



Safecap Investments Limited

Pillar III Disclosures for Financial Year 2023

May 2024

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1 Introduction, Scope and Purpose of this Document

Safecap Investments Limited (“Safecap” or the “Company”) is an investment firm incorporated in Cyprus as a private limited liability Company under the provisions of the Cyprus Companies Law, Cap. 113. The Company is authorized and regulated by the Cyprus Securities and Exchange Commission (hereinafter “CySEC”) under CIF license number 092/08, and with LEI Code 549300IIDRNKSFWCQO54 for the conduct of designated investment business in the Republic of Cyprus and in other jurisdictions. It is also authorised by the Financial Services Board (“FSB”) in South Africa as a foreign Financial Services Provider under license number 43906.

In accordance with the operating license granted by CySEC, the Company is permitted to undertake the regulated investment services of reception and transmission of orders in relation to one or more financial instruments, dealing on own account, execution of orders on behalf of clients and portfolio management. The Company is also authorised to provide the ancillary services of safekeeping and administration of financial instruments, credit granting and foreign exchange services in relation to the investment services provided, as well as investment research and financial analysis.

The Company is an online financial services provider and acts as the principal and market maker to its customers in Contracts for Differences (“CFDs”), on a range of financial instruments including Foreign Exchange, Commodities, Indices, Shares and Exchange Traded Funds. Furthermore, it is noted that the Company does not hold any real crypto assets. Specifically, the Company offers through its online platform trading in a number of CFDs with crypto as their underlying instrument.

Revenue is mainly generated from trading fees and dealing spreads (bid/ask spread) charged on client trades and to a lesser extent from net gain/losses on trading activity. The level of revenue in any period is driven by the number of active clients and the level of client activity.

We note that the Company is not considered a Significant CIF as per the conditions of CySEC Circular C487, for the financial year covered by these Disclosures.

1.1 Regulatory context

Since 26 June 2021, the Company is subject to the capital adequacy and overall risk management requirements that arise from the investment firm European prudential framework. The framework consists of the EU Regulation 2019/2033 on the prudential requirements of investment firms (“Investment Firm Regulation” or “IFR”) and the EU Directive 2019/2034 on the prudential supervision of investment firms (“Investment Firm Directive” or “IFD”). 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 set out the specific methodologies that investment firms are required to apply for quantifying their exposure to risk and deriving their Capital Adequacy ratio, and establish provisions for their required level of initial capital, their Internal Capital Adequacy & Risk Assessment (“ICARA”) Process and their Liquidity Requirement, among others.

The IFR/IFD framework consists of three (3) Pillars that are used to regulate, supervise and improve the risk management of firms in the financial services industry. The three (3) Pillars and their applicability to the Company are summarised below:

- Pillar I - Minimum Capital and Liquidity Requirements - ensures that the Company maintains at all times a sufficient amount of capital and liquid resources, that remain above the minimum requirement in relation to certain key risks, as calculated using prescribed methods.
- Pillar II - ICARA and Supervisory Review and Evaluation Process (“SREP”) - ensures that the Company and its supervisor, CySEC, actively assess, control and mitigate the various risks that the Company faces.

- Pillar III - Market Discipline - ensures the promotion of market discipline through the disclosure of the Company's regulatory requirements, risk management and risk governance policies and procedures, allowing market participants to view and compare meaningful information relating to the Company and its peers.

The Company is a Class 2 CIF and is required to hold €750.000 (\$828.750) as at 31st of December 2023 of initial capital, set in accordance with Article 14 of the IFR and Article 9 of the IFD.

Safecap's Pillar III disclosures have been prepared in compliance with Part Six of the IFR and relate to the financial year ending on 31st of December 2023. The disclosures included in this Report are made on a solo basis and are published annually. This Report should be read in conjunction with the audited financial statements of the Company for the year ended 31st of December 2023, which are prepared in accordance with the International Financial Reporting Standards ("IFRS"). Further, the Company has commissioned its External Auditors to verify its Pillar III Disclosures. Where "reference date" is mentioned, this refers to 31st of December 2023.

The Company's Pillar III disclosures are published on an annual basis on the Company's website (<https://www.markets.com/about/legal-trading-regulation/>).

Unless stated otherwise, all amounts are in thousands of United States Dollars ("US\$" or "USD").

2 Governance and Risk Management Objectives and Policies

2.1 The Board of Directors

The Company's Board of Directors (the "Board") is required to assess and review the effectiveness of the policies, arrangements and procedures put in place for the Company to comply with its obligations under the Investment Services and Activities and Regulated Markets Law of 2017 (the "Law"), as subsequently amended or replaced, as well as the relevant CySEC Directives and the IFR, and to take appropriate measures to address any deficiencies. In particular, when managing and/or assessing risks, the responsibilities of the Board of Directors are summarized as follows:

- Approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks that Safecap is or might be exposed to, including those posed by the macroeconomic environment in which it operates.
- Ensure that all the Risk Management regulatory requirements are applied, and that appropriate systems and controls are introduced.
- Be actively involved in and ensure that adequate resources are allocated to the management of all material risks, the valuation of assets and the use of external credit ratings and internal models that relate to those risks.
- Review and approve the Annual Risk Management Report and take all action as deemed appropriate under the circumstances to remedy any weaknesses and/or deficiencies identified therein.

