Renaissance
Capital

Renaissance Securities (Cyprus) Limited

Disclosures in accordance with Part Six of Regulation (EU) 2019/2033

April 2024

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Terminology

AIRB	Advanced Internal Rating Based
AT1	Additional Tier 1
BoD	Board of Directors
CAR	Capital Adequacy Ratio
CCB	Capital Conservation Buffer
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1
CIF	Cyprus Investment Firm
CRB	EBA Guidelines Template CRB
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation EU) No 575/2013
CRD IV	Capital Requirements Directive 2013/36/EU
CVA	Credit Valuation Adjustment
CySEC	Cyprus Securities and Exchange Commission (or “Commission”)
DVP	Delivery Versus Payment
EAD	Exposures at Default
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Losses
EEA	European Economic Area
EEPE	Effective Expected Positive Exposure
FICC	Fixed Income, Currencies and Commodities
FIRB	Foundation Internal Rating Based
FRTB	Fundamental Review of the Trading Book
FVTOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GMRA	Global Master Repurchase Agreement
HR	Human Resource
IAA	Internal Assessment Approach
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICF	Investors’ Compensation Fund

IFR	Investment Firms Regulation (EU) 2019/2033 (or the “Regulation”)
IFD	Investment Firms Directive (EU) 2019/2034
IFRS	International Financial Reporting Standards
IMA	Internal Models Approach
IMM	Internal Model Method
IRB	Internal Ratings Based
ISDA	International Swaps and Derivatives Association
ISIN	International Securities Identification Number
KRI	Key Risk Indicators
LGD	Losses Given Default
MR	Market Risk
OFAC	Office of Foreign Assets Control
O-SII	Other Systemically Important Institution(s)
QCCP	Qualifying Central Counterparty
RESEC	Renaissance Securities (Cyprus) Limited
RFHL	Renaissance Financial Holdings Limited, or the “Firm”
RWA	Risk Weighted Assets
SA	Standardized Approach
SFA	Supervisory Formula Approach
SFT	Securities Financing Transaction
SPPI	Solely Payments of Principal and Interest
T2	Tier 2
TDI	Traded Debt Instruments
TRS	Total Return Swap

1. Executive Summary

This Executive Summary sets out the risk profile of Renaissance Securities (Cyprus) Limited (the "Firm" or "Company" or "RESEC"), as well as the key capital ratios of the Company. The Executive Summary concludes with the Risk Management Declaration by the BoD of the Firm, confirming the establishment of an effective risk management framework.

The risk profile describes the types and level of risk that the Company chooses to accept in pursuit of its strategy whilst at the same time fulfilling regulatory requirements.

The Sanctions of the European Union and the United States against Russia (including EU Sanctions on the National Settlement Depositary ("NSD") of the Moscow Exchange ("MOEX")) as well as the counter measures by the government of the Russian Federation – primarily in respect of freezing assets of institutions from countries classified as "unfriendly" (such as Cyprus) - have had and continue to have a significant consequential effect on the business activities, capital and liquidity solvency of RESEC.

Within the context of this challenging environment, our overall strategy was and remains to be:

- **To ensure full compliance with EU and US Sanctions**
- **To protect our customer base which comprises solely of professional clients**
- **To remain capital and liquidity solvent** at the level of a) liquidity solvency, b) IFRS Equity standing, and c) at the level of Capital Adequacy under the IFR / IFD.

The Company's Total Capital (Own Funds) as at year end 2023 is **$28.4m** and the Total Capital Adequacy Ratio ("CAR") **43.1%**, which is below the regulatory minimum requirement of 100%. The substantial drop from 338.67% Total CAR as of 31 Dec 2022 is due to the material reduction in the Company's regulatory capital driven by the following factors:

A. **Sale of the Company's Russian affiliates companies** further to the request of the Russian Authorities and the restriction of any funds diverted out of the perimeter of the Russian Federation. This has caused the Company's holding company Renaissance Financial Holdings Limited ("RFHL") to not be able to repay its receivable to RESEC, and in this regard a prudential provision of all the receivable balance from RFHL to RESEC has been therefore established.
B. **Restrictions on accessing our assets in Russia**. Because of the Russian Government restrictions on our ability to freely access our portfolio of financial instruments in Russia, the Company has applied a prudential valuation discount of 23% on Russian securities held in custody within the Russian Federation and are subject to sale restrictions.
C. **Mismatch between assets and liabilities linked to Russia:** While the Company applied a valuation discount to the value of blocked Russian assets, it did not apply the same assumptions to the Company's blocked liabilities due to clients.

It is noted that netting the Russian assets vs the Company's blocked liabilities would take the pro-forma Total CAR to well above the 100% regulatory minimum.

The Company has fully informed its regulator the CySEC Securities and Exchange Commission ("CySEC" or the "Commission") on the above. More specifically the Company has noted the following:

- The specific circumstances which cause the IFR / IFD Capital adequacy to be below the regulatory threshold.
- The Company remains capital solvent even with the provisions.

The Board of RESEC is considering the option to voluntarily surrender the Company's operating license as per the provisions of CySEC Directive D187-05 as further described herebelow.

Capital Reconciliation & Key Figures

Equity – Capital Reconciliation & Key Figures: USD$k	Dec-23	Dec-22
Share Capital	11	11
Retained Earnings	99,087	188,915
Audited (Loss)/Profit for the year	(202,396)	240,172
Other Reserves	134,991	134,991
Dividends distribution	-	(330,000)
Equity as on Balance Sheet	**31,693**	**234,089**
Additional Valuation Adjustments	(210)	(330)
Intangible Assets	(2,990)	(3,247)
ICF	(99)	(95)
Core Equity Tier 1 / Tier 1 Capital (Own Funds)	**28,394**	**230,418**
K-Factor Requirement*	65,939	68,036
Total Capital Adequacy Ratio	**43.06%**	**338.67%**
Tier 1 Capital Adequacy Ratio	**43.06%**	**338.67%**
Core Equity Tier 1 Capital Adequacy Ratio	**43.06%**	**338.67%**

Regulatory Minimums	IFR
Total Capital Adequacy Ratio	**> 100%**
Tier 1 Capital Adequacy Ratio	**> 75%**
Core Equity Tier 1 Capital Adequacy Ratio	**>56%**

Table 1: Equity – Capital Reconciliation & Key Figures

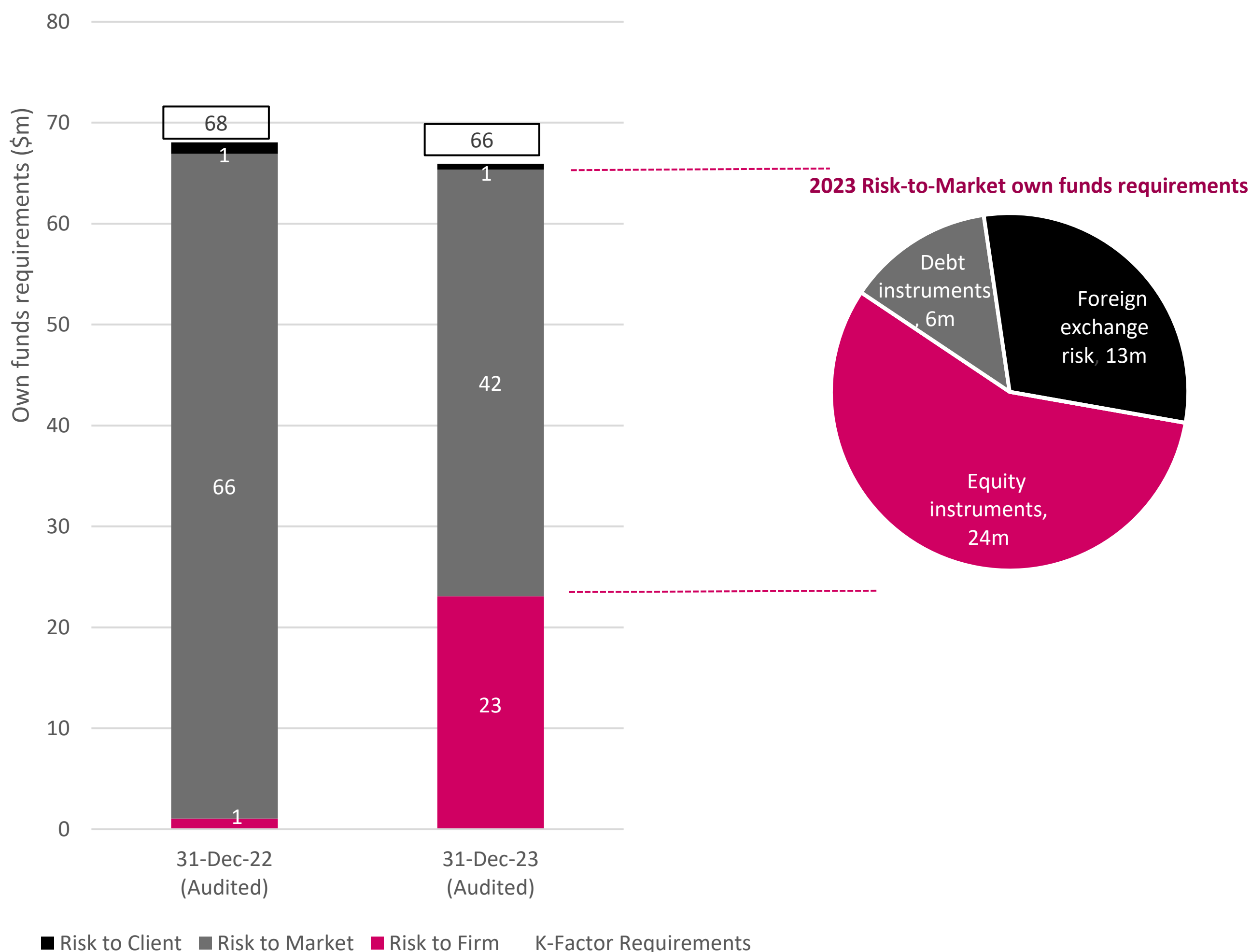
K-Factor Requirements Breakdown by Type

The K-Factor requirement of $65.9m is separated into Risk-to-Client ($0.6m), Risk-to-Market ($42.3m) and Risk-to-Firm ($23.1m):

		Dec-23		Dec-22	
K-Factor requirements ($k):	**Coefficient**	**Value**	**Requirement**	**Value**	**Requirement**
Total Risk to Client			**575**		**1,118**
K-AUM: Assets under management	*0.02%*	*N/A*	*N/A*	*N/A*	*N/A*
K-CMH: Client money held - segregated accounts	0.40%	30,318	121	87,540	350
K-CMH: Client money held - non-segregated accounts	0.50%	1,200	6	*N/A*	*N/A*
K-ASA: Assets safeguarded and administered	0.04%	1,118,089	447	1,917,827	767
K-COH: Client orders handled - Cash	0.10%	2	0	952	1
K-COH: Client orders handled – Derivatives	0.01%	0	0	3	0
Total Risk to Market			**42,288**		**65,865**
K-NPR: Net position risk	*N/A*	*N/A*	42,288	*N/A*	65,865
Equity instruments	*N/A*	*N/A*	23,823	*N/A*	29,638
Debt instruments	*N/A*	*N/A*	5,631	*N/A*	14,840
Foreign exchange risk	*N/A*	*N/A*	12,833	*N/A*	21,170
Commodities risk	*N/A*	*N/A*	0	*N/A*	218
K-CMG: Clearing member guarantee	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
Total Risk to Firm			**23,077**		**1,053**
K-DTF: Daily trading flow - Cash	0.10%	2,254	2	13,300	13
K-DTF: Daily trading flow - Derivatives	0.01%	0	0	22,976	2
K-TCD: Trading counterparty default	*N/A*	*N/A*	2	*N/A*	1,037
K-CON: Concentration	*N/A*	*N/A*	23,073	*N/A*	0
Total K-Factor Requirement			**65,939**		**68,036**

Table 2: K-Factor requirements for the year 2023

The K-Factor Requirement year-on-year movements



1.1. Risk Management Declaration

The Board of Directors of RESEC has the ultimate responsibility for the risk management of the Company and for determining the aggregate level and risk types they are willing to accept in achieving the Company's business objectives. The Board assesses the effectiveness of the Company's risk management strategies and policies to ensure the adequate monitoring, management and mitigation of the Company's risks.

