



XNT Limited

Regulated by the Malta Financial Services Authority License no. IS/52182

Legal Entity Identifier: **635400MMGYK7HLRQGV31**

**DISCLOSURE AND MARKET DISCIPLINE REPORT FOR THE PERIOD FROM 1st
JANUARY 2022 until 31st DECEMBER 2022**

May 2023

DISCLOSURE

The Disclosure and Market Discipline Report for the period from 1st January 2022 until 31st December 2022 has been prepared by **XNT Limited** as per the requirements of [Regulation \(EU\) 2019/2033](#) (the “Investment Firms Regulation”, “IFR”) issued by the European Commission and the Investment Services Act Cap. 370 (“[Investment Services Act](#)”) issued by the Malta Financial Services Authority (the “MFSA”).

XNT Limited, states that any information that was not included in this report was either not applicable on the Company’s business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.

XNT Limited is regulated by the Malta Financial Services Authority under License number **IS/52182**.

The Legal Entity Identifier of **XNT Limited** is **635400MMGYK7HLRQGV31**.

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

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

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1 Introduction

1.1 Investment Firm

XNT Limited, is established as a Malta Investment firm (“IF”), licensed and supervised by MFSA. The XNT Limited was granted its license on 13th June 2011.

XNT Limited offers Investment and Ancillary services to professional clients. Its current activities are concentrated in the provision of investment services including reception and transmission of orders in relation to one or more financial instruments, execution of orders on behalf of clients and dealing on own account.

The Company is engaged in the provision of investment services under the Investment Services Act and in particular to receive, transmit and execute client orders on behalf of clients by providing access to a broad range of financial instruments and global markets through its electronic trading platform. The IF holds a Category 3 investment services license, restricted to Dealing on Own Account on a matched principle basis, to professional clients (including Collective Investment Schemes) and eligible counterparties and to hold and control Clients’ Money or Customers’ Assets and to underwrite.

Table 1 - Company Information

Company name	XNT Limited
IF Authorization date	13 June 2011
IF License number	IS/52182
Company Registration Date	04 March 2011
Company Registration Number	C52182
Investment Services	
Management	
Nominee	
Reception and transmission of orders in relation to one or more financial instruments.	
Execution of orders on behalf of clients.	
Placing of Instruments without a firm commitment basis	
Dealing on own account.	
Ancillary Services	
Safekeeping and administration of financial instruments, including custodianship and related services.	
Foreign exchange services where these are connected to the provision of investment services.	
Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	

1.2 Purpose

The present report is prepared by XNT Limited (the “Company”), an IF authorized and regulated by the MFSA under the license number IS/52182 and operates in harmonization with the Markets in

Financial Instruments Directive (“MiFID II”). In accordance with Part Six of [IFR](#) and the Title 7 of the [Rulebook](#), the Company is required to disclose information relating to its risk exposure and management, capital structure, capital adequacy as well as the most important characteristics of the Company’s corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve the transparency of market participants.

These Pillar III Disclosures are made on a solo basis and are updated and published annually; it will, however, be published more frequently if there are significant changes to the business (such as changes to the scale of operations, range of activities, etc.). MFSA is responsible for implementing and enforcing the [Directive \(EU\) 2019/2034](#) (the “*Investment Firms Directive*”, “*IFD*”) issued by the European Commission, a capital adequacy framework consisting of three (3)

‘Pillars’:

- **Pillar I** sets 1) minimum capital requirements comprising of base capital resources requirements; Risk to Client, Risk to Market and Risk to Firm risk capital requirements; and the Fixed Overheads requirement. 2) minimum liquidity requirement. 3) concentration risk limits.
- **Pillar II:** requires firms to undertake an overall internal assessment of their capital adequacy and their liquid assets, taking into account all the risks which the firm is exposed to and whether additional capital should be held to cover risks not adequately covered by Pillar I requirements. This is achieved through the Internal Capital Adequacy Assessment Process and Internal Risk-Assessment Process (“ICARAP”).
- **Pillar III:** complements Pillars I and II and improves market discipline by requiring firms to disclose information on their capital resources and Pillar I capital requirements, risk exposures and their Risk Management framework.