At 31 December 2023, the Board of Directors of the Company comprised of two (2) Executive Directors and four (4) Non-Executive Directors.

2.2 Diversity in the Selection of Members of the Management Body

The Company is committed to promote a diverse and inclusive workplace and to this end, it has established the Suitability and Diversity of Management Body Policy with the aim to promote diversity and harmonized criteria for the assessment of suitability of the members of the Management Body and of key function holders, to ensure sound assessment processes as part of the Company's and the Group's governance arrangements. With this Policy the Company aims to achieve a variety of views and experiences and facilitate independent opinions as well as sound decision-making within the Management Body.

2.3 Number of Directorships held by Board Members

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

Table 1: Number of directorships held by the Company's Board members excluding position in Safecap

Name ¹	Position	Total number of Executive Directorships	Total number of Non-Executive Directorships
Stavros Anastasiou	Executive Director	-	-
Christiana Solomou ²	Executive Director		
SiDamien Francis	Non-Executive Director	-	1
Athos Demetriou	Non-Executive Director	1	2
Stelios Prodromitis	Non-Executive Director	1	1
Stanislav Bunimovich ²	Non-Executive Director	-	-

¹ The information presented in this table is based only on representations made by the directors of the Company.

² Mr. Matan Shvili resigned on 30 April 2023 from his position as Executive Director. On 1st February 2023 Mr. Stanislav Bunimovich and Mrs. Christiana Solomou were appointed as Non-Executive and Executive Directors respectively.

2.4 Risk Management Policy

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

The Risk Management Policy is included in the Company's Internal Procedures Manual (hereafter "IPM"). The IPM aims to set out those policies and procedures and to ensure compliance with legislative requirements and with departmental and general procedures.

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

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

2.5 Nomination Committee

The main objective of the Nomination Committee is to review the structure, size and composition of the Board and its Committees and to make recommendations with regards to any changes considered necessary in the identification and nomination of new Directors, the removal of Directors, the reappointment of existing Directors and the appointment and removal of members of the Board's Committees. The Nomination Committee has a responsibility to assess the roles of the existing Directors in office to ensure that balance is maintained in the Board in terms of skills, knowledge, experience and diversity.

The Company is not classified as a significant CIF as per the criteria set out in CySEC Circular C487 regarding the "Redefined threshold criteria of significant CIF". Thus, it is not obliged to have in place a Nomination Committee. Nevertheless, the Company has decided prudently to continue having this Committee in place.

2.6 Risk & Compliance Committee

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

As at 31st of December 2023, the Risk & Compliance Committee comprised of three (3) independent non-executive directors. All members of the Committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy, risk appetite, risk management policies and risk management practices of the Company. During 2023 the Risk & Compliance Committee convened four (4) times.

The main objectives of the Risk & Compliance Committee are as follows:

- Review and assess the integrity and adequacy of the Company's Risk Management Framework, including processes, policies and organisational structures.
- Promote a consistent Risk Management oversight and review limit excesses.
- Examine the appropriateness of incentives provided by the remuneration system, and ensure that they take into consideration risk, capital, liquidity and the likelihood and timing of earning streams.
- Work with the Remuneration Committee to establish a remuneration culture, policy and framework that balances commercial objectives with risk and compliance factors and requirements, and supports capital and liquidity preservation.
- Review the reports prepared by the Risk and Compliance functions and make recommendations for remedial and other action.
- Review the Capital Adequacy, liquidity and limits of each Company, according to Pillar I.
- Monitor the process for establishing the ICARA methodology according to Pillar II and review the ICARA Report and the Pillar III disclosures.
- Oversee the implementation of risk limits across the different kinds of risks (including Credit, Market and Liquidity risk) and consider or approve any limit excesses based on this risk limit structure.

Since as previously mentioned, the Company is not classified as a significant CIF, it is not obliged to have in place a Risk Management Committee. Nevertheless, the Company has decided prudently to continue having this Committee in place.

2.7 Risk Management Function

The Company operates a dedicated Risk Management function under which the CRO is responsible for implementing the Risk Management Policy, as this is set by the Board of Directors and the Risk & Compliance Committee. In addition, it ensures ongoing compliance with the Company's Risk Management regulatory requirements and has a direct reporting line to the Board of Directors and the Risk & Compliance Committee.

The Risk Management function has an oversight role and individual types of risks are managed daily by first line functions. More specifically, as a second line of defence, the Risk Management function is in place to:

- Oversee processes across the Company and ensure they comply with risk management policies.
- Assess and challenge the business processes and their effectiveness to implement the policies.
- Identify and assess new and existing exposures to risk which may impact the Company.
- Monitor and review limits and mandates for Risk to Market and Risk to Firm.
- Provide oversight and support to first line functions, as they are the business units that actively manage risks as part of their daily operations.

2.8 Compliance and Money Laundering Compliance Functions

The Company's Compliance function covers (a) Financial Crime / AML, (b) Monitoring and Surveillance, (c) Governance, Code of Conduct and Regulatory Compliance and (d) Regulatory Counselling. In performing its duties, the Compliance function considers the areas of material business activity or material business and regulatory risk, with an overall aim of ensuring consistent regulatory compliance at all times.