On behalf of the Board of Directors, the Company's Risk Committee and Risk Management Function, have the responsibility for the oversight of risk management and internal controls. The Directors, through the aforementioned risk management functions, conduct an annual review of the effectiveness of RESEC's systems of risk management and internal control.

Following the Russian-Ukrainian crisis that commenced in February 2022, and the continuation of the challenging environment, the Company is applying enhanced risk management measures pertaining to the Company's liquidity, balance sheet quality (including assets and liabilities matching) and IFRS equity capital resiliency.

The Board considers that the Company has established effective risk management arrangements with regard to the Company's profile and strategy.

Board of Directors
Marios Hadjiyiannakis, Non-Executive Director
Athos Demetriou, Non-Executive Director
Stelios Prodromitis, Non-Executive Director
Elena Grishina, Executive Director; Chief Executive Officer
Panayiotis Stylianou, Executive Director; Head of Compliance and MLRO

1.2. Events after the reporting Date & Operating Environment

There were no events occurring subsequent to the reporting date, other than noted within the Operating Environment set out above and in Note 31 of the Financial Statements, which can be made available upon request.

We note that the Board of Directors is considering the option to voluntarily surrender the Company's operating license as per the provisions of CySEC Directive D187-05 (the "Directive"). The Board of Directors is considering whether the current operating model of the Company, under the existing material difficulties of conducting business related to the Russian capital market, under the intensity of the international sanctions against Russia and the countermeasures of the Russian Federation, under the Company's stated zero sanctions risk policy can be sustained. The Board of Directors recognizes that whatever path is determined, the complexities from the sanctions and the countermeasures and the impact on the access of clients to their assets in Europe and Russia will require many years to resolve. The Board of Directors is committed to maintaining the full infrastructure and governance in place aiming to protect clients and proprietary assets and to continuing an open, transparent and constructive relationship with CySEC to navigate through the complexities whichever path is finally agreed with the regulator to be followed. The Company is also seeking legal advice on the options available to it.

2. Introduction

2.1. Scope of the Disclosures

The Pillar III disclosures report (the "Report") should be read in conjunction with the financial statements of the Company for the year ended 31 December 2023, prepared in accordance with the International Financial Reporting Standards ("IFRSs").

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

Corporate Information

Renaissance Securities (Cyprus) Limited (the "Company") was incorporated in Cyprus as a limited liability company on 24 July 1995. The registered office of the Company is located at 2-4 Arch. Makarios III Avenue, Capital Centre, 9th Floor, 1065 Nicosia, Cyprus.

The Company holds a license from the Cyprus Securities and Exchange Commission (the "CySEC") (number KEPEY053/04 dated 22 December 2004), which permits the Company to operate as a Cyprus Investment Firm and to provide investment and ancillary services in relation to specific financial instruments.

The Company's immediate parent is Renaissance Financial Holdings Limited ("RFHL" and, together with its subsidiaries, the "Group" or commercially referred to as "Renaissance Capital"). RFHL is an 100% subsidiary of Onexim Holdings Limited, a limited liability company incorporated under the laws of the Republic of Cyprus.

The principal activities of the Company during the year were the provision of investment and ancillary services, primarily services relating to securities trading and brokerage and, proprietary trading in a significantly scaled down mode because of the Company's policy to derisk from the traditional core Russian capital market. The Company holds a license from the Cyprus Securities and Exchange Commission ("CySEC"), number KEPEY053/04 dated 22 December 2004, which permits the Company to operate as a Cyprus Investment Firm and to provide investment and ancillary services in relation to specific financial instruments.

2.2. Regulatory context: Investment Firms Regulation and Investment Firms Directive

The prudential regime for Investment Firms ("IFs") under the Investment Firms Regulation 2019/2033[1] (the "IFR") and the Investment Firms Directive 2019/2034[2] (the "IFD") entered into effect on 26 June 2021.

The prudential regime, specific for EU-regulated Investment Firms, has been introduced by the European Commission, in order to enhance the proportionality of the prudential framework for certain types of Investment Firms, replacing the Basel III CRR/CRD IV requirements.

RESEC, as an EU regulated Investment Firm has made an initial assessment during implementation that it falls under the prudential regime for Investment Firms **as a Class 2 Investment Firm**.

The prudential regime for Investment Firms still follows the provisions of Basel III and applied the framework of three mutually re-enforcing "Pillars":

- Pillar I defines the minimum regulatory capital requirements, based on principles, rules and methods specifying and measuring K-Factor (Own-Fund) requirements under Risk to Client, Risk to Market, and Risk to Firm. These requirements are covered by regulatory own funds, according to the rules and specifications of the IFR.
- Under Pillar II, firms evaluate whether they are holding sufficient internal capital and liquid assets to cover specific risks that are not fully captured under Pillar I. The main principle of Pillar II is that firms should have an internal capital adequacy assessment process and internal risk-assessment process ("ICARA") for assessing their overall capital adequacy and liquidity in relation to their risk profile and strategy.

  Pillar II also introduces the Supervisory Review & Evaluation Process ("SREP"), whereby the Regulator assesses the internal capital adequacy of regulated institutions.

[1] Regulation (EU) 2019/2033 of the European parliament and of the council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014
[2] Directive (EU) 2019/2034 of the European parliament and of the council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU

- Pillar III deals with market discipline by developing a set of disclosure requirements, which allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes and hence the capital adequacy of institutions, in accordance with Part 6 of the IFR.

Regulatory framework overview

The Pillar III Disclosures have been prepared in accordance with:

- Part Six of the IFR;
- Sections 37 and 50(1)(f) of Law 165(I)/2021* of the CySEC for the Prudential Supervision of Investment Firms, which harmonises the European Directive 2019/2034 (“IFD”) with local legislation;
- The Commission Implementing Regulation 2021/2284 of 10 December 2021 laying down implementing technical standards for the application of Regulation 2019/2033 of the European Parliament and of the Council with regard to supervisory reporting and disclosures of investment firms;
- The European Banking Authority’s (“EBA”) Draft Implementing Technical Standards on reporting requirements for investment firms under Article 54(3) and on disclosures requirements under Article 49(2) of Regulation (EU) 2019/2033;
- The EBA’s Guidelines on uniform disclosures under Article 473a of the CRR as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds issued in January 2018 (EBA/GL/2018/01).

In accordance with Section 7 of these Disclosures, the Company notes that the EBA’s Draft Regulatory Technical Standards on disclosure of investment policy by investment firms under Article 52 of Regulation (EU) 2019/2033 on the prudential requirements of investment firms, are not applicable.

According to Part Six of the IFR, Class 2 Firms should disclose the following on an annual basis:

- Risk Management objectives and policies, including a summary of risk management strategies and processes and a concise risk statement;
- Internal Governance Arrangements;
- Composition of regulatory own funds using predefined EBA Templates (namely IF CC1 & EU IFCC2 of Annex VI and VII of ITS 2021/2284);
- Main Features of own instruments issued by the firm using template IF CCA of Annex VI an VII of ITS 2021/2284;
- Remuneration policy and practices, including aspects related to gender neutrality and the gender pay gap;
- Investment policy.

*The European Union’s Investment Firms Directive (EU) 2019/2034 on the prudential supervision of Investment Firms was transposed into local legislation through the Prudential Supervision of Investment Firms Law of 2021 (Law 165(I)/2021) issued by CySEC and entered into force on 5 November 2021.

Some parts of the European Union’s CRR, as subsequently amended, are still in applicable, as referenced in the IFR.

2.3. Frequency and means of disclosure

RESEC prepares its Pillar III disclosures report on an annual basis in accordance with Article 46 of the IFR. These are published on the website of Renaissance Capital at:

https://www.rencap.com/we-are/legal-information - Under Renaissance Securities (Cyprus) Limited section.

2.4. Verification of Pillar III disclosures

The Report is published by the Firm as per its internal Pillar III Disclosures Policy, which covers the frequency of disclosures, external auditor verification and their overall appropriateness. The Report is approved by the BoD and has been prepared in accordance with the internal control processes of the Firm.

3. Risk Management Objectives and Policies

3.1. Risk profile

The principal activities of the Company is the provision of investment and ancillary services, primarily services relating to securities trading and brokerage, proprietary trading, capital markets and investment banking.

A significant part of the Company's risk profile and operating activity is dependent on the factors defining the operating environment in the Russian Federation and other markets where it operates.

3.2. Risk strategy & Risk Appetite

Risk is an inherent part of the Company's business activities. The Company's overall objective is to manage its business and associated risks in a manner that balances the risk-reward and the interest of customers, clients and investors to protect the safety and soundness of the Company.

The risk strategy of the Company is to prioritize capital preservation and maintain a low risk profile for its trading operations. This includes assessment of divestments opportunities from its trading portfolio in compliance with the evolving sanctions regime, ensuring minimal exposure to geopolitical risks. The Company established an effective risk management framework that supports a realisation of this risk-averse strategy which comprises of a local team of risk experts who perform continuous risk monitoring and control, to ensure that risk exposures remain within the overall risk tolerance level set by the Board of Directors. Risks are identified, measured, monitored and controlled on a daily basis.

Risks are identified, measured, monitored and controlled at the Company level. The risk appetite is defined at the level of aggregated risks that it can undertake and successfully manage on a long-term basis, according to its business strategy.

To limit risk, the Board of Directors has established the overall risk tolerance level taking into consideration the risk-taking capability of the Company.

In terms of Regulatory Capital / Capital Adequacy, the Company's objective is to maintain sufficient capital recourses to cover all relevant risks and ensure that the total Capital Adequacy Ratio under Pillar I is above regulatory limits, at all times. Similar statements and risk tolerance levels are set for all the risks the Company is exposed to.

3.3. Risk identification

The Company is exposed to the following four main risk types related to financial instruments:

- Credit risk is a risk that business partners of the Company will be unable to pay the contractual interest or principal on their obligations. It comprises mainly counterparty risk, issuer risk, securities financing risk, lending risk and concentration risk;
- Market risk is a risk that the value of a financial instrument will change due to movements in market factors. It comprises equity risk, interest rate risk, and foreign exchange risk;
- Liquidity risk comprises two elements: asset liquidity risk and funding risk. Asset liquidity risk is the risk that an asset cannot be sold due to lack of liquidity in the market or subject to other restrictions. Funding risk is the risk that sufficient liquid assets are not available to meet the liabilities when they fall due.
  Liquidity and funding risks are particularly important in periods of severe market turbulence or where the markets are not operating efficiently, i.e. where trading restrictions apply. Following the Russian-Ukrainian crisis that commenced in February 2022, and the continuation of the challenging environment, the Company is applying enhanced risk management measures pertaining to the Company's liquidity, balance sheet quality (including assets and liabilities matching) and IFRS equity capital resiliency.
- Country risk is the risk associated with country specific developments that affect credit standing of counterparties, issuers and clients operating in that country. Country events such as recession, an economic policy regime, implementation of sanctions programs administered by different bodies and countries, political change or loss of market confidence may lead to systemic counterparty, issuer and client defaults, adverse change of operating profits and the value of assets.

The Company specifically identifies and monitors foreign exchange risk arising from unhedged positions denominated in foreign currencies with capital control or trade restrictions, such as an exposure in Russian Rubles.

These risk types arise from the following financial instruments:

- Equities;
- Fixed income instruments;
- Different forms of financing transactions (repurchase transactions) – *no new financing in 2023*;
- Derivative instruments (with equities, indices, fixed income, currencies and commodities as underlying) – *no new contracts in 2023, all contracts terminated by April 2024*;
- Unhedged cash positions.

3.4. Risk organization and governance

The Company's risk organisation is an effective part of the overall risk management of the Company, ensuring effective risk monitoring by senior management and compliance with regulatory requirements for risk management. Risk organization and governance comprises of three main elements:

- Organizational structure for effective risk management;
- Risk standards (policies, procedures, methodologies);
- Risk reporting.

