

# Disclosure of Information (Pillar 3) For the year ended December 31st, 2023

APPENDIX

May 2024

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## I. Introduction

Royal Financial Trading (CY) LTD (the "Company") is a Cypriot Investment Firm ("CIF") regulated by the Cyprus Securities and Exchange Commission (the "Commission" or the "CySEC") with license number 312/16 and LEI Code 5493004QVEF71UG5LL51 in line with the Law (L. 87(I)/2017) which provides for the provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (the "Law").

The Company's operating license from CySEC permits the Company to undertake regulated investment services including the services of reception and transmission of orders in relation to one or more financial instruments, the execution of orders on behalf of clients and the provision of investment advice. The Company is also authorized to provide the ancillary services of safekeeping and administration of financial instruments including custodianship and related services, granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction, foreign exchange services where these are connected to the provision of investment services and investment research and financial analysis or other forms.

The financial instruments offered by the Company through its investment services are Contracts for Differences ("CFDs") on foreign exchange, commodities, equities and indices.

Further to the above, the Company operates under a Straight-Through-Processing ("STP") model of execution, under which all trades are transmitted to counterparties for execution.

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 EU Regulation 2019/2033 on the prudential requirements of investment firms ("Investment Firm Regulation" or "IFR") and EU Directive 2019/2034 on the prudential supervision of investment firms ("Investment Firm Directive" or "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.

The current regulatory framework (IFR/IFD framework) is based on three pillars:

- Pillar I ("minimum capital requirements") ensures that the Company maintains at all times a sufficient amount of capital and liquidity above the regulatory minimum requirement, calculated using prescribed methods.
- Pillar II requires investment firms to assess the adequacy of their internal capital and liquidity by carrying out an Internal Capital Adequacy and Risk Assessment Process ("ICARA"), which is subject to the Supervisory Review and Evaluation Process ("SREP") by their regulator; and
- Pillar III ("market discipline") involves the disclosure of a suite of qualitative and quantitative risk management information to the market.

In addition to the minimum capital requirements, the Company is required to maintain liquid assets equal to at least one third of its Fixed Overhead Requirement.

According to its CIF license the Company is categorized as a Class 2 investment firm.

Pursuant to Article 14 of the IFR and Article 9(3) of the IFD the Company is obliged to have an initial capital of €150 thousand which corresponds to the amount of its Permanent Minimum Capital Requirement ("PMCR"), according to the investment and ancillary activities it is authorized to carry out..

According to Article 12 of the IFR the Company is not deemed to be small and non-interconnected Investment Firm and pursuant to Article 46 of the IFR is required to proceed to disclosures to the public (Pillar III disclosures report).

More specifically, the Company is required to disclose information relating to its capital, the risks that it is exposed to, its own funds, risk management objectives and policies, internal governance arrangements as well as its remuneration policies and practices. These disclosures are for the year ended 31 December 2023. The Company's policy is to meet all required Pillar III disclosure requirements as detailed in the European Prudential framework (IFR & IFD).

This report is published and will be available on the Company's website at [www.oneroyal.com/eu](http://www.oneroyal.com/eu).

### **1.1 Reporting Frequency**

The Company's policy is to publish the disclosures required on an annual basis. Should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements, the frequency of disclosure will be reviewed.

### **1.2 Verification**

The Company's Pillar 3 disclosures are subject to internal review and validation prior to being submitted to the Board for approval. This includes approval by the CEO, the Risk Manager, the Head of Accounting and External Auditor.

The Company's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures, as detailed in Section 6 of this document, have been reviewed by the Board, which has responsibility of the Remuneration Policy in the absence of a Remuneration Committee.

The Company is expected to provide to CySEC a copy of its External Auditor's verification report with regards to its Pillar III Disclosures, five months after the end of each financial year, at the latest.

### **1.3 Reporting Details**

The Company reports on a Solo basis and the reporting currency is EUR. The present report is prepared for the financial year ending on 31<sup>st</sup> of December 2023. The financial statements have been prepared in accordance with International Financial Reporting Standards (the "IFRSs") as adopted by the European Union (the "EU") and the requirements of the Cyprus Companies Law, Cap. 113.

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

## 1.4 Non-Material, Proprietary or Confidential Information

This document has been prepared to satisfy the Pillar III disclosure requirements set out in the IFR. The Company does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

## 1.5 Exclusions

It should be noted that the Company meets the criteria referred to in Article 32(4)(a) of the IFD. Therefore, this report does not include details regarding the Investment Policy, nor ESG risks outlined in Articles 52 and 53 of the IFR respectively. Furthermore, following consideration of its size, internal organisation and the nature, scope and complexity of its activities, the Company does not deem necessary the establishment of a Nomination or a Remuneration Committee. Furthermore, as for the year under review, the Company was not considered a Significant CIF per the conditions of CySEC Circular C487.

## 2. Corporate Governance – Board and Committees

### 2.1 Board of Directors

The Board has overall responsibility for the business. It sets the strategic aims for the business, in line with delegated authority from the shareholder and in some circumstances subject to shareholder approval, within a control framework, which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are robust. The Board comprises of 2 executive directors and 2 non-executive / independent directors.