The Chief Compliance Officer ("CCO") and the Money Laundering Reporting Officer ("MLRO") have direct access to the Board of Directors.

2.9 Internal Audit Function

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

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

2.10 Risk Management Strategies and Capital Management

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

Safecap manages its capital and liquid resources to ensure that it will be able to continue as a going concern, while increasing the return to shareholders.

2.11 Internal Capital Adequacy and Risk Assessment ("ICARA") Process

The IFR/IFD framework includes the Internal Capital Adequacy and Risk Assessment ("ICARA") process, which is used to determine the additional Pillar II capital and liquidity requirements to cover the risks identified in this process.

The additional amount of capital and liquidity, if necessary, is determined internally by the Company through the performance of the ICARA, and upon CySEC's request, the ICARA is collected and undergoes the Supervisory Review and Evaluation Process ("SREP"). Following the SREP, the final Pillar II capital and liquidity deemed as necessary by the

CySEC are communicated to the Company and considered as an additional requirement affecting the minimum required Capital Adequacy Ratio and Liquidity Requirement for the Company, respectively.

The Company performs the ICARA on a yearly basis in which it considers a series of stress scenarios to its base financial projections. Additionally, the process covers the Company's business background, financial performance and governance arrangements pertaining to Risk Management, and places emphasis on the impact of regulatory developments on business performance, compliance, and reputational risks. A core element of the ICARA process is to identify the risks associated with the activities of the Company on a forward-looking basis. For each of the identified risks, the Company assesses if the risk is sufficiently covered by Pillar I or if additional Pillar II requirements need to apply. The CRO is responsible for the preparation of the annual ICARA Report which is being submitted to the BoD for approval.

2.12 Board Risk Appetite Statement

The Risk Appetite Statement defines the level of risk the Board is willing to take in pursuit of its business objectives and strategic goals. It defines the parameters within which the Company can operate and the relevant risks it can assume, both on an individual as well as on an aggregated basis. The Risk Appetite Statement includes some high-level principles and key risk indicators to alert Management and the Board of Directors of any risk concerns and triggering appropriate responsive actions. Specific limits are in place, which are embedded in the risk monitoring systems and reporting, to cap the amount of risk the Company will take.

The Board of Directors has identified several categories of principal risk and has established policies and procedures that seek to manage them:

- Regulatory Risk
- Operational Risk
- Liquidity Risk
- Credit and Counterparty risk
- Market risk.

The Board periodically revises the Risk Appetite Statement and its management framework, analyzing the impact of unlikely but plausible tension scenarios and adopting the pertinent measures to ensure the policies set are met.

2.13 Levels of Defense

The Board has adopted a three (3) level defence model to ensure responsibility is allocated for the identification, management, control and oversight of the principal risks related to the Company's business. The model designates the roles, responsibilities and accountabilities for the risk management of the Company.

- First level: Functions that own and manage risks – the Business Management and Operational Functions.
- Second level: Functions that oversee risks – primarily the Risk Management and Compliance Functions.
- Third level: Functions that provide independent assurance – primarily the Internal and External Audit Functions.

3 Principal Risks

The Company aims to follow a continuous, active, and systematic Risk Management process of well-defined steps in order to understand, manage and communicate risks from a firm-wide perspective. This is achieved through the effective identification, assessment, treatment and reporting of internal and external risks.

3.1 Risk to Client

Risk to Client (“RtC”) reflects the risk covering the business areas of investment firms from which harm to clients can conceivably be generated in case of problems. The K-factors that are reflected under RtC based on the IFR Pillar I methodologies, are the following:

- **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. Although the Company is licensed to provide the investment service of “Portfolio management”, it did not exercise its license during the year ending 31st of December 2023. To this extent, this K-factor is not applicable for the Company for the reference period.

- **K-CMH (Client Money Held)**

K-CMH captures the risk of potential for harm where an investment firm holds the money of its clients, taking into account whether they are on its own Balance Sheet or in third-party accounts and arrangements under applicable national law provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. K-CMH excludes client money that is deposited on a (custodian) bank account in the name of the client itself, where the investment firm has access to the client money via a third-party mandate. Based on the reference year, as part of its business, the Company receives from its customers, cash deposits to enable them to perform transactions in financial instruments and to this end, it is subject to the risk captured by this K-factor.

- **K-ASA (Assets Safeguarded and Administered)**

K-ASA captures the risk of safeguarding and administering client assets, and ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on their own Balance Sheet or in third-party accounts. During the year under review, the Company offered safeguarding services only in relation to the CFD positions of its clients, which is captured under K-CMH in consideration of the nature of CFD products. Therefore, the Company was not subject to the risk relating to this K-factor.

- **K-COH (Client Orders Handled)**

K-COH captures the potential risk to clients of an investment firm which executes client orders in the name of the client, and not in the name of the investment firm itself, for example as part of execution-only services to clients or when an investment firm is part of a chain for client orders. The Company executes its clients’ orders by acting as principal to their trades, therefore the risk reflected by this K-factor does not apply.