Organizational structure refers to three main levels of risk management: business level, portfolio level and strategic level. The Company's Risk Committee ensures effective risk management at the business level and perform risk monitoring at the portfolio level. The Board of Directors of the Company are responsible for the strategic risk view and for setting the profile of the Company.

As a Cyprus Investment Firm, the Company is required to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations under Cyprus laws and regulations, as well as the associated risks, and put in place adequate measures and procedures designed to minimize such risks.

To comply with the laws and regulations the following Organizational structure is in place:

- **The Board of Directors** has the ultimate responsibility for the risk appetite of the Company, the monitoring of risks on a regular basis, and the monitoring of the capital adequacy of the Company. The Board retains overall responsibility for Risk Management.
- **The Risk Management Committee:** the main purpose of the Risk Management Committee is to advise the Board on the Company's overall current and future risk appetite and strategy and assist the Board in overseeing the implementation of that strategy by senior management. The Company's Risk Committee is tasked by the Board of the Company with the following responsibilities:
  - review and assess the integrity and adequacy of RESEC's Risk Management Framework including processes and policies and the organisational structure;
  - promote a consistent Risk Management oversight at the Company level and set risk limits;
  - reviewing whether prices of liabilities and assets offered to clients take fully into account the business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the Committee presents a remedy plan to the Board;
  - examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earning streams.
  - **The Risk Management Committee Composition:** The Risk Management Committee is composed of the three non-executive directors.
- **The Risk Management Function carries out the following actions:**
  - implements the Company's risk policies and procedures, as required by Cyprus laws and regulations;
  - provides reports and advice to senior management of the Company ensuring all material risks are identified, measured and properly reported;
  - monitors the Company's capital adequacy standing and large exposures on a daily basis and is responsible for the Prudential Reporting to the Regulator;

Risk standards of the Company comprise of a set of policies, procedures and methodologies that the Company has established, implement and maintain on an ongoing basis for Risk Management.

Risk reporting can be divided into two groups: a) dedicated risk reporting by business lines and, b) risk dashboards:

- **Dedicated risk reports** give a detailed overview of risk at position or client level, and are sent daily to the responsible line managers and desk heads;
- **Risk dashboards** give an overview of risk at macro-level and are sent daily to the Company's management.

The Risk Management Function uses the following reports:

- **Risk Dashboards:** these reports summarise the total risk exposures and provide details/actions taken for any breach in internal limits. Monitoring of the reports provides an overview of potential exposures for the Company. Crucially, there is substantial information on collateral management and an analysis of counterparty exposures, Value-at-Risk ("VaR") and stress test values for Market Risk, analysed within product groups, as well as an analysis of the positions in various markets;
- **Risk Committee Reports:** these enable the Company to identify the major actions / risk concerns being addressed/identified and the potential impact of these. The Risk Committee can agree, approve and ratify risk limits / excesses.
- **Key Risk Indicator Report:** this report captures the Company's key operational risk indicators used to monitor operational risk;
- **Other Operational Risk Incidents Reports:** material incidents of operational risk losses or near misses are reported upon, investigated and followed-up;
- **Internal Capital Adequacy Assessment Process and Internal Risk-Assessment Process ("ICARA") :** was introduced under the IFR/IFD prudential regime and replaces the prior ICAAP process. The report contains the output of the risk methodology together with proposed actions and any applicable recommendations to management with regards to decision making for risk mitigation.

The Risk Management Function reports on matters arising from its work at each Risk Committee and Board of Directors meetings.

3.5. Risk Measures

The following risks are evaluated, monitored and managed by the Company:

3.5.1 Credit Risk

Credit risk represents the loss that the Company would incur if counterparties or issuers of securities or other instruments that the Company holds, fail to discharge their contractual obligations, or upon deterioration in the credit quality of third parties whose securities or other interests the Company holds.

In its business activity the Company is exposed to credit risk primary through its securities and derivatives trading and securities financing activity, underwriting and hedging activities with or for its clients and counterparties and cash placed with banks.

The Company operates within well-defined robust credit risk management environment. These include the requirement that the Risk Management function must set trading limits before counterparties can begin trading. Trading limits can only be approved by the Risk Committee or by the Company's Risk Management function, within granted authority. One-off limit extensions must be approved by authorised personnel, and any limit breaches are subject to escalation procedure in place.

The Company monitors counterparty credit risk across the whole range of its activities against limits on a daily basis.

Management of credit risk implies the following means:

- Counterparty credit approval process;
- Intraday credit limit utilization monitoring;
- Pre-trade customers' limit controls;
- Master netting agreements;
- Collateral and other risk-reduction techniques.

Credit risk is monitored on an aggregate and individual client and counterparty basis, with established limits that are reviewed and revised periodically. Collateral monitoring is performed on a daily basis within the existing Master Netting Agreements.

Credit Risk Management

The principles which underpin Credit risk management responsibilities and procedures are as follows:

- The Company operates within well-defined robust credit risk management environment;
- The Company has a clearly established process in place for approving new credit lines as well as the amendments and regular reviews of existing trade limits;
- The Company constantly applies credit risk mitigation techniques as part of the legal agreements negotiations process;
- The Risk Management function must set trading limits within the initial KYC process before counterparties can begin trading;
- Trading limits can only be approved by the Company's Risk Management function, within granted authority from the Risk Committee (individual credit risk appetite per name and internal rating). Any trading limits outside of the initial authority granted to the Company's Risk Management function must be approved by the Risk Committee. One-off short-term limit extensions must be approved by authorised personnel, in accordance with the control procedure in place.
- The Company has processes in place to monitor intraday utilization of limits; and
- The Company has in place a clearly defined escalation process for managing and resolving any trade limit extensions / breaches.

The Company monitors counterparty risk across the whole range of its activities against limits on a daily basis. Any breaches are assessed through close collaboration between the Risk Management function, individual Product heads and the CEO.

The Risk Management function uses the following tools to further mitigate credit risk:

- Capitalization, netting indemnities within the Group and credit derivatives;
- Collateral management is another important instrument of credit risk mitigation, where usually, cash and liquid securities are recognized as eligible collateral. Conservative haircuts are applied to eligible securities, with a safety cushion to cover for model risk and a margin call trigger.
- To mitigate settlement risk, trading with smaller counterparties is executed on prepayment/pre-delivery basis or delivery-versus-payment ("DvP") within small limits covering the pre-settlement risk of transactions.

Trading counterparty default ("TCD") own-fund requirements

The Company calculates its Trading counterparty default own-fund requirements following the provisions of Articles 25-32 of the IFR for its derivative positions (excluding the contracts cleared through a central counterparty), long settlement transactions (where applicable), repurchase transactions, securities or commodities lending or borrowing transactions, margin lending transactions, and any other type of SFTs.

Application of IFR: K-TCD	Dec-23	Dec-22
Replacement cost (RC)	(31)	(123,121)
Potential future exposure (PFE)	46	182
Collateral (C)	3,471	(159,306)
Exposure Value	16	41,181
K - factor requirement	**2**	**1,037**

Breakdown by type of counterparty	Dec-23	Dec-22
Central governments, central banks and public sector entities	-	-
Credit institutions and investment firms	-	732
Other counterparties	2	305

Table 3: IF 06.11 Trading counterparty default - TCD additional details

The Company applies daily margining according to its policies and procedures to all open financing and derivatives portfolios within reasonable minimum transfer amounts. This allows the Company to minimize its counterparty credit risk and be protected against adverse market moves and counterparty default on maturity date payments.

Credit Risk Hedging and Mitigation Policies

The Company actively mitigates credit exposure utilizing a variety of techniques including netting and securing positions through financial collaterals. Mitigation of credit risk is a key aspect of effective risk management and takes many forms. Recognizing credit risk mitigation (“CRM”) against exposures is governed by a robust set of policies and processes that ensure enforceability and effectiveness. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Netting policies and processes

Netting involves offsetting gains and losses on multiple transactions of the same type under the umbrella of a master agreement such as ISDA or GMRA. Market gains and losses on derivative and Repurchase Agreement transactions entered into with a given counterparty are offset against one another, so that if the counterparty defaults, the settlement figure is a single net amount, including collateral and margin placed / received, rather than a large number of positive and negative amounts relating to the individual transactions entered into with that counterparty. An important feature of a master netting agreement is that it entails a single legal obligation, encompassing all the transactions covered by the agreement.

Collateral management and valuation policies and processes

The receivable of financial collaterals is the main credit risk mitigant applied by the Company. Collateral may consist of either cash or securities, including stocks, sovereign bonds and corporate bonds. Additional collateral may be called should the net value of the obligations to the Company rise or should the value of the collateral itself fall. The valuation of collaterals and collateralised exposures is performed daily. The collateral is mainly received on a title transfer basis.

Past due and Impaired Exposures

At the reporting date, the Company assessed whether there is any objective evidence that a balance is impaired. Such a balance would be impaired if it is demonstrated that the Company’s ability to collect part or the entire amount is uncertain. Objective evidence of impairment may include indications that the debtors or a group of debtors are experiencing a significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The table below provides the amount of the Company's impairment loss and reversal of impairment losses for each class of financial assets. The Company does not have any past due but not impaired amounts.

(in thousands of USD)	**For the year ended 31 December 2023**	**For the year ended 31 December 2022**
Reversal of impairment loss on balances with related parties	182	91,756
Impairment loss on other financial assets	(3,553)	(11,009)
Total reversal of impairment loss	(3,371)	80,747

Table 4: Impairments

3.5.2 Concentration Risk

Concentration of exposures

Concentration of exposures can arise naturally from the Company's business activities, mainly as a result of the concentration on emerging and frontier markets. This concentration risk is closely monitored by the Risk Management function. When assessing credit concentration risk, the Company considers exposures concentration by issuer, exposures' residual maturity, credit quality and country/market. In addition, the Risk Management function always assesses the concentrations in respect of possibilities of the wrong-way risk uprise and takes it into the consideration of risk assessment of any transactions.

Wrong-way risk is the risk that the exposure to the counterparty is positively correlated with the probability of default of the same counterparty, which could cause the exposure to increase at the same time when the counterparty's ability to meet its obligations is decreasing (collateral and borrower correlation risks etc.). The Company has processes in place to monitor these risks throughout the lifecycle of each transaction.

Due to the Company's business model, the main sector the Company has exposure to is the financial sector.

Concentration risk ("CON") own-fund requirements

The Company monitors and controls its concentration risk own-fund requirements following the provisions of Articles 35-42 of the IFR.

An investment firm's limit with regard to the concentration risk of an exposure value with regard to an individual client or group of connected clients shall be 25% of its own funds. Where that individual client is a credit institution or an investment firm, or where a group of connected clients includes one or more credit institutions or investment firms, the limit with regard to concentration risk shall be the higher of 25% of the investment firm's own funds or EUR 150 million provided that for the sum of exposure values with regard to all connected clients that are not credit institutions or investment firms, the limit with regard to concentration risk remains at 25% of the investment firms' own funds. Where the amount of EUR 150 million is higher than 25% of the investment firm's own funds, the limit with regard to concentration risk shall not exceed 100% of the investment firm's own funds.

The Company, as of 31 December 2023 and following the reduction in Regulatory Capital due to the factors specified in the Executive Summary, had lower large exposure limits in line with the Regulatory Capital and, as a result, there were a number of proprietary Securities positions that breached the large exposure limits.

3.5.3 Market Risk (Net Position Risk)

Market risk is a risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity quotes, interest rates, foreign exchange rates and commodity prices. Market risk arises from the Company's exposure to changes in market prices for equities, interest rates and foreign exchange rates as well as correlations between various market prices and their volatility.

Taking into account the trading/brokerage activities of the Company, market risk arises from all relevant trading positions/securities allocated to the books of the Company. The main objective of market risk management is to mitigate the possible loss from uncertainties in market risk factors (equities, fixed income, foreign exchange and commodities).