**Table 1 – Board of Directors**

Full name of Director	Position/Title / Capacity	Country
Andrew Condie	Executive Director	Cyprus
Michael Karakatsanis <sup>1</sup>	Executive Director	Cyprus
Loukas Kokkinos	Non-executive Director, Independent	Cyprus
Andreas Georghadjis	Non-executive Director, Independent	Cyprus

<sup>1</sup> Note: Mr. Michael Karakatsanis was resigned from the position of Executive Director on 15/03/2024 and Mrs. Zeinab Dia was appointed in his capacity at the same date.

The principal responsibilities of the Board, the Senior Management, the Internal Auditor, the Risk Management Committee, and the Risk Manager (i.e., Head of Risk Management Function) in relation to the management of the Company's risks are briefly described in the following subsections.

#### Board of Directors

The Board of Directors, which carries the ultimate responsibility for the approval of the ICARA, has unequivocal responsibilities as regards the management of the Company's risks, their internal control and the Company's capital and liquidity adequacy. With the Board, at all times, lies the responsibility for defining the Company's risk profile in terms of its risk tolerance and for making the necessary arrangements so as for the Company to operate within this predetermined profile



at all times, as well as regarding the adequacy of the Company's capital allocated in proportion to the nature and level of material risks and the respective capital requirements.

The Board holds meetings where the written reports generated by the internal control functions of the Company are reviewed and approved. The Board is responsible to address any deficiencies identified throughout the said reports at the soonest possible, especially where there is a breach of the regulatory framework which could potentially harm the Company. The said control functions are the Risk Management, the Internal Audit, the Compliance Department, and the Money Laundering Compliance Department. In this manner the Board remains up to date with the Company's position as regards the aforementioned functions.

### Senior Management

The Senior Management reviews the written reports prepared by the internal control functions of the Company including the Risk Manager's report, applies the decisions of the Board with respect to risk management and monitors whether all the Company's risk management procedures are followed.

### Risk Manager

The Risk Manager who heads the Company's Risk Management function and is responsible to identify, assess, quantify, monitor and manage the Company's financial and non-financial risks ensuring that all the different types of risks assumed by the Company are in compliance with its obligations as those derive from applicable legislation and that all necessary risk management procedures are in place. Further, it is the responsibility of the Risk Manager to make recommendations and indicate whether the appropriate remedial measures have been taken in the event of any deficiencies identified.

### Internal Auditor

The Internal Auditor evaluates the adequacy and effectiveness of the Company's internal control systems, policies, and procedures with respect to risk management. The Internal Audit function acts independently and is separated from the other functions and activities of the Company, with the Internal auditor being appointed by the Board of Directors and reports directly to the Senior Management of the Company. The Internal Auditor is responsible for the application of an effective Internal Control System, and the performance at least on annual basis, of checks as these are required by the Internal Control System. The Internal Auditor is provided with access to the Company's personnel and books and any audit issues identified, are considered by the Board when these are presented to it through the appropriate reports.

## **2.2 Policy on Diversity**

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 organisation.

For this purpose, the Company takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age, cultural and educational background, for the Board appointments.

## 2.3 Number of directorships held by the Board members

According to Section 9 of the Law there is a limitation to the number of directorships held by members of the Board of a CIF that is significant in terms of its size, internal organisation and in terms of the nature, the scope and the complexity of its activities. Thus, only one of the below listed combinations of maximum directorships that can be held simultaneously is allowed:

- One executive directorship with two non-executive directorships;
- Four non-executive directorships

As already mentioned, the Company was not considered Significant for the year under review, as defined by the current definitions by the regulator, thus the application of the above restriction is not applicable.

The number of executive and non-executive directorships held by the Company's Board members (including the directorship held in the Company) is listed below. It should be noted that executive or non-executive directorships held within the same group shall count as a single directorship. 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.

**Table 2 - Number of directorships held by the Company's Board members**

Full name of Director	Position/Title	# Executive	# Non-Executive
Andrew Condie	Executive Director, "4 eyes"	1	-
Michael Karakatsanis <sup>1</sup>	Executive Director, "4 eyes"	1	-
Loukas Kokkinos	Non-executive Director, Independent	-	2
Andreas Georghadjis	Non-executive Director, Independent	-	2