3.1.1 K-CMH

The Company is subject to CMH that captures the risk of potential for harm where an investment firm holds the money of its clients and provides that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. This risk from a capital point of view covers the Company’s off-Balance Sheet items.

To this end, the Company takes necessary measures to safeguard the assets of its clients, by maintaining internal records that clearly distinguish the assets of each client from those of any other client and from the Company's assets, keeping client funds in segregated accounts with Tier 1 financial institutions and performing daily client money reconciliations to identify any discrepancies between its internal records and those of third parties.

The Company monitors and assesses its CMH on a daily basis and accordingly allocates capital for this risk. In particular, capital requirements for RtC and specifically CMH, are calculated and monitored on an ongoing basis by the Dealing and Risk Departments. Capital Adequacy Reports that monitor in detail CMH under RtC are being reported by the Risk Department to the Group CFO and some Senior Management members on a weekly basis and on a quarterly basis to the CySEC. The Board of Directors and the Risk & Compliance Committee members are also informed about the Capital adequacy and the equivalent capital requirements under RtC on a quarterly basis, in which the Risk department shares with all members end of month results.

3.2 Risk to Market

Risk to Market ("RtM") is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, foreign exchange rates and commodity prices. Market risk arises from the Company's exposures to financial instruments and to changes in the market prices of these financial instruments. Market risk comprises of Equity risk, Interest Rate risk, Foreign Exchange risk and Commodity risk. There are two K-factors that capture the principal risks under RtM:

- **K-NPR (Net Position Risk)**

This k-factor is measured in accordance with the CRR rules for Market risk for positions in equities, interest rate financial instruments, foreign exchange and commodities (Note: CRR refers to the Capital Requirements Regulation comprising of EU Regulation No. 575/2013 on prudential requirements for credit institutions, as amended or replaced from time to time). Therefore, K-NPR captures the Market risk, which is defined as the risk that the Company's income or the value of its holdings of financial instruments will change due to the change in Market risk factors (market prices, non-Trading Book interest rates, non-Trading Book foreign exchange rates). The Company's operational model means that not all client exposures are hedged, hence the Company may have a residual position in any of the underlying CFDs it offers. Exposure to Market risk at any point in time depends primarily on short term market conditions and the levels of client activity. Based on the reference year, this K-factor is applicable to the Company.

- **K-CMG (Clearing Margin Given)**

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 or margining as set out in Article 23 of the IFR. CMG means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. Based on the reference year, this K-factor is not applicable to the Company due to the nature of its operations.

3.2.1 K-NPR

The Company deems Market risk as one of the main risks that it bears. The Company's exposures to Market risk arise from the clients' trading on the Company's online platforms for which it acts as a market maker, as well as from some on-Balance Sheet Banking Book exposures that are denominated and funded in currencies other than its reporting currency, which give rise to Market FX risk.

The Company has in place a Market risk Policy which outlines how Market risk is managed. In particular, the policy establishes market position limits reflecting Safecap's risk appetite, for each financial market in which clients can trade. These limits are determined based on the trading levels, volatilities and the market liquidity of the underlying financial product or asset class. The Company acts as a market maker in CFDs where the underlying instruments are FX, Commodities, Indices, Exchange Traded Funds, Equities and Bonds. There is a high degree of natural hedging in the trading of clients across instruments and asset classes. This mitigates significantly the single instrument Concentration risk within the Company's trading portfolio and reduces the Company's net Market risk exposure.

The Company also has in place a real-time market position monitoring system which enables it to continually monitor its market exposure against these limits so that relevant action is initiated. This can include hedging the excess exposure using hedging accounts maintained with other brokers or limit locks, without any more exposure being accepted. More specifically, Market risk is monitored on a continuous basis by the Dealing team, which acts accordingly, depending on the internal hedging strategy and limits. Market risk is monitored both for Capital Adequacy ratio purposes and for meeting Group Market risk limits.

3.3 Risk to Firm

Risk to Firm ("RtF") captures an investment firm's exposure to the Risk of Default of its Trading Counterparties (K-TCD), the Concentration Risk arising from its exposures to counterparties and their connected persons (K-CON) and Operational Risks from its Daily Trading Flow of transactions (K-DTF).

- **K-TCD (Trading Counterparty Default)**

K-TCD means the exposures in the Trading Book of an investment firm in specific instruments and transactions giving rise to the risk of trading counterparty default. This methodology replaces the Counterparty Credit Risk that was being implemented under the previously applicable framework, CRR. The Company, throughout the year under review, was exposed to TCD due to its over-the-counter ("OTC") Trading Book derivative transactions (i.e. CFDs).

- **K-DTF (Daily Trading Flow)**

K-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. DTF aims to capture the Operational risks from an investment firm's daily trading flow. The Company is exposed to DTF due to the fact that it executes its clients' trades on a principal basis (i.e. through dealing on own account), and performs hedging trades to limit its risk arising from this client-related trading.

- **K-CON (Concentration Risk)**

K-CON means the exposures in the Trading Book of an investment firm to a client/counterparty or a group of connected clients/counterparties, the value of which exceeds the limits specified in Article 37 of the IFR, and includes the Firm's TCD exposures towards its clients and counterparties, as well as its Market risk (NPR) exposure towards issuers of equity and interest-rate instruments in the Trading Book.