All positions in financial instruments are classified as 'trading book'-positions with daily evaluation and calculation of market risk parameters. Market risk can also arise from lending/borrowing contracts or fixed income securities kept in the portfolio. Some of these contracts as well as other financial assets and liabilities generally bear interest at fixed rates over fixed time horizons. However, the Company actively manages risks resultant from such contracts by working on short-term maturities and floating rates negotiations. Subsequently, the maturities of the majority of the Company's assets and liabilities are relatively short-term. Consequently, the Company does not consider itself exposed to significant non-trading interest rate risk.

Market Risk Management

The Company applies the following instruments for management of market risk:

- Market risk management standards/policies;
- Hedging of equity, interest rate, foreign exchange and commodity risk;
- Limit system for equity, interest rate and foreign exchange risk.

The Desk is responsible for management and hedging of open interest rate positions and for the management of foreign exchange risks arising from its trading activities. Cash positions in other non-USD hard currencies are closed on a regular basis unless the Front Office requests the position to be kept for future trades or hedging purposes. The Treasury is responsible for corporate hedges.

The Company operates a policy of converting or hedging foreign currency trading receivables into USD to reduce its exposure to any local currency risk. It's not applicable to foreign currencies with capital control or trade restrictions.

The main objective of the market risk limit system is controlling and monitoring based on market risk exposure to different product types as well as monitoring sensitivity measures and Value-at-Risk ("VaR"). The limit system combines a global view on risks with market risk limits in different Front-Office desks and legal entities.

The Company's Value-at-Risk-model ("VaR-model") incorporates the following items:

- Historical VaR model for equity and commodity positions based on the previous 36 months' historical data;
- Parametric VaR model for currency positions based on the previous 36 months' historical data;
- Historical VaR model for interest rate risk bearing positions based on 36 months' historical data.

The VaR measures the amount of maximum loss which will not be exceeded with 99% probability as a result of normal but adverse market price movements over one day holding period.

	Dec-2023	Dec-2022
Equity and Commodities	7,117	9,173
Interest rate	1,778	4,790
Foreign Exchange	7,637	7,964
Total VaR	**12,566**	**18,093**

Table 5: Value at Risk

VaR figures for 2023 reflects the decreased size of trading portfolio, especially in the fixed income part with relative stable volatility on the main financial markets. Comparatively, VaR figures for 2022 reflects the increased volatility on the financial markets due to the impact of the Russian-Ukrainian crisis.

There are certain specifics to the VaR model:

- The historical data on which the calculations have been based may not reflect all the factors that are relevant to the estimation of VaR, give the correct weight to these factors or be the best estimate of risk factor changes that will occur in the future;
- Focusing on the maximum loss that is expected to be exceeded 99% of the time says little about the smaller losses that are expected to be incurred more frequently or the size of the losses in excess of the VaR that are expected to be incurred 1% of the time;
- VaR is calculated on the basis of exposures outstanding at the close of business day and therefore does not reflect intra-day exposures;

- For the purposes of historical VaR calculation for equity and commodity positions the Company uses volatility weighting method for historical VaR. The volatility is modelled as a weighted sum of previous-day volatility and the current-day squared return subject to weighting adjustment. The weight parameter is based on expert judgement;
- VaR is calculated on a gross basis, so correlation of interest rate, FX and equity / commodity risks is not considered;
- Calculations are based on USD rather than local prices movements, so that practically include FX risk of non-USD denominated positions into the equity VaR.

Net Position Risk ("NPR") own fund requirements

According to Article 22 of the IFR, there are 3 approaches available for the calculation of the own-fund requirements for net position risk, the standardised approach, the alternative standardised approach and the alternative internal model approach.

The Company has adopted the Standardised Approach, whereby the capital requirement for the trading book position of the Company, is estimated by risk category based on predetermined models. The table below presents the capital requirements in the trading book, by risk category:

Application of IFR: K-NPR *	31-Dec-23	31-Dec-22
Equity instruments	23,823	29,638
Debt instruments	5,631	14,840
Foreign exchange risk	12,833	21,170
Commodities risk	0	218
Total Standardised Approach K - factor requirement	**42,288**	**65,865**

Table 6: IF 06.09 K-Net position risk - K-NPR additional detail

*Non-Delta Risk (gamma, vega) based on specific sensitivities is captured for all types of net-position risk (where applicable).

Equity Financial Instruments

The Company's securities portfolio consists of the following products: cash equities, futures and forwards, European and American vanilla options and combinations of thereof. The underlying instruments for Derivatives products can be single-stock equities, baskets or equity indices.

Commodity Financial Instruments

The Company's commodities portfolio consists of Exchange traded commodities futures and options derivatives. The Company aims to take delta-neutral positions in any single Commodity. The maturity-ladder approach (as per Article 359 of the CRR) for calculating Commodities risk is applied.

Fixed Income Financial Instruments

The Company's debt trading book comprises various credit quality bonds as well as interest rate derivatives: such as interest rate futures/swaps, bonds futures and bonds options.

The credit assessment for the specific risk calculation of Traded Debt Instruments is based on Nominated External Credit Assessment Institutions as explained below.

Foreign Exchange Risk

Non-USD Foreign Exchange instruments are captured for the calculation of Foreign Exchange Risk

Delta adjusted exposures and Non-delta risk of Options own funds requirements for Market Risk under the CRR standardised approach:

For Option delta adjusted exposures, the Company uses the delta risk calculated using the internal models as per Article 329(1) of the CRR. For Option non-delta exposures, as per article 329(2) of the CRR, the regulation states that "Institutions shall adequately reflect other risks, apart from the delta risk, associated with options in the own funds requirements".

The EBA published on 17 December 2013, an RTS detailing the methodologies that can be used for the calculation of the non-delta risks of Options. From the 3 methodologies in the RTS, only the "delta plus" approach was appropriate to be used by the

Company. The Company calculates the non-delta risk own funds requirements under the “delta plus” approach by using the vega and gamma sensitivities of all options held in the trading book, as calculated daily using the internal model in the Company’s valuation system.

Stock-index futures

The Company has notified the CySEC about its intention to net off stock-index futures against opposite positions in constituent equities, as provided under Article 344 (3) of the CRR.

Nominated External Credit Assessment Institutions for the application of the Standardised Approach

For the purposes of applying the Standardised Approach, institutions are required to use risk assessments prepared by External Credit Assessment Institutions (“ECAI”) in order to determine the risk weightings to be applied. The Company’s nominated ECAIs, which are recognised by CySEC, are Fitch Ratings (“Fitch”), Standard and Poor's Rating Services (“S&P”) and Moody's Investor Service (Moody’s). ECAI risk assessments are used for risk weighting the Firm’s exposures to central governments and central banks, institutions and corporates.

The Company applies the mapping between risk weights and ECAI’s credit assessment specified in JC 2015 067 – Joint Final Draft Implementing Technical Standards on the mapping of ECAIs’ credit assessment under Article 136(1) and (3) of the CRR. The Company uses the ratings of all three ECAI in the following manner:

- If only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment is used to determine the risk weight for that item;
- If two credit assessments are available from nominated ECAIs and the two correspond to different weights for a rated item, the higher risk weight is assigned;
- If more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights are referred to. If the two lowest risk weights are different, the higher risk weight is assigned. If the two lowest risk weights are the same, that risk weight is assigned.

Exposures to or guaranteed by central governments and central banks of the European Economic Area (‘EEA’) states and denominated in local currency are risk-weighted at 0% using the standardised approach, provided they would be eligible under that approach for a 0% risk weighting.

Following the start of the Ukrainian Conflict, ECAIs have withdrawn their ratings of issuances of Russian corporates and the Russian Federation. Exposures to bonds of the Russian Federation were set at the last rating by the ECAIs, which was “CC”.

For exposures related to unrated corporates or institutions, the Company follows the provisions of Section 2, Chapter 2, Title II, Part Three of the CRR. Under these provisions, unrated Corporates incorporated in the Russian Federation use the last rating of the Russian Federation as described above.

3.5.4 Liquidity Risk

Liquidity risk is defined as the risk that the Company is unable to meet all payment or repayment obligations as they fall due, including the risk that the Company is unable to fund increases in assets at reasonable prices within a reasonable timeframe. Thus, liquidity risk can be divided into two elements: (1) Funding liquidity risk (having sufficient capacity to repay liabilities in normal and stressed markets); (2) Market liquidity risk (ensuring that the Company monitors the time it would take to reduce its assets in relation to the Company’s ability to access funding in stressed markets).

The local Liquidity Management Unit, being part of the Company’s Risk Management function, is responsible for all aspects of liquidity risk management, including cash management and funding. To mitigate liquidity risk, the Management has established global and local liquidity and funding policies. These policies are designed to mitigate the potential risk that the Group and subsidiary companies may be unable to access adequate financing to service its financial obligations when they become due without material adverse impact on the business. The key objective of the liquidity and funding risk management framework is to support the successful execution of business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of financial stress.

Through various risk and control functions and committees, Management reviews business performance relative to liquidity management policies, monitors the availability of alternative sources of financing, and oversees the liquidity, interest rate and FX sensitivity of the Company's assets and liabilities position. These functions and committees, along with Liquidity Management Unit, also assist in evaluating, monitoring and controlling the impact that the Company's business activities have on the Statement of Financial Position, liquidity and capital structure, thereby helping to ensure that such business activities are integrated with the Company's liquidity and capital policies.

For effective liquidity management, detailed cash flow forecast is prepared on a daily basis, which includes projections of the liquidity of the Company's trading assets, available inventory and daily cash summaries.

To consider potential stressed market conditions related to funding and market liquidity risk, liquidity stress tests are performed on a regular basis. Multiple scenarios are considered in these analyses. In each scenario the possible liquidity gaps are identified, reported to Management and necessary actions are taken.

The Company generally maintains its core back-up liquidity in the form of overnight deposits with major high-rated global banks. The liquidity sources of RESEC are reasonably diversified, by tenor and by product. Short-term liquidity sources include cash on deposit with banks, uncollateralized credit lines and repurchase agreements. The realization of assets and the issuance of medium-term debt as well as the Company's equity comprise the main sources of long-term liquidity. As previously mentioned, due to the market restrictions applied on some of the Company's assets following the Russian / Ukrainian crisis the Company is currently applying enhanced risk management measures pertaining to the Company's liquidity, and balance sheet quality (including assets / liabilities matching).

Liquidity Requirement

As per Article 43 of the IFR, the Company holds an amount of liquid assets equivalent to at least one third of the fixed overhead requirement calculated in accordance with Article 13(1) as captured on Section 5.4.

The Company's liquidity requirement of $1.17 mln is covered by $12.3 mln of U.S. Treasury Notes:

Liquidity Requirements *(thousands of USD$)*	**31-Dec-23**	**31-Dec-22**
Liquidity Requirement	**1,173**	**2,813**
Client guarantees		
Total liquid assets	**12,300**	**20,030**
Unencumbered short term deposits		
Total eligible receivables due within 30 days		
Level 1 assets	**12,300**	**20,030**
Coins and banknotes		
Withdrawable central bank reserves		
Central bank assets		
Central government assets	12,300	20,030
Regional government/local authorities assets		
Public Sector Entity assets		
Recognisable domestic and foreign currency central government and central bank assets		
Credit institution (protected by Member State government, promotional lender) assets		
Multilateral development bank and international organisations assets		
Extremely high quality covered bonds		
Level 2A assets		
Regional government/local authorities or Public Sector Entities assets (Member State, RW20 %)		
Central bank or central/regional government or local authorities or Public Sector Entities assets (Third Country, RW20 %)		
High quality covered bonds (CQS2)		
High quality covered bonds (Third Country, CQS1)		
Corporate debt securities (CQS1)		
Level 2B assets		
Asset-backed securities		
Corporate debt securities		
Shares (major stock index)		
Restricted-use central bank committed liquidity facilities		
High quality covered bonds (RW35 %)		
Qualifying CIU shares/units		
Total other eligible financial instruments		
Total Liquidity Requirements	**1,173**	**2,813**

Table 7: IF 09.00 – Liquidity Requirements (IF9)

3.5.5 Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal procedures, human behaviour and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

With respect to operational risk, the methodologies that have been implemented with the objective to identify, measure, assess, monitor, control, mitigate and report on the operational risks assumed by the Company, include Incident Management (material incidents of operational risk losses, near misses and gains are reported upon, investigated and followed-up), and risk assessment.