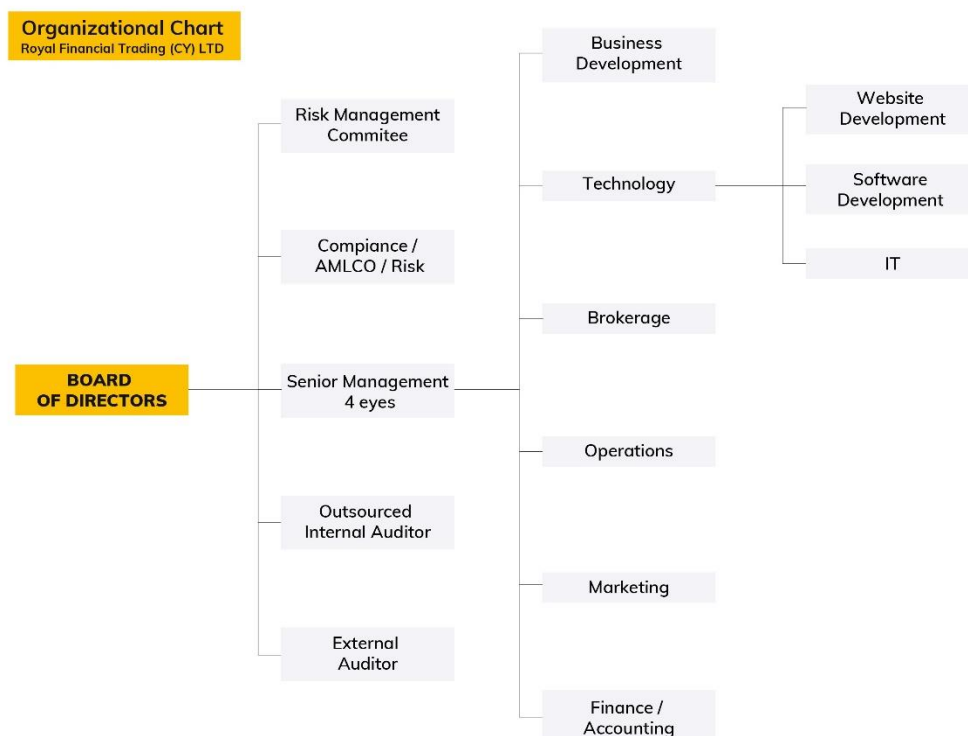
<sup>1</sup>Note: Mr. Michael Karakatsanis was resigned from his position as Executive Director on 15/03/2024 and Mrs. Zeinab Dia was appointed in his capacity at the same date.

<sup>2</sup>Note: The information included in the above table is based only on representations made by the directors of the Company as at the time of the preparation of this report.

## 2.4 Risk Management Committee

The Risk Management Committee ensures that the risks of the Company from the provision of investment and ancillary services to clients are efficiently managed, as well as any other risks underlying the operation of the Company. Moreover, the Committee bears the responsibility to monitor the level of compliance by the Company and its relevant persons with the policies and procedures adopted, in addition to the Company's obligations stemming from the relevant laws. Furthermore, it evaluates the adequacy and effectiveness of the risk management policies and procedures that are in place and the measures taken to address any deficiencies with respect to those policies and procedures, including failures by the Company's relevant persons to comply with those policies and procedures. The Committee met 3 times during 2023.

## 2.5 Organisational Structure



## 3. Risk Management Objectives and Policies

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 and Compliance Functions help build and monitor the first line of defense in order to make sure that they are operating as intended. These functions can intervene directly when needed in order to modify the internal control and risk structure.

The Company’s Risk Management Function monitors the implementation of effective risk management practices by the managers of the first line of defense, defines the risk exposure and limits and report risk-related information to the Risk Management Committee. As for the Compliance Function, it monitors various risks such as non-compliance with applicable laws and regulations. They also, provide oversight over business processes and risks.



**Third line of defense:** comprises 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.

### 3.1 Risk Appetite

Risk Appetite limits the risks which the Company can accept in pursuit of its strategic objectives. Risk Appetite is regularly reviewed and monitored on an ongoing basis for adherence. The Company's strategy, business plan and capital and liquidity plans are set with reference to Risk Appetite.

The Board approves the Risk Appetite, which defines the level of risk that the Company is prepared to accept to achieve its strategic objectives and is translated into specific risk measures that are tracked, monitored and reported to the Board. The Risk Appetite framework has been designed to create clear links to the strategic long-term plan, capital planning, stress testing and the Company's risk management framework. The review and approval process are undertaken regularly to ensure that risk exposures against current business-risk level tolerances and risk limits fit with the Company strategy. The Company's Risk Appetite covers the core areas of Risk to the Clients of the firm, Risk the firm poses to the Market, Risk to the Firm, Concentration risk and Liquidity risk.

The Board approves the Company's business plans, budget, ICARA and also monitor's the Company's risk profile, capital adequacy, liquidity and concentration position.

#### 3.1.1 Risk Identification

The Risk Identification process provides guidance on the sources to investigate and research in order to identify new and emerging risks and sets out consistent principles, which should be applied.

#### 3.1.2 Risk Assessment

The Risk Assessment process is the means through which the Company understands and estimates the effect of risk on the business and the processes, systems and controls that mitigate those risks to an acceptable level. This is achieved through the documentation and regular update of a detailed Risk Register /Map where all financial and non-financial risks the Company faces are identified and recorded by the Risk Manager as well as the relevant risk management controls.

#### 3.1.3 Risk Management Function

The Risk Management Function (the "RMF") operates under the leadership of the Risk Manager who reports directly to the Senior Management and the Board. The Risk Management function comprises by individuals with specific expertise and is structured to provide analysis, challenge, understanding and oversight of each of the principal risks faced by the Company. The Risk Management Function operates independently.

#### 3.1.4 Stress Testing

Stress Testing is the process by which the Company's business plans are subjected to severe stress scenarios in order to assess the impact of those potential stresses on the Company's business including the projected capital and liquidity positions.

