2021, whose on-and-off balance sheet assets on average over the 4 preceding years are less than €100m, are exempted from the disclosure requirement regarding investment policy.

The Company's average on-and-off balance sheet assets for the preceding 4-year period are less than €100m and as such it meets the criteria of the paragraph 26(8) of the said Law. Therefore, the Company is exempted from the disclosures requirement regarding investment policy.

10. Environmental, Social and Governance Risks

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

Investment Firms which meet the criteria of Paragraph 26(8)(a) of the CySEC Law 165(I)/2021, whose on-and-off balance sheet assets on average over the 4 preceding years are less than €100m, are exempted from the disclosure of information on ESG risks, including physical risks and transition risks as per Article 35 of IFD.

The Company's average on-and-off balance sheet assets for the preceding 4-year period are less than €100m and as such it meets the criteria of the paragraph 26(8) of the said Law. Therefore, the Company is exempted from the disclosures requirement regarding these risks.