Operational Risk Management

The Operational Risk Management Function provides guidance and advice to the business lines and acts as a means of communication to and from the business lines and the Risk Committee and Board of Directors.

With respect to operational risk, the following methodologies have been implemented with the objective to identify, measure, assess, monitor, control, mitigate and report on the operational risks assumed by the Company:

- **Incident Management:** material incidents of operational risk losses, near misses and gains are reported, investigated and followed-upon;
- **Key Risk Indicators:** various metrics used to monitor operational risk at the legal entity level;
- **Risk Assessment:** active participation including assessment and monitoring of the risks in the introduction of new products, systems and businesses on a regular basis;
- **Risk Reviews:** various reviews performed on a regular basis on key control weaknesses in existing processes / key controls;
- **Periodic reviews** performed by Internal Audit.

The Company also maintains business recovery plans to support operations where a business disruption event may occur.

Own Fund Requirements

The prudential regime for Investment Firms under the IFR introduces several operational metric K-Factors which effectively monitor the Investment Firm's operational risks faced by the Client and the Firm itself. These are:

		Dec-23		Dec-22	
K-Factor requirements ($k):	**Coefficient**	**Value**	**Requirement**	**Value**	**Requirement**
Total Risk to Client			**575**		**1,118**
K-AUM: Assets under management	*0.02%*	*N/A*	*N/A*	*N/A*	*N/A*
K-CMH: Client money held - segregated accounts	0.40%	30,318	121	87,540	350
K-CMH: Client money held - non-segregated accounts	0.50%	1,200	6	*N/A*	*N/A*
K-ASA: Assets safeguarded and administered	0.04%	1,118,089	447	1,917,827	767
K-COH: Client orders handled - Cash	0.10%	2	0	952	1
K-COH: Client orders handled – Derivatives	0.01%	0	0	3	0
Total Risk to Firm			**2**		**15**
K-DTF: Daily trading flow - Cash	0.10%	2,254	2	13,300	13
K-DTF: Daily trading flow - Derivatives	0.01%	0	0	22,976	2

Table 8: Client to Firm K-Factors

K-DTF captures the operational risks to an investment firm in large volumes of trades concluded for its own account or for clients in its own name in one day which could result from inadequate or failed internal processes, people and systems or from external events, based on the notional value of daily trades, adjusted for the time to maturity of interest rate derivatives in order to limit increases in own funds requirements, in particular for short-term contracts where perceived operational risks are lower

K-COH captures the operational risks of orders handled on the name of the client.

K-CMH captures the operational risks of client money held by the Company either in segregated or non-segregated client money accounts. The Company hold all client money in segregated accounts..

K-ASA captures the operational risks of client assets safeguarded and administered by the Company irrespective whether the assets appear on the Company's Balance Sheet or are in third-party accounts.

3.5.6 Business Risk

Business risk is the risk that the Company will have lower than anticipated profits or that the Company will experience a loss rather than a profit. The business risk of the Company is influenced by the risk profile and strategy of the Company. Management is responsible for monitoring and taking the appropriate measures to support the Company's business.

3.5.7 Legal & Compliance Risk

Legal and Compliance risk is the regulatory risk or loss arising from increased litigations and breaches of the laws and regulations that the Company is required to be in compliance, within the various jurisdictions it operates.

The Legal and Compliance risk is monitored and managed by the Legal, Risk Management, Compliance and Regulatory teams. The Company has a zero-risk appetite for any Legal & Compliance, Sanctions or AML related matters.

3.5.8 Reputational Risk

Reputational risk is the risk of loss arising from damages to the Company's reputation.

The objective of the Company is to ensure that it maintains a solid reputation and avoids any events that could give rise to reputational risk. The Group operates a Reputational Risk Committee that assesses the appetite, monitors and manages reputational risk on a per transaction or business line basis for the entire Group.

3.6. Recovery Plan

The Recovery Plan was submitted on 29 September 2023 under the CySEC's Circular C351 on the 'Preparation and submission of recovery plans by CIFs' simplified reporting obligations (as confirmed by CySEC on 09 June 2023), prepared in accordance with the provisions of the Bank Recovery and Resolution Directive.

The objective of the Recovery Plan is to identify the potential options that the Company could implement to restore financial strength and viability should the Company come under severe stress.

The Recovery Plan:

- Defines the key recovery indicators to promptly identify stress situations.
- Includes stress scenarios in order to identify the impact on the recovery indicators.
- Determines specific recovery options that could be implemented to address profitability, liquidity and capital issues arising as a result of stress situations.
- Provides for the governance arrangements to be initiated during recovery emergency situations, which sets the process for invoking the Recovery Plan and appropriate steps during crisis situations.
- Includes a communication plan in the event of a crisis.

3.6.1 Activation of Recovery Plan

The Ukrainian Conflict that commenced in February 2022 has created significant geopolitical tensions and kicked off historic policy actions and moves across global markets and has led to an unprecedented shock on the Company's operations, assets and clients.

On 2 March 2022, given the worsening of the operating environment and its impact on the business the Company activated the Recovery Plan prepared under Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the "BRRD"). The communication pertaining to the activation of the Recovery Plan was initially submitted to CySEC on 3 March 2022.

At the same time, the Company engaged on a continuing basis with CySEC, the Central Bank of Russia and other regulators in order to provide full information and transparency of the challenges being faced and the short- and medium-term actions being undertaken.

3.6.2 Recovery of the Company's position

As of 31 December 2023, the Company has completed most of the steps for recovery detailed to CySEC and is in the closing stages of its recovery process, all of which are presented in the Company's Financial Statements, which can be made available upon request.

4. Governance Arrangements

4.1. Board of Directors

Under the rules of CySEC, any Cyprus regulated firm must have a Board of Directors that meets the requirements of CySEC and the Cyprus Investment Services Law. Specifically, the Board of Directors must:

a) be clearly responsible for setting or approving (or both) the business objectives of the firm and the strategies for achieving those objectives and for providing effective oversight of the management of the firm;

b) comprise an adequate number and mix of individuals who are of sufficiently good repute and have, among them, the relevant knowledge, skills, expertise and time commitment necessary to effectively carry out the duties and functions of the Governing Body; and

c) have adequate powers and resources, including its own governance practices and procedures, to enable it to discharge those duties and functions effectively.

On 3 January 2018, the Investment Services and Activities and Regulated Markets Law of 2017 (the "Law") entered into force.

On 30 April 2022, the EBA's Guidelines on internal governance under the IFD ("Governance Guidelines") came into force.

The Law, the IFD and the relevant Governance Guidelines require, amongst other, that the Board of Directors:

- devote adequate time for performing their duties and possess adequate collective knowledge, skills and experience to be able to understand the firm's activities, including the principal risks;
- must act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the senior management, where necessary, and to effectively oversee and monitor the decision-making of the management.

4.2. Number of Directorships

Renaissance Capital operates under uniform oversight, corporate governance and risk management structure. Executive Directors are not permitted to have any external directorships unless specific approval is provided by the Board.

The number of directorships held by members of the Board are as follows:

Director	Position	Executive Directorships	Non-Executive Directorships
Athos Demetriou	Independent Non-Executive Director - Chairman	1	3 *
Stelios Prodromitis	Independent Non-Executive Director	1	2
Marios Hadjiyiannakis *	Non-Executive Director	1	3 **
Elena Grishina	Executive Director	1	-
Panayiotis Stylianou	Executive Director	1	-

Table 9: Number of Directorships
** to request approval from CySEC for additional directorship*
*** approved by CySEC*

Notes on Directorships:

- Executive or non-executive directorships held within the same group shall count as a single directorship, as per the provisions of Section 9(5) of the Law.
- Directorships in organisations which do not pursue predominantly commercial objectives shall not count.
- Under the provisions of the Law, any Director can hold up to a) one executive directorship with two non-executive directorships; or b) four non-executive directorships. CySEC may allow one additional non-executive directorship, upon request.

All RESEC Directors have been approved by CySEC with respect to being fit and proper for their duties.

4.3. Recruitment Policy

Directors are appointed based on their experience and exposure to Investment services, Banking or Law, and must also be able to meet the fit and proper criteria of both CySEC (relevant questionnaire needs to be completed) and of the Company itself on an ongoing basis.

The Directors are expected to disclose conflicts of interest, matters of fitness and appropriateness that may impact their role on the Board of Directors as well as any other matter which potentially comprises their role and responsibilities on the Board of Directors. Clean criminal records, clean record from other service in regulated functions in the banking and investment services and minimum 5 years' experience are criteria that would indicatively be used for evaluating the competence of Directors.

It is to be noted that the appointment of any Director of RESEC is subject to the prior approval of CySEC which assesses the competence, fitness and appropriateness of the Directors given that they exercise control over the Company.

4.4. Diversity Policy

The Company's policy on diversity takes into consideration differences in sex, race, age, nationality, social origins, religious beliefs, or membership of associations. Diversity is a key element of the Company's selection process in determining the composition of the Board of Directors.

The Company considers that the overall composition of the Board represents a diverse skillset and experience and takes into consideration differences in gender, age and geographical province.

It is noted that Article 10 (2) (b) (ii) of the Law requires the setting of a target for the representation of the underrepresented gender in the board of directors and the preparation of a policy on how to increase the number of the underrepresented gender in the board of directors in order to meet that target. The target, policy and their implementation shall be made public.

It is noted that at the date of this Report, the Company's Board has yet to set the above required policy and target, although a female member has been appointed as an executive director on the Board.

4.5. Risk Management Committee

The Risk Committee of RESEC, acting on behalf of the Board of Directors, has met explicitly on 1 occasion in December 2023. All Risk Management related matters and discussion points were also discussed as part of the Company's Board of Directors meetings during 2023. For more information on the role and responsibilities of the Risk Management Committee, refer to Section 3.

5. Regulatory Capital (Own funds)

5.1. Definitions

The Pillar I regulatory capital of the Company is calculated on the basis of accounting balances computed and derived based on the adoption of IFRS. The available regulatory capital is classified under two main categories:

- Tier 1 capital (Common Equity Tier 1 Capital (CET1) plus Additional Tier 1 Capital);
- Tier 2 capital.

Tier 1 Capital

Common Equity Tier 1 Capital of the Company includes the following:

- Share Capital issued and fully paid;
- Share Premium;
- Retained earnings as per audited financial statements;

The Company holds no Additional Tier 1 Capital.

The Company deducts intangible assets and deferred tax assets that rely on future profitability from its Common Equity Tier 1 capital as per Article 36(i) (b) of the CRR. The Company also deducts contributions to investors' compensation funds from the Common Equity Tier 1 capital.

Tier 2 Capital

As of 2023 year end, no Subordinated loans are utilised by the Firm for the purposes of Tier 2 Capital.

5.2. Regulatory Minimum Capital Requirements

As at 31 December 2023, and as at the date of this Report, the Company is required to have own funds (consisting of the sum of their Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital) which are above 100% of its own funds' requirements, as per Article 9 of the IFR.

The own funds requirement ratios under the IFR Article 9 are:

- CET 1 should constitute at least 56% of capital requirements;
- Tier 1 should constitute at least 75% of capital requirements;
- Tier 1 and Tier 2 should constitute at least 100% of capital requirements

The Company follows a policy of monitoring its Capital Adequacy on a daily basis and strives to maintain adequate capital to meet its capital requirements at all times.

Throughout 2023, the Company complied at all times with all the minimum capital requirements imposed by the CySEC. As at 31 December 2023 and following the one-off charges on the balance sheet due to the Group restructuring and the discounts imposed on the Company's blocked assets (as explained in the executive summary), the Regulatory Capital held by the Company was reduced and was below the own funds requirements. The Capital Adequacy Ratio on 31 December 2023 was 43.06%.

The Company has proceeded to inform its regulator, the CySEC, accordingly and has initiated steps to reduce its own funds requirements and increase its capital in order to improve its capital adequacy position as soon as possible.