The Pillar III Disclosures Report for the period from 1st January 2022 until 31st December 2022 sets out both quantitative and qualitative information required in accordance with Part Six of the [IFR](#) and in particular articles 46 to 53, which set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure Report is audited by the Firm’s external auditors and published on the Company’s website at <https://xnt.mt/>, on an annual basis. Furthermore, the Board of Directors (“BoD”) and the Senior Management have the overall responsibility for the internal control systems in the process of capital adequacy assessment and they have established effective processes to ensure that the full spectrum of risks faced by the Company is properly identified, measured, monitored and controlled to minimize adverse outcomes.

The Company’s business effectiveness is based on the guidelines of the risk management policies and procedures set in place. The BoD, Internal Audit, Risk Manager, Compliance and Anti-Money Laundering Officer control and supervise the overall risk system so that all units charged with risk management perform their roles effectively on a continuous basis.

As with all investment firms, the Company is exposed to a variety of risks and in particular to Risk to Client, Risk to Market, Risk to Firm and Operational Risk. More information can be found in the sections below.

The Company does not prepare consolidated financial statements and makes these disclosures on an individual-IF basis.

1.3 The Company

The Company acts as an IF and operates in Malta. As at 31st December 2022 the Company had 32 employees.

The Company's growth strategy focuses on its existing areas of expertise and the quality of its customer base. The Company strives for sustainable profitability consistent with its cost of capital and a balanced business model. To this end, the Company:

- Seeks to contain the volatility of its results.
- Calibrates its capital ratio to ensure a significant safety margin relative to the minimum regulatory requirements.
- Monitors the stability and diversification of its funding sources.
- Ensures sufficient resilience in scenarios of liquidity shortages.
- Tightly controls its foreign-exchange risks.
- Maintain a diversified customer base.

The Company ensures that compliance rules are rigorously respected, especially in the area of anti-money laundering and counterterrorism financing. The Company monitors the loyalty of the behavior of its employees with regard to customers and all its stakeholders, as well as the integrity of its investment and financial practices.

The Company considers its reputation to be an asset of great value that must be protected to ensure its sustainable development. The prevention and detection of the risk of harm to its reputation are integrated within all the Company's operating practices. The Company's reputation is protected by making its employees aware of the values of responsibility, ethical behavior and commitment.

1.4 Regulatory Supervision

The minimum capital requirements as at 31st December 2022 for the [IFD](#) were calculated in accordance with the 'Pillar I' rules as set out by the Laws and Regulations, published by the MFSA. All IFs under MFSA's authority must meet the requirements with respect to capital adequacy and market discipline, which are comprised by the following:

- [Investment Services Act](#), to regulate the carrying on of investment business and to make provision for matters ancillary thereto or connected therewith (the "Act").

- [Regulation \(EU\) 2019/2033](#) – 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 (the “IFR”).
- [Directive \(EU\) 2019/2034](#) on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU and 2014/65/EU (“IFD”).
- MFSA Investment Services Rules for Investment Services Providers, Part BI: Rules Applicable to Investment Services License Holders which Qualify as MiFID Firms (the “[Rulebook](#)”)
- [Regulation \(EU\) No. 575/2013](#) – Prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (the “CRR”).
- [Directive \(EU\) 2013/36 EU](#) - on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (the “CRD IV”).
- All MFSA Circulars issued periodically (briefings) regarding the Investment Firms Regulation and Directive.

2 Governance and Risk Management

Implementing a high-performance and efficient Risk Management structure is a critical undertaking for the Company, in all businesses, markets and regions in which it operates, as are maintaining a strong risk culture and promoting good corporate governance. The Company's risk management, supervised at the highest level is compliant with the regulations enforced by MFSA and the European regulatory framework.

The implementation of a high-performance and efficient Risk Management system is a critical undertaking for the Company, as well as the balance between strong risk culture and the development of its activities.

The Enterprise Risk Management program ("ERM") is closely monitored at the highest level of the Company: it is supervised by the Management body, with the participation of members of the Executive Committee, and is the subject of regular reporting to the BoD.

The ERM program has improved the consistency and effectiveness of the Company's Risk Management system by fully integrating risk prevention and management within the day-to-day management of the Company's operations. In particular, the BoD ensures the adequacy of the Company's Risk Management infrastructure, monitoring changes in the cost of risk and approves the risk limits for market risks.