3.3.1 K-TCD

The Company's key counterparties under the Trading Book are its institutional and retail clients, as well as its hedging counterparties. With respect to client-related K-TCD, the Company ensures that client accounts are

funded before trading takes place (i.e. the clients need to have enough equity in their accounts to maintain their margin requirements and keep their positions open).

The Company operates a real-time mark-to-market trading platform with customers' profits and losses being credited and debited automatically to their accounts. If the market moves adversely by more than the customer's maintenance margin, the Company exercises margin calls and stop outs to prevent the account from going into deficit, hence managing TCD risk effectively (through the margin acting as a collateral for risk management). In addition, the Company offers negative balance protection, which means that clients cannot suffer losses greater than the initial capital invested.

3.3.2 K-DTF

As previously mentioned, DTF aims to capture the Operational risks from the investment firm's daily trading flow. Similarly to TCD and CMH previously mentioned, DTF is calculated and monitored on an ongoing basis by the Dealing and Risk Departments, and in case of a limit breach, actions are taken place to rectify the issue immediately.

3.4 Other Risks

3.4.1 Operational Risk (other than DTF)

In general, Operational risk is defined as the risk of loss that can result from inadequate or failed internal processes, people, system errors or external events, as well as other risks such as fraud, legal or physical and environmental risks. The Company, due to its nature, is primarily exposed to Operational risks arising from potential system/trading platform failures or delays, internal practices, as well as Legal and Compliance risks. The Company is partially dependent on third parties, including entities within its own Group, for the key technological systems, infrastructure suppliers, data providers and data sources.

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

The Company has business continuity procedures and policies in place which are designed to allow the Company to continue trading in its core markets. The Company's systems are designed to mitigate the risk of failure of any component, enabling the Company to continue to function in the event of an incident, adverse event or business disruption.

The Company has developed and implemented an operational risk portal through which any operational incidents are reported, evaluated and mitigated in a timely manner. Furthermore the Company has developed a Key Risk Indicators' framework for each business and functional area, enabling the Company to monitor at regular intervals its performance versus key operational risk areas.

3.4.2 Regulatory and Compliance Risk

Regulatory Risk comprises of the risk that legal or regulatory changes that may be imposed by the European Union or by CySEC adversely affect the results and financial position of the Company. Accordingly, Compliance risk reflects exposure to legal penalties, financial forfeiture, and material loss an organization faces when it fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices.

Non-compliance with the regulatory framework of jurisdictions in which the Company's trading platform is accessible from, could adversely affect the Company's profitability and may result in the suspension, revocation or amendment of its licenses and/or other enforcement action.

Increased regulatory scrutiny of the industry in which the Company operates could adversely affect the Group's revenue, business and profitability. Changes to the EU regulatory framework, current and proposed EU regulations and directives could restrict the Company's business. The implementation of necessary changes to comply with the increased regulatory framework could potentially result in significantly additional demand on the Company's resources.

To mitigate Regulatory and Compliance Risk, the Compliance and Risk Management Departments keep abreast of regulatory developments, participate in material regulatory consultations, and aim to anticipate regulatory issues by providing advice to the Company's Board and the business on such matters on an ongoing basis. External legal advice is obtained on new regulations affecting the CFDs sector in the jurisdictions in which the Company operates. Relevant actions are then initiated by the Company to ensure comprehensive and consistent compliance at all times.

3.4.3 Money Laundering Risk

Money Laundering risk entails all practices and methods that may be used by the Company's clients, counterparties and/or partners to launder money using the Company's services. The Company has established processes and procedures to identify, assess and understand the money laundering and terrorist financing risks that it may be exposed to. In identifying potential risks, the Company is using the guidance and recommendations of the FATF and the European Union. This risk is considered high due to the non-face-to-face nature of the Company's business.

The primary responsibility for the assessment of the risks identified lies with the Company's MLRO as well as the Board of Directors and to this end, a risk assessment using the inherent and residual risk of each of the identified risks is performed by both parties and by the Chief Compliance Officer. The use of a three-party assessment ensures subjectivity is minimised as far as possible, allowing the Company to effectively monitor the risks identified.

Any updates to the regulatory framework which affect the Company's AML processes are brought to the attention of the Risk & Compliance Committee and the Board on a quarterly basis, accompanied by any changes in the Company's process and suggestions for relevant improvements.

3.4.4 Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched

position potentially enhances profitability but can also increase the risk of losses.

The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its financial liabilities when due, under both normal circumstances and stressed conditions. In accordance with the CySEC clients' money rules, the Company holds in segregated third party accounts, all the funds of its clients. Therefore, the Company considers Liquidity risk in relation to all clients' trading activity to be significantly low.

In addition, the Company is in compliance with the the Liquidity requirement set by the IFR/IFD framework. As at 31st of December 2023, the Company satisfied the Liquidity Requirement.