As of 23 December 2021, the Central Bank of Cyprus ("CBC"), as the designated macroprudential authority of Cyprus, concluded in collaboration with CySEC, that Class 2 Investment Firms will no longer be designated as Other Systemically Important Institutions ("O-SII"). Subsequently, RESEC as a class 2 Investment Firm captured under the prudential regime for Investment Firms, is no longer designated as an OO-SII in the Republic of Cyprus and the macro-prudential supervision requirements and buffers are no longer applicable. The Central Bank of Cyprus in its capacity as the National Resolution Authority of the Republic of Cyprus has set the Company's MREL requirement at 100% of its own funds' requirements.

5.3. Own Funds

This disclosure has been prepared using the format set out in Annex VI and the instructions set out in Annex VII of the EBA Draft Implementing Technical Standards on reporting requirements for investment firms under Article 54(3) and on disclosures requirements under Article 49(2) of Regulation (EU) 2019/2033.

The own funds of the Company as at 31 December 2023 were US$28.4 m.

Own Funds Disclosure Template	**At 31 December 2023** *(in thousands of USD)*	**At 31 December 2022** *(in thousands of USD)*
Share Capital	11	11
Other Reserves	134,991	134,991
Retained Earnings	(103,309)	99,087
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**31,693**	**234,089**
Regulatory adjustments to Common Equity Tier 1 (CET1):		
Transitional Arrangements for the introduction of IFRS 9 on Own Funds	-	-
Intangible assets	(2,990)	(3,247)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Additional Valuation Adjustment	(210)	(330)
Investors Compensation Fund (ICF) contributions (RESEC)	(99)	(95)
Common Equity Tier 1 (CET1) capital after regulatory adjustments	**28,394**	**230,418**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 Capital (T1=CET1 + AT1)	**28,394**	**230,418**
Tier 2 Capital		
Subordinated Loan Capital	-	-
Tier 2 (T2) Capital	**-**	**-**
Total capital (TC=T1+T2)	**28,394**	**230,418**
Total own funds requirement	**65,939**	**68,036**
Capital Ratios		
CET1 Capital ratio	43,06%	338.67%
T1 Capital ratio	43,06%	338.67%
Total Capital ratio	**43,06%**	**338.67%**
According to Article 9 of the IFR, a CIF shall at all times satisfy the following own funds requirements:		
CET 1 Ratio	**56%**	
Tier 1 Ratio	**75%**	
Total Own Funds Ratio	**100%**	

Table 10: Own Funds

The following EBA Template EU IF CC1: Own Funds below provides a reconciliation between the Statement of Financial Position presented in the audited Financial Statements and the balance sheet prepared for prudential purposes.

		At 31 December 2023	Source
		(in thousands of USD)	
1	**OWN FUNDS**	**28,394**	**30**
2	**TIER 1 CAPITAL**	**28,394**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**28,394**	
4	Fully paid up capital instruments	11	22
5	Share premium		
6	Retained earnings	(103,309)	23+25+26
7	Accumulated other comprehensive income		
8	Other reserves	134,991	24
9	Minority interest given recognition in CET1 capital		
10	Adjustments to CET1 due to prudential filters		
11	Other funds		
12	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	**(3,299)**	
13	(-) Own CET1 instruments		
14	(-) Direct holdings of CET1 instruments		
15	(-) Indirect holdings of CET1 instruments		
16	(-) Synthetic holdings of CET1 instruments		
17	(-) Losses for the current financial year		
18	(-) Goodwill		
19	(-) Other intangible assets	(2,990)	8 & 29
20	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		
21	(-) Qualifying holding outside the financial sector which exceeds 15% of own funds		
22	(-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds		
23	(-) CET1 instruments of financial sector entities where the institution does not have a significant investment		
24	(-) CET1 instruments of financial sector entities where the institution has a significant investment		
25	(-)Defined benefit pension fund assets		
26	(-) Other deductions	(210)	27
27	CET1: Other capital elements, deductions and adjustments	(99)	28
28	**ADDITIONAL TIER 1 CAPITAL**	**-**	
29	Fully paid up, directly issued capital instruments		
30	Share premium		
31	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
32	(-) Own AT1 instruments		
33	(-) Direct holdings of AT1 instruments		
34	(-) Indirect holdings of AT1 instruments		
35	(-) Synthetic holdings of AT1 instruments		
36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment		
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment		
38	(-) Other deductions		
39	Additional Tier 1: Other capital elements, deductions and adjustments		
40	**TIER 2 CAPITAL**	**-**	
41	Fully paid up, directly issued capital instruments		
42	Share premium		

		At 31 December 2023	Source
43	(-) TOTAL DEDUCTIONS FROM TIER 2		
44	(-) Own T2 instruments		
45	(-) Indirect holdings of T2 instruments		
46	(-) Synthetic holdings of T2 instruments		
47	(-) T2 instruments of financial sector entities where the institution does not have a significant investment		
48	(-) T2 instruments of financial sector entities where the institution has a significant investment		
49	Tier 2: Other capital elements, deductions and adjustments		

Table 11: Template EU IF CC1.01 – Composition of regulatory own funds

The following template (i.e., EBA EU IF CC2: Own Funds Reconciliation) set out below provides a comparison between the Statement of Financial Position presented in the audited Financial Statements and the balance sheet prepared for prudential purposes. The below table reconciles with the EBA Template EU IF CC1 presented above.

	Carrying Value of items (thousands of USD $)	Balance sheet as in audited financial statements	Under regulatory scope of consolidation	Cross Reference to EU IF CC1
1	**Assets**			
2	Cash and cash equivalents	94,067	94,067	
3	Financial Assets at fair value held for trading	207,075	207,075	
4	Derivative financial assets	15	15	
5	Receivables	56,157	56,157	
6	Receivables from group companies	45,483	45,483	
7	Other assets	979	880	27
8	Intangible assets	2,990	-	19
9	Property and equipment	10	10	
10	**Total Assets**	**406,776**	**403,687**	
11	**Liabilities**			
12	Financial Liabilities at fair value held for trading	2,848	2,848	
13	Derivative financial Liabilities	44	44	
14	Securities sold under agreements to repurchase	-	-	
15	Payables	212,008	212,008	
16	Payables to group companies	98,291	98,291	
17	Loans payable	1,640	1,640	
18	Other liabilities	55,597	55,597	
19	Accrued expenses	4,656	4,656	
20	**Total Liabilities**	**375,084**	**375,084**	
21	**Shareholders' Equity**			
22	Share capital	11	11	
23	Retained earnings	99,087	99,087	
24	Additional paid-in capital	134,991	134,991	
25	Dividends to Shareholders	-	-	
26	Net profit (loss) for the period	(202,396)	(202,396)	
27	Additional value adjustments	-	(210)	26
28	ICF	-	(99)	27
29	Intangible assets	-	(2,990)	19
30	**Total Shareholders' equity**	**31,692**	**28,394**	1

Table 12: Template EU IF CC2: Own Funds: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

Additionally, the EBA Template EU IF CCA: "Own funds main features of own instruments issued by the firm" can be found in Appendix I

Share Capital

At 31 December 2023, the authorised share capital of the Company comprised 5,000 ordinary shares with a nominal value of €1.99 each (equivalent of US$2.2 per share) all issued at a premium to nominal value, therefore creating total share capital and share premium of US$135,002k.

The shares of the Firm are identical, including economic rights. The rights, preferences, and restrictions with respect to voting, the distribution of dividends, and the repayment of capital are contained in the Memorandum of Association and By-Laws of the Firm. At 31 December 2023, there were no limitations on the distribution of retained earnings to the shareholder.

Deductions from Own Funds

The Firm, in accordance with Article 9 of the IFR, deducted from CET1 capital the amounts of:

- US$(2,990)k of intangible assets relating to the Company's IT Software, Licenses and Development costs (net of related amortisation);
- US$(210)k Additional value adjustments, required in Article 34 of the CRR and calculated using the Simplified approach for the calculation of Additional Value adjustments, as detailed in the EBA FINAL draft Regulatory Technical Standards on prudent valuation under Article 105(14) of the CRR; and
- US$(99)k representing the contributions to CySEC's Investors' Compensation Fund.

Restrictions applied to the calculation of own funds

No restrictions apply on the items listed above for the purpose of the calculation of own funds in accordance with the IFR.

It should be noted that on the basis of Article 9 (1) of the IFR and the EBA guidelines on prudent valuations, institutions shall deduct from CET1 capital the amount of any additional value adjustments relating to assets and liabilities measured at fair value.

5.4. Own Funds Requirements

Pillar I Requirement

The Firm applies the following approaches for calculating Pillar I capital requirements:

a. The sole approach as described in Chapter 2 of the IFR for Risk-to-Client K-factor requirements for Class 2 Investment firms. These are: K-CMH (Clients' Money Held) and K-ASA (Assets Safeguarded and Administered);
b. The Standardised Approach under the CRR for Risk-to-market K-factor requirements (K-CMH not used for centrally cleared derivatives);
c. The sole approach as described in Chapter 4 of the IFR for Risk-to-Firm K-factor requirements for Class 2 Investment firms. These are: K-TCD (Trading Counterparty Default), K-CON (Concentration Risk) and K-DTF (Daily Trading Flows).

Class 2 firms shall at all times have own funds (sum of Common Equity Tier 1, Additional Tier 1 and Tier 2, subject to certain conditions) which amount at least to the highest of the following:

1. The permanent minimum requirement: $829k (€750k)
2. The fixed overheads requirement: $3,519k
3. The K-Factor requirement: $65,939k

The primary objective of the Company's capital management is to ensure that it maintains a strong credit standing and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the regulatory environment.

Pillar II Requirement

Capital adequacy assessment process and internal risk-assessment process ("ICARA")

The Company monitors and assesses capital adequacy and liquidity through the Capital Adequacy Ratio ("CAR") under Pillar I and Pillar II.

Following the implementation of the prudential regulatory framework for Investment Firms, the Company is required to replace their Internal Capital Adequacy Assessment Process ("ICAAP") with the new Internal Capital & Risk Assessment ("ICARA") Process.

The Risk Management Function of the Company is in the process of finalizing the Company's Internal Capital Adequacy Assessment Process and Internal Risk-Assessment Process ("ICARA") based on the requirements of Article 24 of the IFD. The ICARA includes a thorough analysis of the Company's business model, legal and trading structures, revenue sources, cost drivers, liquidity and capital sources.

The Company has a policy of continuously monitoring capital adequacy levels under both Pillar I and Pillar II and where appropriate, instigates appropriate actions to reinstate the capital adequacy ratio to meet the required regulatory levels.

The following table illustrates the capital requirements for the Company and compares the K-factors as at year ended 31 December 2023 and 31 December 2022:

Overview of K-factors *(thousands of USD$)*			31/12/2023		31/12/2022	
			Factor Amount	K-factor requirement	Factor Amount	K-factor requirement
Article 15	1	**TOTAL K-FACTOR REQUIREMENT**		**65,939**		**68,036**
Article 16	2	**Risk to Client**		**575**		**1,118**
Article 17	3	Assets under Management	-	-	-	-
Article 18	4	Client Money Held – Segregated	30,318	121	87,540	350
Article 18	5	Client Money Held – Non - Segregated	1,200	6	-	-
Article 19	6	Assets safeguarded and administered	1,118,089	447	1,917,827	767
Article 20	7	Client orders handled – Cash trades	2	0	952	1
Article 20	8	Client orders handled – Derivatives Trades	-	-	3	0
Article 21	9	**Risk to Market**		**42,288**		**65,865**
Article 22	10	K – Net positions risk requirement		42,288		65,865
Article 23	11	Clearing Margin given	-	-	-	-
Article 24	12	**Risk to Firm**		**23,077**		**1,053**
Article 26	13	Trading counterparty default		2		1,037
Article 33	14	Daily trading flow – Cash trades	2,254	2	13,300	13
Article 33	15	Daily trading flow – Derivative trades	-	-	22,976	2
Article 39	16	K – Concentration risk requirement		23,073		-
	17	Total		**65,939**		**68,036**

Table 13: Overview of K factors (own fund requirements)

Investments in Crypto assets on a speculative basis

As per the provisions of CySEC's Circular C462 on the prudential treatment of crypto assets and enhancement of risk management procedures associated with crypto assets: As at 31 December 2023, as the Company had no holdings of crypto asset investments on a speculative basis.