The Company operates a separate Risk Management Function, which is responsible for the implementation of the Risk Management Policy, set by the BoD and the Risk Management Committee. The Risk Management Function is also responsible for the Risk Appetite of the Company and the monitoring of the risks on a regular basis. The procedures set by the Company ensure that all risks are effectively managed and measured against the set level of risk tolerance.

The Risk Management Function consists of the Risk Manager and the Risk Management Committee, which operates independently to the rest of the Company's functions. The Risk Manager reports to the Managing Director of the Company. The Risk Manager shall also submit reports to the Senior Management and BoD on a frequent basis, and at least annually, indicating whether the appropriate remedial measures have been taken in the event of any deficiencies.

The Risk Management Function can report directly to the BoD, independently from Senior Management, in order to raise concerns and warn where appropriate, if risks identified can affect the Company.

The Company's Risk Management Committee held 5 meetings during the period from 1st January 2022 until 31st December 2022, discussing important issues surrounding the Company's operations.

The Company has established separate control functions which work independently from its operations and include the Compliance, Risk Management, Internal Audit and Information Security functions. The head of each control function reports directly to the Managing Director and have direct access to the BoD to raise concerns and warn in relation to any matter that may affect the Company. Meetings with the Board Committees and the relevant control function takes place on a regular basis.

The BoD ensures that each control function has adequate resources to perform their responsibilities in accordance to the size and the complex of the Company.

2.1 Types of Risks

Given the diversity and evolution of the Company's activities, risk management involves the following categories or risk components:

- Non-Trading Book Business Risks

Foreign Exchange risk

The company generates revenue in twenty-five (25) currencies. The revenue is being transferred into Company's operational bank accounts in either Euro, US Dollars or British pounds. Hence currency conversion differences occur, and foreign exchange exposure exists.

Free deliveries

The Company acts as broker and provides deliveries against funds. The Company never pays for free deliveries transactions in financial instruments which qualify as trading book business, sold in a free deliveries' transaction, before receiving payment for them. Hence, the Company does not have any risks in relation to free deliveries.

- Trading Book Business Risks

Counterparty credit risk

The Company considers information available about the risks of trading on a particular exchange/clearinghouse prior to executing trades on such a market. Such risks are monitored on an ongoing basis.

Position risk

The risk of losses arising from movements in market prices, in on and off-balance sheet investments in financial instruments which qualify as trading book business. The company also has a position risk related to the bonds.

Foreign Exchange risk

The Company manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilized to fund assets denominated in the same foreign currency thereby matching asset and liability currency positions, the Company hedges its open foreign exchange exposures by entering into forward foreign exchange contracts with terms which matched those of the hedged items.

Settlement risk

Settlement risk is the risk that the Company's cash against documents transactions in financial instruments are unsettled after their due delivery dates. The Company reconciles cash/trade positions in order to ensure that there are no trades which are not reconciled. The Company also follows up on the trades which cannot be reconciled at the time of drawing up the reconciliation in order to ensure that all trades are eventually settled in a timely manner.

- Operational Risk

The Company has procedures in order to identify and manage the risk of direct or indirect loss resulting from inadequate or failed internal processes, human errors, and errors in IT-systems, or as a consequence of external events. The Company has established an operational risk management framework and takes the necessary steps to understand the business exposure to risk arising from failures in internal controls, operational processes or the systems that support them.

The aim of the operational risk management framework is to enable the Company to collect, assess, manage, and report operational risk efficiently and effectively. The mapping of the Company's operational risk landscape is based on historical data and internal risk self-assessments. To determine the Company's capital requirements in the context of operational risk, the content of the risk register with insurance effect is used as input to the calculations.

The following three methods are mainly used to manage and mitigate operational risks: (i) Contingency plans, (ii) Back up and continuity of business arrangements and (iii) Controls.

- Liquidity risk

Prudent liquidity Risk Management implies maintaining sufficient cash to ensure the availability of an adequate amount of funding to meet the Company's obligations. Due to the nature of the Company's business, there is only limited exposure to liquidity risk. Its liquidity position is managed by the senior management of the Company. Senior management identifies, evaluates and manages the Company's liquidity position on an ongoing basis. The Company is not significantly exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities.