3.4.5 Crypto currencies

As mentioned above, the Company offers through its online platform, trading in a number of CFDs with crypto as their underlying instrument. The Company treats exposures arising from CFDs in crypto assets as commodity exposures and calculates K-TCD and Market Commodity risk as part of k-NPR, as instructed by CySEC Circular C462 on the "Prudential treatment of crypto assets and enhancement of risk management procedures associated with crypto assets".

As at 31st of December 2023, the total exposure amount from CFDs in crypto assets under K-TCD was \$630K, with resulting K-TCD capital requirement of \$54K. Under Market (Commodity) Risk, the Net Position of the Company on CFDs in cryptos was \$1.090K short, resulting to a K-NPR capital requirements of \$196K. In its audited Financial Statements, the Company recognizes the unrealized profit or loss arising from its open CFD positions in cryptos at fair value under Trade and Other Receivables (Current Assets).

The Company and specifically the Dealing team, monitors Market Risk on a continuous basis and acts accordingly through internal hedging strategies and limits. Market risk is monitored both for Capital Adequacy ratio purposes and for meeting Group Market Risk limits.

4 Own Funds

The prudential framework for investment firms set out in the IFR and the IFD framework is designed to reflect the nature, size, and complexity of investment firms' activities. As per the rules set by the IFR, investment firms are required to maintain Own Funds consisting of the sum of their Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, and shall at all times meet all of the following conditions:

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

Table 2 below presents the composition of the Company's Own Funds as at 31st of December 2023, while Table 3 indicates how these Own Funds reconcile with the Company's audited Balance Sheet as of this date, and they have been prepared using the format set out in the Commission Implementing Regulation (EU) 2021/2284 laying down implementing technical standards for the application of Regulation (EU) 2019/2033 with regard to supervisory reporting and disclosures of investment firms.

As shown below, as at 31st of December 2023 the Company's Own Funds comprised entirely of Common Equity Tier 1 capital and amounted to \$21.876K.

Table 2: Template EU IF CC1.01 - Composition of Regulatory Own Funds

		(a)	(b)
31 December 2023		Amounts (\$'000)	Source based on reference numbers of the Balance Sheet in the audited Financial Statements (cross reference to Template EU IF CC2)
Ref.	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	OWN FUNDS	21.876	
2	TIER 1 CAPITAL	21.876	
3	COMMON EQUITY TIER 1 CAPITAL	21.876	
4	Fully paid up capital instruments	2.093	Ref. 1 (Shareholder's Equity)
5	Share premium	33.175	Ref. 2 (Shareholder's Equity)
6	Retained earnings	(13.016)	Ref. 3 (Shareholders' Equity)
10	Adjustments to CET1 due to prudential filters	(8)	
19	(-) Other intangible assets	(105)	Ref. 1 (Assets)
27	CET1: Other capital elements, deductions and adjustments	(263)	Ref. 2 & Ref. 3 (Assets)
28	ADDITIONAL TIER 1 CAPITAL	-	
40	TIER 2 CAPITAL	-	

Table 3: Template EU IF CC2: Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements

31 December 2023		(a)	(c)
		Balance Sheet as in audited Financial Statements (\$'000)	Cross reference to Template EU IF CC1
Ref.	Assets - Breakdown by asset classes according to the Balance Sheet in the audited Financial Statements		
	Total Assets	26.292	
	of which:		
1	Intangible assets	105	Ref. 19
2	Trade and Other Receivables (Investor Compensation Fund)	224	Ref. 27
3	Cash and Cash Equivalents (ICF Additional Cash Buffer)	38	Ref. 27
Ref.	Liabilities - Breakdown by liability classes according to the Balance Sheet in the audited Financial Statements		
	Total Liabilities	4.041	
Ref.	Shareholders' Equity		
	Total Shareholders' equity	22.251	
1	Share capital	2.093	Ref. 4
2	Share premium	33.175	Ref. 5
3	Accumulated losses	(13.016)	Ref. 6

5 Minimum Capital Requirements

The IFR/IFD framework's approach for the calculation of the Minimum Capital Requirements for Class 2 investment firms such as Safecap, is by taking the highest of the Fixed Overhead Requirement ("FOR"), the Permanent Minimum Capital Requirement ("PMCR") and the K-factors that apply to the firm.

5.1 Fixed Overheads Requirement (FOR)

The Company reports its Fixed Overhead Requirements to the Group CFO and some Senior Management members on a weekly basis and on a quarterly basis to the regulator. The Board of Directors and the Risk & Compliance Committee members are also informed about the FOR on a quarterly basis, when the Risk department shares with all members end of month results.

Safecap calculates its FOR by taking the one quarter of its fixed overhead expenses of the preceding year in accordance with the provisions of Article 13 of the IFR. The Fixed Overhead Requirement as at 31 December 2023 amounted to \$3.276K.

5.2 Permanent Minimum Capital Requirement (PMCR)

The Company monitors its Own Funds on a continuous basis and ensures that they remain above the Permanent Minimum Capital Requirement of €750K. Since the Company's reporting currency is the USD, as at the reference date, this amount translated to \$829K, which corresponds to the initial capital that applies to the Company in accordance with Article 9 of the IFD.