Fixed Overheads Requirement and Liquidity

The fixed overheads requirement calculated in accordance with Article 13(1) is based on 25% of the Fixed Overheads from the prior year financial statements calculated as per the below:

Fixed Overheads Requirement Calculation *(thousands of USD$)*	**31/12/2023**	**31/12/2022**
Fixed Overheads Requirement	**3,519**	**8,440**
Annual Fixed Overheads of the previous year after distribution of profits	**14,075**	**33,759**
Total expenses of the previous year after distribution of profits	**15,291**	**45,632**
Of which: Fixed expenses incurred on behalf of the investment firms by third parties		
(-) Total deductions	**(1,216)**	**(11,873)**
(-) Staff bonuses and other remuneration	(1,216)	(11,873)
(-) Employees', directors' and partners' shares in net profits		
(-) Other discretionary payments of profits and variable remuneration		
(-) Shared commission and fees payable		
(-) Fees, brokerage and other charges paid to CCPs that are charged to customers		
(-) Fees to tied agents		
(-) Interest paid to customers on client money where this is at the firm's discretion		
(-) Non-recurring expenses from non-ordinary activities		
(-) Expenditures from taxes		
(-) Losses from trading on own account in financial instruments		
(-) Contract based profit and loss transfer agreements		
(-) Expenditure on raw materials		
(-) Payments into a fund for general banking risk		
(-) Expenses related to items that have already been deducted from own funds		
Projected fixed overheads of the current year	**14,990**	**35,953**
Variation of fixed overheads (%)	**6.50%**	**6.50%**
Total Fixed Overhead Requirement	**3,519**	**8,440**

Table 14: IF 03.00 - Fixed Overheads Requirement Calculation (IF3)

Investment firms are required to hold an amount of liquid assets equal to at least one third of their fixed overheads requirement.

The Company’s liquidity requirement of $1.2 mln is covered by $12.3 mln of U.S. Treasury Notes as at 31 December 2023.

6. Remuneration disclosures

6.1. Overview

In accordance with the requirements of the Prudential Supervision of Investment Firms Law of 2021 and the IFD, the Company has adopted a formal disclosure policy to publicly disclose the information regarding the remuneration policy and practices for those categories of staff whose professional activities have a material impact on the risk profile of the Company. According to the Company's Remuneration Policy, the Risk and Finance departments maintain a list with "Code Staff", which includes senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers (whose professional activities have a material impact on the Company's risk profile).This is in full compliance with the requirements of the Prudential Supervision of Investment Firms Law of 2021 and the IFD.

6.2. Remuneration Committee

The overall market compensation practices have been historically set at Group level and implemented and/or adjusted at legal entity level as the specific situation may so require, so that local legal entity level circumstances, such as jurisdiction legal and regulatory requirements, employment law requirements, market and industry practices and competition analysis, are considered and addressed.

Since April 2024, the Company has established a local Remuneration Committee consisting of the two independent Non-Executive Directors.

The Remuneration Committee ensures that all remuneration policies are operated, and all remuneration decisions are in line with the stated risk appetite and framework of the Company and its current and future financial position as well as competitive market practices. Awards are subject to a defined review and sign-off process.

6.3. Remuneration Policy

The Company's Remuneration Policy, which is updated at least on an annual basis, supports the business objectives and corporate values of the Company to promote prudent risk management and to avoid excessive risk taking by attracting, retaining and motivating the key talent needed to achieve these outcomes.

The Company's remuneration arrangements represent a combination of salary, bonuses and a long-term incentive plan. The plan is designed to facilitate pay-for-performance and to retain key employees. The benefits accruing under the policy are based upon employee achievements and the financial performance of the Company.

The Company does not currently use a pre-set formulaic matrix to determine either basic remuneration or variable remuneration. The determination of remuneration is a fully discretionary process informed by various performance metrics including individual performance measured against standard competencies and qualitative annual goal attainment, and industry peer remuneration levels.

The Company ensures that the variable remuneration bonus pool is a conservative percentage of the Company's operating income and also taking into consideration the level of other operating expenses. In setting the variable pay, the Company also has regard to any regulatory guidance or recommendations.

It is acknowledged that the reputation and success of the Company is due to the service provided to clients by highly qualified and committed staff. Staff are therefore one of the key assets of the organisation and it is the Company's policy to attract and retain the best people.

In light of the above, when fixing the remuneration policies and packages for current and future periods the Company considers the following:

1. the need to attract, retain and motivate staff of the quality required; and
2. what comparable companies are doing, taking into account relative performance and business model.

6.4. Link between pay and performance

The Company recognizes the responsibility that Code Staff have in driving its future success and delivering value for shareholders and that remuneration is a key component in motivating and rewarding these staff. Code Staff remuneration is based on competitive market-based wages that fairly compensate employees in view of skills provided, work performed, and responsibility undertaken. Overall remuneration includes an annual variable incentive compensation reflecting individual performance and responsibility, both short-term and long-term, as well as the Company's relevant department performance and overall corporate performance.

The individual performance is assessed during the annual appraisal process, which establishes objectives for all staff covering both financial and non-financial metrics, specific behavioural competencies including compliance and risk management behaviours with regards to the Company's 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 a reduction of an employee's annual short-term incentive award.

6.5. Design Characteristics of the remuneration system

Compensation Mix

The Compensation Committee takes into account, when determining remuneration awards, the need to ensure an appropriate ratio between fixed and variable pay to ensure that the Company is able to operate a fully flexible incentive policy. This includes the ability to pay no bonuses should performance of the Company and/or an individual require this.

Salary

Salary levels are intended to be market competitive and ensure that an appropriate balance of fixed to variable compensation is maintained.

Deferral

Cash Deferral awards granted in any given year are amortized over a specified vesting period (at 31 December 2023 -3 years). A portion of the award is vested and paid out annually, with the unpaid balance bearing interest at Federal Funds Rate plus 2%. Payment is subject to the Company's remuneration policy and occurs each January following the year in which the deferral has started.

As there are no plan assets as of the reporting date, the liability recognized is equal to the present value of the defined benefit obligation at the reporting date, calculated under the Projected Unit Credit Method. In determining the present value of its defined benefit obligations, the Company attributes benefits to periods of service under the plan's benefit formula. The probability that some payments under the plan may not vest, i.e. that some employees may resign or leave in the future periods after the reporting date is reflected in the model via the staff turnover ratio. The Company adjusts this estimate annually based on actual data and changes in Management expectation regarding the staff turnover. The benefits accruing under the performance related remuneration policy are based upon employees achieving their relevant objectives and the financial performance of the Company. Amounts payable under the compensation policy at the reporting dates have been recognized to the extent that they related to the reporting periods and have been fully earned as of the reporting date.

Severance

Any payments related to the early termination of contracts will reflect performance achieved over time and will be designed in a way which does not reward failure, as well as legal and/or contractual obligations.

Equity awards

The Company has not historically operated an equity or equity award system. Whilst the Company appreciates the benefits of an equity or equity linked remuneration system, given the private nature of the Company (and hence the inability to trade vested stocks) it is considered that an equity linked system was not appropriate, but rather a long-term loyalty performance is best captured through the vesting of monetary awards. The Company's is now considering an equity (or similar product) award programme in order to align with the requirements of the Prudential Supervision of Investment Firms Law of 2021.

Ratio between fixed and variable remuneration

The Company ensures that 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 Company applies appropriate ratios between the variable and the fixed component of the total remuneration in their remuneration policies, taking into account the business activities of the investment firm and associated risks, as well as the impact that different categories of staff have on the risk profile of the investment firm. This is as per the requirements of Article 30 of the IFD.

6.6. Aggregate quantitative information

The tables below present the total amount of remuneration during the financial year, split into fixed and variable.

Key management personnel

(in thousands of USD)	At 31 December 2023	At 31 December 2022
Total number of Code Staff (Key Management)	**6**	**6**
Fixed Remuneration (incl. salaries, insurance & social security contributions)	1,094	883
Variable Remuneration (Cash Bonus Awards & other)	635	10,931 *
Total remuneration	**1,729**	**11,814**

Table 15: Key Management Personnel Remuneration

** Includes a severance payment of key management*

Other Code Staff

(in thousands of USD)	At 31 December 2023	At 31 December 2022
Total number of Code Staff (Other)	**4**	**6**
Fixed Remuneration (incl. salaries, insurance & social security contributions)	458	454
Variable Remuneration (Cash Bonus Awards)	304	367
Total remuneration	**762**	**821**

Table 16: Other Code Staff Remuneration

The tables below present the amounts of **deferred remuneration** which was paid out and awarded during the financial year. The part that was granted but not awarded is the unvested part of the deferred remuneration.

Key management personnel

(in thousands of USD)	At 31 December 2023	At 31 December 2022
Total number of Code Staff (Key Management)	**6**	**6**
Variable Remuneration expensed during the year	0	10,931
Variable Remuneration granted during the year	416	0

Table 17: Key Management Personnel Deferred Remuneration

Other Code Staff

(in thousands of USD)	At 31 December 2023	At 31 December 2022
Total number of Code Staff (Other)	**4**	**6**
Variable Remuneration expensed during the year	0	367
Variable Remuneration granted during the year	195	0

Table 18: Other Code Staff Deferred Remuneration

Deferred Remuneration vesting schedule*

(in thousands of USD)	At 31 December 2023
Year 2024	203
Year 2025	204
Year 2026	204
Total	611

** Interest on deferred balances and turnover assumptions included*

6.7. Governance and Remuneration practices under Law 165(I)/2021

Overview

Through Sections 24 to 28 of Law 165(I)/2021 (the “Prudential Supervision Law”), CySEC seeks to ensure that the remuneration, whether this is fixed or variable and regardless of the timing of the payment of it, of senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management (or risk takers), is such that ensures the actions of the above mentioned employees are for the long term benefit of the Investment Firm.

The Company must set such policies that must comply with the Prudential Supervision Law in a manner and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of their activities.

7. Investment Policy

According to paragraph 1 of IFR Article 52, investment firms which do not meet the criteria referred to in point (a) of Article 32 (4) of Directive (EU) 2019/2034 shall disclose the following in accordance with IFR Article 46 of this Regulation:

a) the proportion of voting rights attached to the shares held directly or indirectly by the investment firm, broken down by Member State and sector;
b) a complete description of voting behaviour in the general meetings of companies the shares of which are held in accordance with paragraph 2 of IFR Article 52, an explanation of the votes, and the ratio of proposals put forward by the administrative or management body of the company which the investment firm has approved; and
c) an explanation of the use of proxy advisor firms;
d) the voting guidelines regarding the companies the shares of which are held in accordance with paragraph 2 IFR Article 52.

To this end, in accordance with the requirements of Article 52(2) of the IFR, member firms shall comply with the disclosure requirements in Article 52(1) of the IFR, as follows:

"only in respect of each company whose shares are admitted to trading on a regulated market and only in respect of those shares to which voting rights are attached, where the proportion of voting rights that the investment firm directly or indirectly holds exceeds the threshold of 5% of all voting rights attached to the shares issued by the company. Voting rights shall be calculated on the basis of all shares to which voting rights are attached, even if the exercise of those voting rights is suspended"

As at 31 December 2023, none of the shareholdings owned by the Company currently exceed the 5% threshold explained above, therefore the Company is not required to disclose any of its shareholdings on templates as per Annex I and Annex II of the EBA Draft Regulatory Technical Standards on disclosure of investment policy by investment firms under Article 52 of Regulation (EU) 2019/2033 on the prudential requirements of investment firms.

8. Environmental, Social and Governance Risks

8.1. ESG risk identification

Environmental, social and governance (ESG) risk refers to the risk the investment firm's operations, counterparties, clients or invested assets face as a result the current or prospective impact of environmental, social, and governance factors.