The Company is required to prepare and make available upon request periodic ICARA reports

which establish future plans, their impact on capital availability and requirements and the risks to capital and liquidity adequacy under potential stress scenarios.

### **3.1.5 ICARA and Approach to assessing adequacy of Internal Capital**

The Company in accordance with the Article 24 of the IFD is required to implement an ICARA process. The Company has documented its ICARA report in 2023 which was based on the audited financial statements of 2022. The report has been discussed during a Risk Management Committee meeting before being discussed and approved by the Board of Directors. Following approval of the report, the Risk Manager ensures proper implementation of all the provisions included in the report for the efficient monitoring and control of the risks that the Company is exposed to.

Through the ICARA report the Company evaluates the risks to clients, risks to market and risks to the firm as well as any additional risks that are not covered by the IFR/IFD framework and the calculation of K-Factors (i.e., Pillar I risks). The ICARA process considers all the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital and liquid assets that they are prudent to hold against them both currently and in the future.

The Company performs a full ICARA annually with approval provided by the Board. For this purpose, all departments of the Company will complete the Risk Record Charts. After the evaluation of the complete Risk Record charts, the Risk Manager creates a Risk Register with Assessments. The Accounting & Finance department prepares Business Plans and Capital Plans for the next 3 years based on rolling P&L and Balance Sheet. The Risk Manager implements Stress Test of the Capital Plan, based on "What if" approach in each department of the Company. All stress tests are then summarized by the Risk Manager, assessed, identified and submitted as a "Stress Test Register" to the Risk Management Committee. The Accounting & Finance department prepares stress tests on the Capital Plan based on the Stress Test Register. It also prepares the Budget of the Company, based on stress tested Capital Plan. The Accounting & Finance department compares the calculated Capital Plan and stress tested Capital Plan.: Pillar I Risks + Pillar II risks (uncovered Pillar I Risks).

These measures allow the Management to evaluate Gap Analysis (what we have at hands and what we should have), and to create Action Plan to monitor and mitigate the consequences of the risks in order to make the Board of Directors to be able to assess and approve the Action Plan along with the outcomes of ICARA.

### **3.1.6 Control Functions**

#### **Internal Audit**

The Company, taking into account the nature, scale and complexity of its business activities, as well as the nature and the range of its investment services and activities, establishes and maintains an Internal Audit function through the appointment of a qualified and experienced Internal Auditor.

The Internal Auditor, who is separated and independent of the other functions and activities of the Company, is appointed and reports to the Board of the Company. The Internal Auditor bears the responsibility to:

- a) establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements;
- b) issue recommendations based on the result of internal audit reviews carried out in accordance with point (a) above;

- c) verify compliance with the recommendations of point (b) above;
- d) provides timely, accurate and relevant reporting in relation to internal audit matters to the Board of Directors.

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

The Internal Auditor has clear access to the Company's personnel and books. Likewise, the Company's employees have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided.

The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions shall be taken. The Board ensures all issues are dealt with and prioritized according to the Board's assessment.

### **Compliance Officer**

Pursuant to the regulatory obligations of the Company and with the view to complement the Internal Governance framework of the Company, the Board has appointed a Compliance Officer, to head the Compliance Function of the Company in order to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, to put in place adequate measures and procedures designed to minimize such risks and to enable the competent authorities to exercise their powers effectively.

The Compliance Officer is independent and reports directly to the Board of the Company, having at the same time the necessary authority, resources, expertise and access to all relevant information.

The Compliance Officer is responsible, inter alia, to:

- a) liaising with all relevant business and support areas within the Company;
- b) monitor on a permanent basis and to assess, on a regular basis, the adequacy and effectiveness of the measures, policies and procedures put in place, and the actions taken to address any deficiencies in the Company's compliance with its obligations;
- c) monitor and assess 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;
- d) advise and assist the relevant persons responsible for carrying out the investment services to be in compliance with the Law.

### **Anti-Money Laundering Compliance Officer**

The Board retains a person to the position of the Company's Anti-Money Laundering Compliance Officer (hereinafter the "AMLCO") to whom the Company's employees report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The AMLCO belongs to the higher hierarchical levels/layers of the Company so as to command the necessary authority. The AMLCO leads the Company's Anti-Money Laundering Compliance procedures and processes and reports to the Board of the Company. Scope and objectives of the AMLCO:

- a) The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income;
- b) To decrease the probability of appearance among the customers of the Company of any persons/organizations engaged in illegal activity and/or related with such

- persons/organizations;
- c) To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing;
  - d) To ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities.

### **Risk Manager**

The Board appoints a Risk Manager who leads the Risk Management function of the Company to ensure that all different types of risk taken by the Company are in compliance with the Law and the obligations of the Company under the Law, and that all necessary procedures, relating to risk management are in place. The Risk Manager reports directly to the Board of Directors of the Company.

The Risk Manager is responsible, inter alia, to:

- a) Complying and implementing the relevant provisions of the Law relating to risk management issues;
- b) Requiring sufficient information from all the relevant departments of the Company, as applicable;
- c) Educating and training the personnel of the Company on risk related issues;
- d) Examining the financial results of the Company.