5.3 "K-factor" Capital Requirement

The Company calculates its overall "K-factor" capital requirement as the sum of the "K-factor requirements" grouped into three categories: Risk-to-Client (RtC), Risk-to-Market (RtM) and Risk-to-Firm (RtF), in accordance with Articles 16 through to 33 of the IFR (and as described in further detail in Section 3).

The total K-Factor capital requirement as at 31st December 2023 was \$5.352K.

Table 4 further breaks down the Pillar I minimum capital requirement that the Company was required to hold as of 31st of December 2023.

Table 4: Minimum Capital Requirements

Minimum Capital Requirements		31 December 2023 (\$'000)
K-Factor Requirement		
Risk-to-Client (RtC)	K-AUM	-
	K-CMH	112
	K-ASA	-
	K-COH	-
Risk-to-Market (RtM)	K-NPR	4.110
	K-CMG	-
Risk-to-Firm (RtF)	K-TCD	1.103
	K-DTF	27
	K-CON	-
Total K-Factor Requirement		5.352
Fixed Overhead Requirement ('FOR')		3.276
Permanent Minimum Capital Requirement ('PMCR')		829

According to the IFR & IFD requirements, the Company's Minimum Capital Requirement as at 31st of December 2023 was determined by the Total K-Factor requirement and amounted to \$5.352K.

As indicated in Table 5 below, as at 31st of December 2023 the Capital Adequacy ("CAD") ratio of the Company stood at 408,78% and exceeded the minimum required threshold of 100%. Furthermore, the Company's Total Own Funds exceeded the Minimum Own Funds Requirement of \$5.352K, resulting to a capital surplus of \$16.524K.

Table 5: Capital Excess/Ratio

Item Description	31 December 2023 (\$'000)	Reference
Capital		
Common Equity Tier 1	21.876	
Additional Tier 1	-	
Tier 2	-	
Total Own Funds	21.876	a
Own Funds Requirement		
K-factor Requirement	5.352	b
Fixed Overhead Requirement	3.276	c
Permanent Minimum Capital Requirement	829	d
Minimum Own Funds Requirement	5.352	e = (higher of b, c, d)
Capital Excess/Ratio		
Capital Excess	16.524	a-e
Capital Ratio	408,78%	a/e

6 Remuneration Policy

The Remuneration Policy sets out the Company's policy for remuneration practices in compliance with regulations and the corporate objective of balancing risk and performance through hiring and retaining competent and committed executives for the longer term. In addition, it outlines the internal control processes and procedures implemented within the Company and its branches, with respect to having in place risk-focused remuneration controls and procedures which are consistent with and promote a code of conduct that ensures the avoidance of conflicts of interest that might lead to outcomes detrimental to the Company and its clients.

Internal governance processes provide oversight and control over remuneration policies and risk management to ensure that remuneration decisions are aligned with the risk appetite of the Company and the Group, premised on the mapping of potential conflicts. The internal governance of remuneration is managed primarily by the Board of Directors and the Remuneration Committee of the Board ("REMCO"). REMCO receives input from the respective Business Heads as well as from the Compliance, Risk, Internal Audit, and HR Management functions.

Remuneration Committee

Role and Responsibilities

The main objective of the REMCO is to determine and apply a Remuneration Policy on behalf of the Board and to ensure compliance with best practice in the area of remuneration and reward. The REMCO is required to make suitable arrangements in order to achieve prudent recognition of any deficiencies identified in terms of remuneration within the Company and approves remuneration policies that may need to be implemented, from time to time, by the respective relevant departments within the Company.

The role and remit of the REMCO, in conjunction with the Risk & Compliance Committee, focuses on the remuneration practices of Directors, Senior Management, risk takers, Sales executives and all other employees of the Company that receive (or may in the future receive) any form of variable pay. Additionally, the remit of the REMCO includes ensuring that the Company has in place a Remuneration Policy ("the Policy", for the purposes of this section) that addresses all regulatory requirements. More specifically, the role of the REMCO is to:

- Be responsible for the preparation of decisions on remuneration to be taken by the supervisory function, in particular regarding the remuneration of the members of the BoD in its management function, i.e. executive directors, as well as Identified Staff.
- Provide its support and advice to the BoD on the design of the Policy, including its gender neutrality.
- Support the BoD in overseeing the remuneration policies, practices and processes and the compliance with the Policy.
- Check whether the existing Policy is still up to date and if necessary, make proposals for changes.
- Review the appointment of external remuneration consultants that the supervisory function may decide to engage for advice or support.
- Ensure the adequacy of the information provided to shareholders on remuneration policies and practices.
- Assess the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels and that the overall Policy is consistent with and promotes sound and effective risk management and is in line with the business strategy, objectives, corporate culture and values, risk culture and the long-term interest of the Company.
- Assess the achievement of performance targets and the need for ex post risk adjustment, including the application of malus and claw back arrangements.
- Review a number of possible scenarios to test how the remuneration policies and practices react to external and internal events, and back-test the criteria used for determining the award and the ex-ante risk adjustment based on the actual risk outcomes.

The Senior Management makes recommendations to the REMCO for any changes in remuneration practices, vesting conditions and levels. Furthermore, it makes recommendations to the REMCO for bonus/variable pay pools, taking into consideration the Company's financial results, Department performance and individual employee performance, as well as the feedback from the Company's Compliance and Risk Management functions. The Senior Management directs and oversees the implementation of remuneration practices by the Policy owners who are the CEO and the Human Resources Manager.