ESG risk materialises through the traditional categories of financial risks (credit risk, market risk, operational and reputational risks, liquidity and funding risks).

These factors are increasingly recognized as important indicators of a company's long-term sustainability and profitability. Environmental factors can include issues such as climate change, natural resource depletion, and pollution. Social factors can include issues such as human rights, labour standards, and community relations. Governance factors can include issues such as board composition, executive compensation, and corruption. Investment firms that fail to effectively manage ESG risks may face financial, reputational, and regulatory consequences.

The Company is developing an ESG agenda which will include monitoring the various ESG risks, including physical risks and transition risks related to the transition to a more sustainable economy. In 2022, the Company started developing its detailed ESG risk framework which includes the ESG risks in relation to other material risks for the Company. The largest impact of ESG risks are on credit risk, market risk, funding risk and operational risk. In 2023, the Company continued to develop and implement ESG risk management within its overall risk management framework based on this assessment.

No economic capital was allocated, nor expected credit losses or other allowances were charged in the Company's financial statement for 2023 due to ESG risks. ESG risks had no direct financial impact on the Company's 2023 financial results.

8.2. Internal Governance considerations

As a Class 2 investment firm, the Company aims to establish a strong ESG policy that outlines the Company's commitment to responsible investing and sustainability. This policy will be regularly reviewed and updated to ensure it remains relevant and effective.

In addition, the Company will explore the inclusion of ESG due diligence when making investment decisions and ensure that this information is fully disclosed to clients. The Company will study the implementation of an approach to monitor and report on the ESG performance of its investments and institute actions to address any issues that arise.

Finally, the Company will look into engaging with Clients and Counterparties on ESG issues, encouraging them to improve their sustainability practices and promoting transparency and accountability in their reporting. By taking these actions, the Company can mitigate ESG risks and demonstrate its commitment to responsible investing.

8.3. ESG Strategy development

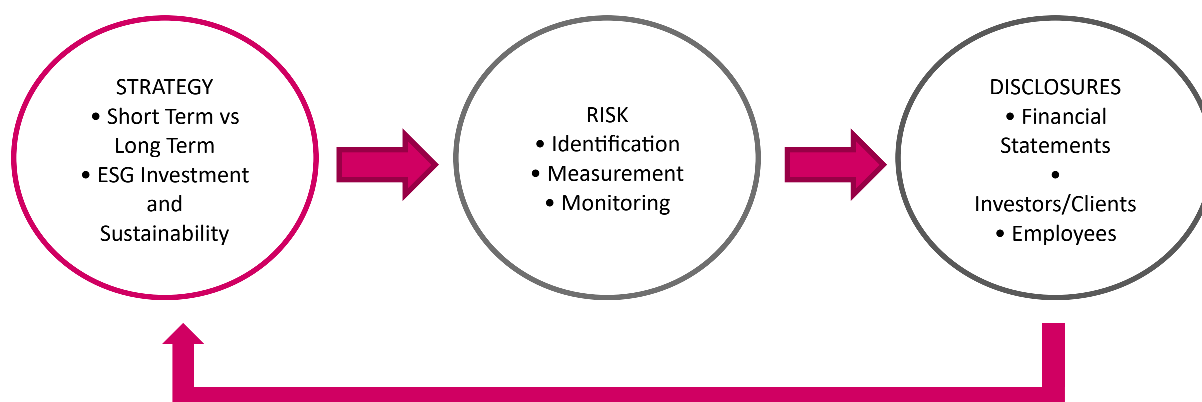
The Company will develop policies for sustainable investing practices such as:

1. Incorporating ESG considerations into investment decision-making: Develop comprehensive ESG policies and integrate ESG analysis into the investment decision-making processes. This can involve identifying companies with strong ESG performance and avoiding investments in companies with poor ESG performance.
2. Engaging with Clients and Counterparties: Engage on ESG issues, encouraging them to improve their sustainability practices and promote transparency and accountability in their reporting.
3. Promoting sustainable investing practices: Work with industry organizations and stakeholders to promote sustainable investing practices and standards.
4. Investing in sustainable solutions: Prioritise investments in companies that are developing sustainable solutions, such as renewable energy, sustainable agriculture, or green technologies.
5. Advocating for policy changes: Use our influence to advocate for policy changes that support sustainable investing practices, such as carbon pricing or ESG disclosure regulations.

By implementing these long-term ESG strategies, the Company can promote sustainable investing practices and contribute to a more sustainable and resilient economy.

8.4. ESG Risk management

The goal of the ESG strategy would be to eventually add ESG risk factors to the Company's risk measures. The Risk Management division would be responsible for assessing, measuring and developing risk measures for relevant risk factors in the Policy.



ESG risk drivers, e.g. physical climate risk and non-compliance with ESG governance rules, can affect and amplify traditional financial risk factors such as credit and market risk via various transmission channels such as:

- Lower profitability
- Lower asset performance
- Increased cost of compliance
- Increased legal costs.

The Company will assess the impact and materiality of different ESG risk factors on other material financial risk factors in its operations. Development and integration of ESG risk assessment within the Company's risk framework will commence in 2023 with the aim of producing a complete ESG risk management policy.

8.4.1 Environmental Risk

The risk of any adverse financial impact on the Company resulting from environmental factors, such as climate change and other forms of environmental degradation, on its invested assets or counterparties is known as environmental risk.

The most significant environmental risk factor for the Company's operations is climate risk which has the potential to severely impact all markets the Company operates in.

8.4.2 Social risk

Social risk refers to the possibility of an adverse financial impact on the Company that may result from the present or future effects of social factors on its counterparties or invested assets. Such factors may include, but are not limited to, community and social engagement, labour standards and employee relationships, product responsibility and client protection, and human rights.

The Company may also face social risk through its own operations due to reputational and conduct risk, which could arise if it fails to comply with regulations, laws, and industry standards regarding gender equality, inclusivity, health, and safety in the workplace.

8.4.3 Governance risk

The risk of any unfavourable financial impact on the Company that may result from the present or future effects of governance factors on its invested assets or counterparties is referred to as governance risk.

Such factors may include ethical considerations, risk management and strategy, inclusivity, transparency, management of conflicts of interest, and internal communication of critical concerns.

The Company may also face governance risk through its own operations due to reputational and conduct risk. The Company has a robust governance structure, featuring a three-line defence setup for risk governance, strong internal audit and compliance departments, and a transparent remuneration policy.

8.5. ESG Disclosure requirements

In accordance with the requirements of Article 53 of the IFR, member firms shall comply with the disclosure requirements in Article 53 of the IFR from 26 December 2022 onwards.

From 26 December 2022 Class 2 investment firms must disclose information on environmental, social and governance risks, including physical risks and transition risks, as defined in the report referred to in Article 35 of Directive (EU) 2019/2034. Following the IFR, class 2 investment firms will have to disclose prudential information on ESG risks, similar to the information required from large institutions under the CRR in accordance with Article 449 CRR.

The EBA published the Implementing Technical Standards (ITS) on prudential disclosures on ESG risks in accordance with Article 449a of the CRR on 22 January 2022. “Annex I - Templates for ESG prudential disclosures” to the ITS require the tables found in Appendix II to be disclosed.

APPENDIX I - CAPITAL INSTRUMENTS MAIN FEATURES

1	**Issuer**	**Renaissance Securities (Cyprus) 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	English Law
5	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	USD 10.4k
7	Nominal amount of instrument	USD 10.4k
8	Issue price	USD 2.2
9	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	N/A
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	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 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
34	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

Table 19: EU IF CCA: Own funds: main features of own instruments issued by the firm

APPENDIX II – ESG DISCLOSURES

Qualitative information on Environmental risk

Row number	Qualitative information - Free format	
	Business strategy and processes	
(a)	Institution's business strategy to integrate environmental factors and risks, taking into account the impact of environmental factors and risks on institution's business environment, business model, strategy and financial planning	See Section 8.3
(b)	Objectives, targets and limits to assess and address environmental risk in short-, medium-, and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information in the design of business strategy and processes	
(c)	Current investment activities and (future) investment targets towards environmental objectives and EU Taxonomy-aligned activities	
(d)	Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce environmental risks	
	Governance	
(e)	Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of environmental risk management covering relevant transmission channels	See Section 8.2
(f)	Management body's integration of short-, medium- and long-term effects of environmental factors and risks, organisational structure both within business lines and internal control functions	
(g)	Integration of measures to manage environmental factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body covering relevant transmission channels	
(h)	Lines of reporting and frequency of reporting relating to environmental risk	
(i)	Alignment of the remuneration policy with institution's environmental risk-related objectives	
	Risk management	
(j)	Integration of short-, medium- and long-term effects of environmental factors and risks in the risk framework	See Section 8.4.1
(k)	Definitions, methodologies and international standards on which the environmental risk management framework is based	
(l)	Processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels	
(m)	Activities, commitments and exposures contributing to mitigate environmental risks	
(n)	Implementation of tools for identification, measurement and management of environmental risks	
(o)	Results and outcome of the risk tools implemented and the estimated impact of environmental risk on capital and liquidity risk profile	

(p)	Data availability, quality and accuracy, and efforts to improve these aspects	
(q)	Description of limits to environmental risks (as drivers of prudential risks) that are set, and triggering escalation and exclusion in the case of breaching these limits	
(r)	Description of the link (transmission channels) between environmental risks with credit risk, liquidity and funding risk, market risk, operational risk and reputational risk in the risk management framework	

Table 21 – "Table 1 - Qualitative information on Environmental risk" in accordance with Article 449a CRR

Qualitative information on Social risk

Row number	Qualitative information - Free format	
	Business strategy and processes	
(a)	Adjustment of the institution's business strategy to integrate social factors and risks taking into account the impact of social risk on the institution's business environment, business model, strategy and financial planning	See Section 8.3
(b)	Objectives, targets and limits to assess and address social risk in short-term, medium-term and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information in the design of business strategy and processes	
(c)	Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce socially harmful activities	
	Governance	
(d)	Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of social risk management covering counterparties' approaches to:	See Section 8.2
(i)	Activities towards the community and society	
(ii)	Employee relationships and labour standards	
(iii)	Customer protection and product responsibility	
(iv)	Human rights	
(e)	Integration of measures to manage social factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body	
(f)	Lines of reporting and frequency of reporting relating to social risk	
(g)	Alignment of the remuneration policy in line with institution's social risk-related objectives	
	Risk management	
(h)	Definitions, methodologies and international standards on which the social risk management framework is based	See Section 8.4.2
(i)	Processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to social risk, covering relevant transmission channels	
(j)	Activities, commitments and assets contributing to mitigate social risk	
(k)	Implementation of tools for identification and management of social risk	
(l)	Description of setting limits to social risk and cases to trigger escalation and exclusion in the case of breaching these limits	
(m)	Description of the link (transmission channels) between environmental risks with credit risk, liquidity and funding risk, market risk, operational risk and reputational risk in the risk management framework	

Table 22 – "Table 2 - Qualitative information on Social risk" in accordance with Article 449a CRR

Qualitative information on Governance risk

Row number	Qualitative information - Free format	
	Governance	
(a)	Institution's integration in their governance arrangements governance performance of the counterparty, including committees of the highest governance body, committees responsible for decision-making on economic, environmental, and social topics	See Section 8.2
(b)	Institution's accounting of the counterparty's highest governance body's role in non-financial reporting	
(c)	Institution's integration in governance arrangements of the governance performance of their counterparties including:	
(i)	Ethical considerations	
(ii)	Strategy and risk management	
(iii)	Inclusiveness	
(iv)	Transparency	
(v)	Management of conflict of interest	
(vi)	Internal communication on critical concerns	
	Risk management	
(d)	Institution's integration in risk management arrangements the governance performance of their counterparties considering:	See Section 8.4.3
(i)	Ethical considerations	
(ii)	Strategy and risk management	
(iii)	Inclusiveness	
(iv)	Transparency	
(v)	Management of conflict of interest	
(vi)	Internal communication on critical concerns	

Table 23 – "Table 3 - Qualitative information on Governance risk" in accordance with Article 449a CRR

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