### **3.2 Board Risk Statement**

Considering its current nature, scale and complexity of operations, the Company has developed a risk policy that establishes and applies processes and mechanisms that are most appropriate and effective in monitoring activities. The Company's Risk appetite statement establishes the philosophy and the high-level boundaries for risk-taking activities across the Company.

The operations of the Company expose it to the economies and financial markets and more specifically to a variety of risks, the most material of which are risk to client, risk to firm, credit risk, market risk, operational risk, compliance risk, regulatory risk, reputational risk, and liquidity risk.

The aim is to promptly identify, measure, manage, report and monitor risks that interfere with the achievement of the Company's strategic, operational and financial objectives. The policy includes adjusting the risk profile in line with the Company's stated risk tolerance to respond to new threats and opportunities in order to minimize risks and optimize returns.

Risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached. Risks are assessed systematically and evaluated as to the probability of a risk scenario occurring, as well as the severity of the consequences should they occur.

## **4. 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. Own funds consist of the sum of Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital and the Company is required to hold own funds in sufficient quantity and quality in accordance with IFR which sets out the characteristics and conditions for own funds.

The Company throughout the year under review managed its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities. During the year under review, the Company complied fully with its initial capital requirement, minimum own funds requirement and liquidity requirement and fulfilled its obligations by successfully submitting, on a quarterly basis, the excel-to-XBRL CoRep templates to CySEC.

### Tier 1 & Tier 2 Regulatory Capital

Investment Firms shall disclose information relating to their own funds. Furthermore, Investment Firms shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the Investment Firm. In this respect, the Company's Owns Funds/capital base is wholly comprised of Common Equity Tier 1 Capital.

At 31<sup>st</sup> of December 2023 the capital base of the Company was as follows:

**Table 3 – Template EU IF CC1.01 – Composition of Regulatory Own Funds**

Common Equity Tier 1 (CET1) capital: instruments and reserves			
Ref.		31 Dec 2023 (€'000)	Cross reference to EU IF CC2
1	<b>OWN FUNDS</b>	<b>675</b>	
2	<b>TIER 1 CAPITAL</b>	<b>675</b>	
3	<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>675</b>	
4	Fully paid-up capital instruments	125	Ref. 1 (Shareholder's Equity)
6	Retained earnings	(1.335)	Ref. 2 (Shareholder's Equity)
11	Other funds	1.920	Ref. 3 (Shareholder's Equity)
19	(-) Other intangible assets	(5)	Ref. 1 (Assets)
27	CET1: Other capital elements, deductions and adjustments	(30)	Ref. 2 & Ref. 3 (Assets)
28	<b>ADDITIONAL TIER 1 CAPITAL</b>	-	
40	<b>TIER 2 CAPITAL</b>	-	

**Table 4 – Template EU IFCC2: Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements**

Template EU IF CC2			
Assets – Breakdown by asset classes according to the balance sheet as audited financial statements as at 31 December 2023			
Ref.		(€'000)	Cross reference to EU IF CC1
	<b>Total Assets</b>	<b>994</b>	
	of which:		
1	Intangible assets	5	Ref. 19
2	Deposit with Investors' Compensation Fund	29	Ref. 27
3	Additional Cash Buffer (part of Cash and cash equivalents)	2	Ref. 27

Ref.	<b>Liabilities – Breakdown by liability classes according to the balance sheet as in audited financial statements</b>		
	<b>Total Liabilities</b>		<b>283</b>
<b>Shareholders' Equity</b>			
	<b>Total Shareholders' equity</b>		<b>711</b>
1	Share Capital		125 Ref. 4
2	Accumulated Losses		(1.334) Ref. 6
3	Non-reciprocal contributions from shareholder'		1.920 Ref. 11

Tables 3 and 4 above have been prepared in accordance with the Pillar III templates established by the Commission Implementing Regulation (EU) 2021/2284 laying down implementing technical standards for the application of the IFR with regard to supervisory reporting and disclosures of investment firms.

### 5. Own Funds requirements

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that it maintains healthy capital ratios in order to support its business and maximize shareholders' value.

Based on the Company's classification, quarterly Capital Adequacy Reports (i.e. excel-to-XBRL CoRep templates) are prepared and submitted to the CySEC. The Capital Adequacy Reports are prepared on a solo basis and the reporting currency is Euro.

It should be noted that the Company does not have any Crypto-asset holdings in banking book neither does it have trading exposures to such assets from trading on its own account or from trades of its clients. Therefore, no information is included in this report on:

- the exposure amounts of different crypto-asset exposures;
- the capital requirement for such exposures; and
- the accounting treatment of such exposures.