Fixed and Variable Remuneration

Compensation Mix

The REMCO, when determining remuneration awards, considers the need to ensure an appropriate ratio between fixed and variable pay so that the Company and the Group are able to operate a fully flexible incentive policy under a hybrid remuneration model. This includes the ability to pay no bonuses or other incentive pay, should performance of the Company, the Group and/or an individual require this.

Fixed Remuneration

Fixed remuneration serves to compensate employees according to their qualifications, experience and skills, as well as the requirements, significance and scope of their work. Specifically, it includes the contractually agreed monthly recurring salary.

The appropriate amount for an employee's fixed remuneration shall be determined based on a market comparison of his/her role, general salary levels within the Company, the labor market situation in the industry and at the respective location and the regulatory requirements for the structures applicable to total remuneration. Competitive fixed remuneration plays an important role in attracting and retaining employees. This guarantees that the Company and the Group have the competencies required to meet their strategic goals. The Company's employees are awarded with a fixed monthly remuneration.

Variable Remuneration

The Company employs two types of variable remuneration:

- Annual discretionary performance-related bonus, which all employees are eligible to receive, following the year under review.
- Commission-based on First Time Deposits ("FTDs") and/or spread share paid to specific employee categories.

Qualitative and quantitative criteria are taken into account for the determination of variable remuneration. These criteria reflect the desired conduct of the employees to act in the best interest of the clients and in a manner that has regard to focusing on the long-term sustainable performance of the Company versus short term risk taking or malpractices. Variable remuneration also has the benefit that it can differentiate performance results and promote practices by means of suitable incentive systems, which in turn affect the corporate culture.

The maximum variable remuneration payable to employees is limited to 100% of their fixed remuneration. Up to 100% of the total variable remuneration is subject to clawback arrangements. Whenever any of the following cases are met, the clawback clause is triggered and a waiver can only be granted following a decision by the REMCO:

- Cases where the employee participated or was responsible for conduct which resulted in significant losses for the Company.
- Cases where the employee failed to meet appropriate standards of fitness or in instances of individual gross misconduct.

Bonus Pool Determination (including risk adjustment)

The discretionary annual bonus pool for the employee remuneration is suggested by the management to the REMCO for its consideration and evaluation. The REMCO makes final recommendations to the Board of Directors, which has the responsibility for the final sign off. The work of all relevant Committees is based on an assessment of the financial performance for each financial year against targets and a quantitative and qualitative assessment of the risks taken during each financial year, as well as matters relating to capital management and regulatory compliance. The Board of Directors reviews the annual bonus pool to ensure (a) that all relevant business risks have been assessed and taken into account and (b) that sufficient amounts are allocated to ensure the Company and the Group are able to maintain a robust capital base.

Performance Management Approach

The Company and the Group operate an annual appraisal process which establishes objectives for all staff covering both financial and non-financial metrics, specific behavioral competencies, including compliance and risk management behaviors with regards to the Company's and the Group's values, Code of Conduct, policies and procedures.

Performance against non-financial metrics has a significant influence on the overall performance rating and poor performance against non-financial metrics will result in reduction of an employee's annual incentive award. Annual performance ratings are independently reviewed (and challenged where appropriate) and calibrated at a Company and Group level to ensure that ratings have been applied consistently and performance has been effectively differentiated.

The table below provides the aggregate remuneration of Senior Management and other staff whose activities have a material impact on the risk profile of the Company, broken down by fixed and variable cash remuneration. It is noted that the figures presented in the table below do not include employer's contribution.

Table 6: Quantitative information on remuneration

Staff category	No. of persons	USD (\$'000)		
		Fixed Remuneration	Variable Remuneration	Total Remuneration
Senior Management (Executive & Non-Executive Directors)	6	698	58	756
Other staff	32	1.765	104	1.869
Total	38	2.463	162	2.625

1. The "Other staff" category includes the heads and specified supporting staff in the Company's control functions, as well as in the Reception & Transmission, Dealing Room (Execution of Orders), Dealing on Own Account, Onboarding, Customer Support, Finance, Information Technology, Legal, Marketing and Human Resources departments.

During 2023 the Company did not provide any non-cash benefits. In addition, the Company did not award any deferred remuneration in 2023 or in previous performance periods, that was due to vest in 2023 or in subsequent years, and it did not award any guaranteed variable remuneration during the year. Moreover, the Company did not award any severance payments in previous periods that have been paid out during 2023, neither did it award any such payments in 2023.

Appendix: Main Features of Own Funds Instruments

Template EU IF CCA		a
		Common Equity Tier 1 Capital
1	Issuer	Safecap Investments Limited
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)	Ordinary Shares
6	Amount recognised in regulatory capital (USD, as of most recent reporting date)	2.092.575
7	Nominal amount of instrument	1.400.000
8	Issue price	Various
9	Redemption price	N/A
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	25/10/2006-20/04/2023
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
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate 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	N/A
23	Noncumulative or cumulative	N/A
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 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