- Capital risk

The Company's equity, as disclosed in the statement of financial position, constitutes its capital. The Company maintains the level of capital by reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the Company's activities, the capital level as at the end of the reporting period is deemed adequate by the directors. The Company is required to meet capital resource requirements in compliance with rules issued by the MFSA. The minimum capital requirement (defined as 'the capital resource requirement') must be maintained at all times throughout the financial period under review. The Company's own funds are made up of tier one capital of €27,210,243 which is composed of paid-up ordinary share capital and retained profits.

- Compliance risk

Although the Company is licensed and regulated in Malta by the MFSA, it operates in multiple jurisdictions. This brings with it complex regulatory cross-border rules which the Company must be aware of and comply with. The compliance function of the Company is responsible for managing compliance risk. Meetings will be held on a quarterly basis by the risk committee and the compliance officer to assess compliance.

- Market abuse risk

The Company is a direct member of the Malta Stock Exchange and offers DMA to numerous exchanges. The Company recognizes that clients can abuse markets via the access offered. This can result in both market integrity risk as well as litigation, regulatory and legal risks. The Company is establishing pre-order monitoring for MSE. For other markets the Company relies on pre-order monitoring by its counterparties. The Company has established post trade monitoring for all accounts.

- Strategic risk

This is the risk of loss arising from adverse business decisions that poorly align to strategic goals, failed execution of policies and processes designed to meet those goals, and inability to respond to macroeconomic and industry dynamics. Strategic risk is managed by the Management risk committee of the Company who identify risks related to each of the objectives established. This includes estimating the significance of risks identified, assessing the likelihood of the risks occurring and determining the need for action. Risks are evaluated as part of the business planning process, documented and communicated throughout the organization, as appropriate.

- Financial risk

Financial risk is the risk that the Company does not maintain the levels of reserves to comply with solvency margins imposed by the MFSA aimed at financial services. Operational losses can reduce

the Company's overall capital base and the Company could be forced to inject more capital to sustain operations. The Company currently operates a very strict financial monitoring system. Yearly budgets are approved by the Board of Directors and the management committee is responsible to ensure monthly figures are in line with budgets and to report variances back to the Board of Directors during the quarterly board meetings with remedial action if required.

- Business risk

Business risk includes types of risk related to the macro-environment, the competitive environment within the investment industry and the Company's related circumstances. Examples could be changes in the economic environment, the legislative environment, the political environment or failure of a cost intensive business project. The Company's business risk objective is to retain focus on external parameters and competitive conditions, which may potentially influence the Company's future operations. As business risk is measured on the future ability to generate earnings, these are tested against the budgeted income.

- Litigation risk

The Company may be sued by its clients or counterparts on different occasions. In the event where the Company is being sued, this may lead to the Company losing its client and the Company getting a bad reputation within the financial services sector. Legal proceedings may take a number of years to settle. It is in the interest of the Company to manage its contractual relationship in a professional manner and to have systems and procedures in place to comply with its client complaints in an effective manner in order to avoid the Company having to face legal proceedings.

- Client complaint risk

Clients may complain due to a failure by the Company due to a shortfall in the provision of investment services (depending on the type of service being offered to the client). This may lead to the Company losing its client in cases where the complaint is not managed in an appropriate manner. The client may also complain to the MFSA and in case where the MFSA determines that there have been some regulatory breaches, it could issue a warning and/or penalties in respect of the Company. Hence, it is important that the Company ensures that proper client complaints procedures are in place and that complaints are managed in a professional and efficient manner.

2.2 Risk Appetite

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

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

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

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

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

The BoD of the Company has the ultimate responsibility for the Company's risk appetite at all times. The Company is considering the time and requirements in order to initiate the establishment of a Risk Appetite Statement.

2.3 ICARAP

The ICARAP requires to assess and quantify the Company's position, how the Company mitigates, and controls risks and to determine the amount of internal capital and the amount of liquid assets that the Company considers adequate in order to cover the nature and the level of all risks that the Company faces or to cover any potential risks to which the Company may be exposed in the future.

The Company maintains compliance with the ICARAP as required under Pillar II of Basel III and its local implementation in Malta, through risk management and governance framework, methodologies, processes and infrastructure.