At 31<sup>st</sup> of December 2023 the Company's minimum capital requirements were as follows:

**Table 5 - Minimum Capital Requirements**

<b>Minimum Capital Requirements</b>		
<b>K-Factor Requirement</b>	<b>31 Dec 2023 (€'000)</b>	
Risk-to-Client (RtC)	K-AUM	-
	K-CMH	3
	K-ASA	1
	K-COH	3
Risk-to-Market (RtM)	K-NPR	34
	K-CMG	-
Risk-to-Firm (RtF)	K-TCD	-
	K-DTF	-
	K-CON	-
<b>Total K-Factor Requirement</b>		<b>41</b>

<b>Fixed Overhead Requirement ('FOR')</b>	<b>334</b>
<b>Permanent Minimum Capital Requirement ('PMCR')</b>	<b>150</b>

As it can be seen in Table 5 above, the FOR is the highest of the three amounts indicated by the IFR methodology, hence determining the ultimate amount of minimum capital requirements.

As per article 9 of 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:

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

As at 31 December, 2023, the Company's capital ratios are presented below and they are higher than the minimum own funds requirements.

**Table 6 – Capital Excess/Ratio**

	<b>31 Dec 2023 (€'000)</b>	<b>Reference</b>
<b>Capital</b>		
Common Equity Tier 1	675	
Additional Tier 1	-	
Tier 2	-	
<b>Total Own Funds</b>	<b>675</b>	<b>a</b>
<b>Minimum Own Funds Requirement</b>		
K-factor Requirement	41	b
Fixed Overhead Requirement	334	c
Permanent Minimum Capital Requirement	150	d
<b>Total Minimum Own Funds Requirement</b>	<b>334</b>	<b>e = (higher of b, c, d)</b>
<b>Capital Excess/Ratio</b>		
Capital Excess	<b>341</b>	<b>a-e</b>
Capital Ratio	<b>201,88%</b>	<b>a/e</b>

Based on its Class 2 classification, the Company shall at all times have own funds which amount at least to the highest of the following:

- its Permanent Minimum Capital Requirement (PMCR)
- K-Factor Capital Requirement (KFR)

c) Fixed Overheads Requirement(FOR)

A summary of the Company's capital and liquidity requirements is provided in the following sections.





## 5.1 K- Factor requirements

The K-factor requirement under IFR is applicable to the Company as a Class 2 investment firm, which is required to calculate its Minimum Own Funds requirements based to the extent to which it is exposed to certain risk-related activities. K-factors are quantitative indicators targeting the services and business practices that are most likely to generate risk to the Company. They are categorised into three main groups, risk to clients (RtC), risk to market (RtM) and risk to the firm (RtF), reflecting the risks of the Company on each of these areas. The K-factor requirement is the sum of the RtC, RtM and RtF K-factors calculated with due regard to the rules laid down in Article 15 of IFR.

The K-Factor system and its sub-risks are elaborated further next.

### 5.1.1 Risk to Client (RtC)

Risk to Client is the risks that an investment firm poses to clients in the event where it fails to carry out its services or operations correctly.

Within this risk class four k-factors have been defined:

- *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. The provision of investment advice was inactive in 2023 and therefore the Company was not subject to the risk relating to this K-factor during the year under review.

- *K-CMH (Client Money Held)*

K-CMH captures potential risks associated with the holding of client money by an investment firm, taking into account whether they are on its own balance sheet or in third-party accounts and arrangements under applicable national law provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. As part of its business, the Company holds clients' money on behalf its customers, to enable them to perform transactions, and consequently, it is subject to the risk captured under this k-factor.

In order to mitigate the risk arising from K-CMH, Royal Financial Trading (Cy) Ltd conducts reconciliations between its internal accounts and records and those of any third parties by whom clients' funds are held. The Head of the Finance & Accounting Department is responsible for the reconciliations. In addition, the Company exercises all due skill, care and diligence in the selection, appointment, and periodic review of the third party and of the arrangements for the holding and safekeeping of those funds. Finally, the Company takes the necessary steps to ensure that client funds are held in an account or accounts identified separately from any accounts used to hold funds belonging to the Company.

- *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 sheets or in third-party accounts. During the year under review, the Company was subject to the risk relating to this K-factor.

In order to reduce the risk related to K-ASA, the Company keeps records and accounts in its systems to enable it at any time and without delay to distinguish assets held for one Client from assets held for any other Client, and from its own assets. Also, as mentioned above, the Company exercises all due skill, care and diligence in the selection, appointment, and periodic review of the

third party and of the arrangements for the holding and safekeeping of those financial instruments.

- *K-COH (Client Orders Handled)*

K-COH captures the potential risk to clients of an investment firm which executes orders in the names of the clients, and not in the name of the investment firm itself. During the year under review, the Company was subject to the risk relating to this K-factor.

In order to mitigate K-COH risk, the Company follows the MiFID II best execution rules which are designed to ensure and always achieve the best interest of the clients when executing their orders. In addition, similarly to other applicable k-factors, relevant capital requirements are calculated and monitored, and the results of such calculations are reported on a quarterly basis to the CySEC.

### 5.1.2 Risk to Market (RtM)

This is the risk the Company poses to the financial markets it operates in and the counterparties it operates with. It applies to firms with a trading book that deals on their own account or on behalf of their clients. RtM also exists from positions in the banking book of a Company in currencies other than the reporting currency of the Company. There are two k-factors under RtM:

- *K-NPR (Net Position Risk)*

This k-factor is calculated based on the rules for Market Risk for positions in equities, interest rate financial instruments, foreign exchange and commodities in accordance with Regulation (EU) No. 575/2013 ("CRR"). The company applies the Standardised approach set out in CRR. K-NPR captures the market risk, which is defined as the risk that the value of an investment will decrease due to changes in market factors (such as currency fluctuations, changes in interest rates and movements in equity and commodity prices). The company is subject to market risk from its banking book transactions, with the capital requirement being derived solely from foreign currency exposures in its banking book.

The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollars and British Pounds.

- The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly. Also, the Company monitors its foreign currency exposures through Capital Adequacy Reports on a quarterly basis. *(Clearing Margin Given)*

CMG is 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 takes place under the responsibility of a clearing member or qualifying central counterparty. This is an alternative to K-NPR to provide for market risk for trades that are subject to clearing or on a portfolio basis, where the whole portfolio is subject to clearing as set out in Article 23 of IFR. This K-factor was not applicable to the Company for the year ended 31 December 2023.

### 5.1.3 Risk to Firm (RtF)

Risk to Firm capture the risk of the Company's exposures to its trading counterparties (K-TCD), operational risk (K-DTF) from daily trading flow which could affect the orderly operation of the Company and concentration risk from large exposures (K-CON). The respective K-Factor capture the Company's exposure to these risks. RtF is not applicable to the Company due to the limited scope of its authorization as the Company is not authorized for the investment service of dealing on own account.

There are three RtF K-factors:

- *K-TCD (Trading Counterparty Default)*

K-TCD reflects the risk of trading counterparties failing to meet their obligations to the investment firm. This K-factor was not applicable to the Company for the year ended 31 December 2023.

- *K-DTF (Daily Trading Flow)*

K-DTF reflect the operational risks to an investment firm of trading large volumes on own account or the execution of orders on behalf of clients in its own name, excluding the value of orders that a CIF handles for clients through the reception & transmission of client orders. This K-factor was not applicable to the Company for the year ended 31 December 2023

- *K-CON (Concentration Risk)*

K-CON seeks to impose additional own funds requirements when exposures to a client or a group of connected clients in the trading book of an investment firm, exceed prescribed limits set out in Article 37 (1) of IFR. This k-factor was not applicable for the Company since for the referenced financial year 2023, the Company did not have a Trading Book, as it did not carry out dealing on own account activities.

## 5.2 Fixed Overheads Requirement

The fixed overheads requirement is equal to at least one quarter of the fixed overheads of the preceding year, calculated using figures from the most recent audited annual financial statements, where available, after the distribution of profits. The Company complies with Article 13 of the IFR which places a fixed overhead requirement to hold own funds of at least one quarter of the fixed overhead expenses of the preceding year. The Fixed Overheads Requirement, as of 31 December 2023 amounted to €334K.

## 5.3 Permanent Minimum Capital Requirement ('PMCR')

The Company monitors its Own Funds on a continuous basis and ensures that they remain above the PMCR of EUR 150K, which corresponds to the initial capital that applies to the Company in accordance with Article 14 of the IFR and Article 9(3) of the IFD.

## 5.4 Liquidity Requirement

Being under the scope of the IFR/IFD, the Company has the obligation to comply with the liquidity requirement laid down under article 43(1) of the IFR, by holding liquid assets equivalent to at least one-third of the fixed overheads requirement (FOR).

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due or would have to incur excessive costs to do so.

The Company's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions. To achieve this, the Company monitors and manages its liquidity needs on an ongoing basis. The Company also ensures that it has sufficient cash on demand to meet expected operational expenses. It also monitors the Company's exposures and diversification avoiding high concentration risk. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As at 31 December 2023, the Company satisfied the regulatory Liquidity requirement.

## 5.5 Other Risks

### 5.5.1 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.

Risk considerations are a key element in the strategic decision-making process. The Company assesses the implications of strategic decisions on risk-based return measures and risk-based capital in order to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise. Each department head is responsible for managing strategies with the area and for ensuring that they are aligned with the Company's overall strategy and vision. All managers of the departments are accountable to the Company's CEO for monitoring, managing, and reporting on business risks inherent in their strategies. The CEO reports to the Board of Directors on the implementation of the Company's strategy, in addition to, identifying business risks within these strategies and how these risks are being managed.

### 5.5.2 Reputation Risk

Reputational risk can arise from direct Company actions or by actions of third parties that it 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 the core values and principles of the Company, which includes 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 reputational risk manifestation.

### 5.5.3 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 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.

### 5.5.4 Capital Risk Management

This is the risk that the Company will not comply with capital adequacy requirements. The Company's policy of capital management is designated to maintain the capital base sufficient to keep the confidence of customers, creditors and other market participants, and to secure the future development of the Company. Its objectives when managing capital are:

- a) to comply with the capital requirements set by the regulator (CySEC) and IFR;
- b) to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders; and
- c) to maintain a strong capital base to support the development of the business.

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 and has to maintain at all times a minimum own funds ratio which is set at 100%. 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 Company's Management Accounts to monitor the financial and capital position of the Company.

The Company submits the relevant capital adequacy forms to its Regulator on a quarterly basis. As at 31st of December 2023, the Company's Own Funds comprised entirely out of Common Equity Tier 1 Capital.

#### **5.5.5 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 other form of disciplinary action by the regulatory authority. As a result, the Company's reputation will be adversely affected.

The Company maintains strong Compliance / 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.

#### **5.5.6 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 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 arose. 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.

#### **5.5.7 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.

## 6. Remuneration Policy

The purpose of the Company's Remuneration Policy is to ensure the consistent implementation of the MiFID II conflicts of interest and conduct of business requirements in the area of remuneration.

The remuneration policy and practices of the Company are designed in such a way to avoid exposing the Company into excessive or undue risks. Moreover, they are targeted to avoid creating incentives that may lead relevant persons to favor their own interest, or the Company's interests, to the potential detriment of clients. The Company has set up adequate controls for compliance with the regulatory requirements on the remuneration policy and practices. The controls are implemented throughout the Company and subject to periodic review.

The Company's remuneration policy takes into consideration a number of factors in relation to the remuneration of senior management, risk takers, staff engaged in control functions and any employee receiving remuneration equal to at least the lowest remuneration received by the senior management, or risk takers whose professional activities have material impact on the risk profile of the Company or of the assets it manages. These factors are:

- a) the remuneration policy is clearly documented and proportionate to the size, internal organisation and nature, as well as to the scope and complexity of the activities of the Company;
- b) the remuneration policy is a gender-neutral remuneration policy;
- c) the remuneration policy is consistent with and promotes sound and effective risk management;
- d) the remuneration policy is in line with the business strategy and objectives of the Company, and also takes into account long term effects of the investment decisions taken;
- e) the remuneration policy contains measures to avoid conflicts of interest, encourages responsible business conduct and promotes risk awareness and prudent risk taking;
- f) the Company's management body in its supervisory function adopts and periodically reviews the remuneration policy and has overall responsibility for overseeing its implementation;
- g) the implementation of the remuneration policy is subject to a central and independent internal review by the Board of Directors on a regular basis ;
- h) staff engaged in control functions are independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, regardless of the performance of the business areas they control;
- i) the remuneration of senior officers in the risk management and compliance functions is directly overseen by the remuneration committee referred to in Article 33 of the IFD or, where such a committee has not been established, by the management body in its supervisory function;

- j) the remuneration policy, taking into account national rules on wage setting, makes a clear distinction between the criteria applied to determine the following:
  - i. basic fixed remuneration, which primarily reflects relevant professional experience and organizational responsibility as set out in an employee’s job description as part of his or her terms of employment;
  - ii. variable remuneration, which reflects a sustainable and risk adjusted performance of the employee, as well as performance in excess of the employee’s job description;
- k) the fixed component represents a sufficiently high proportion of the total remuneration so as to enable the operation of a fully flexible policy on variable remuneration components, including the possibility of paying no variable remuneration component.

The Board of Directors is responsible for determining and approving the Company’s remuneration policy and practices. The Board of Director’s is also responsible to monitor the Company’s compliance towards the approved policy and to identify and work towards any deficiencies. The Board of Directors meets at least once a year, and whenever the need arises, to discuss issues and to reformulate the policy where this is necessary on account of changes and developments, whether internal to the Company or external in its market environment. Any changes in the Company’s remuneration policy can be brought about only as a result of a decision of its Board of Directors.

For the employees included in table 7 below, their variable remuneration (discretionary annual bonus) does not exceed 20% of their fixed remuneration.

The Company’s annual remuneration to senior management and members of staff whose actions have a material impact on its risk for 2023 is presented in the below table.

**Table 7 – Quantitative information on remuneration**

	<b>Senior Management<sup>1</sup> €'000</b>	<b>Staffs whose actions have material impact on the Company’s Risk Profile<sup>2</sup> €'000</b>
Fixed Remuneration	218	161
Variable Remuneration	-	-
Total	218	161
Number Of beneficiaries	5	3

<sup>1</sup> Includes the Executive Directors of the Board, the CFO and the 2 Independent Non-Executive Directors.

<sup>2</sup> Includes the Chief Compliance Officer, the Head of Compliance (who is also the Anti-Money Laundering Officer and Risk Manager), Head of Brokerage and the Head of IT.

When implementing its remuneration Policy, the Company benefits from the derogation laid down in Article 32(4) of Directive (EU) 2019/2034, in accordance with points a & b of this paragraph.

During 2023 the Company did not provide any variable remuneration, deferred remuneration, severance payment, or any guaranteed variable remuneration. There were also no deferred remuneration or severance payments that were awarded in previous periods, and which have been paid out during 2023.



## Appendix I – Own funds: Main Features of own instruments issued by the Company

Template EU IF CCA		Common Equity Tier 1 instruments
1	Issuer	Royal Financial Trading (Cy) Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Public or private placement	Private
4	Governing law(s) of the instrument	Cyprus Law
5	Instrument type	Ordinary Shares
6	Amount recognised in regulatory capital (in EUR)	EUR 125K
7	Nominal amount of instrument	EUR 125K
8	Issue price (in EUR)	EUR 1
9	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	7 December 2016
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