The Company prepared the ICARAP report with reference date 31st December 2021 and with triennial forecast period. The results of these tests showed that the Company currently has adequate capital and liquidity reserves to absorb the impact of such risks if they were to materialize in line with the tests' parameters. The ICARAP is a quarterly-periodical process and an ICARAP report is prepared annually or on an ad-hoc basis when and if the Company's capital position changes materially. The ICARAP report with reference date 31st December 2022 is currently being prepared.

2.4 Stress Tests

Stress testing is a key risk management tool used by the Company to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- Understanding the risk profile of the Company.
- The evaluation of the Company's capital adequacy in absorbing potential losses under stressed conditions: This takes place in the context of the Company's ICARAP on an annual basis.
- The evaluation of the Company's strategy: Senior management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows senior management to determine whether the Company's exposures correspond to its risk appetite.
- The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

The ultimate responsibility and ownership of the Company's stress testing policy rests with the BoD. If the stress testing scenarios reveal vulnerability to a given set of risks, the management should make recommendations to the BoD for mitigation measures or actions. These may vary depending on the circumstances and include one or more of the following:

- Review the overall business strategy, risk appetite, capital and liquidity planning.
- Review limits.
- Reduce underlying risk positions through risk mitigation strategies.
- Consider an increase in capital.
- Enhance contingency planning.

The Company performs financial modelling and stress analysis on a frequent basis especially when year-end financial results are available or when it revises its business plan, mainly through its ICARAP report.

2.5 Diversity Policy

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success.

The Company recognizes the value of a diverse and skilled workforce and management body, which includes and makes use of differences in the age, skills, experience, background, race and gender between them. A balance of these differences will be considered when determining the optimum composition.

The Company is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practices in the Corporate Governance Code of many EU countries.

In line with the recent changes in the regulatory reporting framework, the Company is in the process of establishing a dedicated diversity policy in relation to the Management body.

2.6 Investment Policy

The Company is not obliged to disclose any information in relation to its Investment Policy, as per Article 52(2) of the [IFR](#), since the Company's shares are not admitted to trading on a regulated market.

2.7 Environmental, social and governance risks

The Company is obliged to 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 [IFD](#), since its total on and off-balance sheet assets are on average more than €100 million over the four-year period immediately preceding the given financial year which are the criteria defined by Article 32(4)(a) of the [IFD](#).

The Company is in the process of establishing the processes of collection, verification, assessment and reporting of the required environmental, social and governance risk disclosures.

2.8 Board Recruitment

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the BoD.

The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. The final approval of a member of the Management Body is given by MFSA.

Factors considered in the review of potential candidates include:

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subject.
- Knowledge of and experience with financial institutions ("fit-and-proper").
- Integrity, honesty and the ability to generate public confidence.
- Knowledge of financial matters including understanding financial statements and financial ratios.
- Demonstrated sound business judgment.
- Clean criminal record.
- Risk management experience.

In line with the recent changes in the regulatory reporting framework, the Company has established a dedicated recruitment policy in relation to the BoD.

The Company's BoD is chosen to be specialists in various fields in order to be able to offer diversity and the expertise required to oversee its smooth operations.

2.9 Remuneration

2.9.1 Remuneration Policy

The Company seeks to attract, develop, motivate and retain staff by linking reward to the achievement of individual and firmwide goals and by providing the opportunity for all employees to contribute to, and share in, the firm's success.

As required by the Regulatory Authority and to promote sound and effective risk management, the Company has established, implemented and maintains a policy for the Remuneration and compensation of its Management and staff members. This policy applies to all employees of the Company.

The Company remuneration policy complies with the Company's operational strategy and values. The main goal of the policy is to determine the basic principles of remuneration for the Company's employees, based on the Company development strategy and operation results, as well as in compliance with the Company operation specificity and risk profile. The remuneration system developed for the Company is intended to motivate the Company's personnel and to encourage career development of employees, as well as to provide appropriate evaluation of employees in relation to the achieved work results and to ensure the appropriate remuneration of the qualitative work results.

2.9.2 Decision-making process

The Board of Directors should determine the Remuneration of the Management and establish the general principles of the remuneration policy of the Company.

The Policy and the remuneration system shall be reviewed at least once a year to check whether it is appropriate and complies with the legal and regulatory requirements. The Policy and the remuneration system shall be amended, if necessary, with specific attention to preventing incentives for excessive risk-taking and other adverse behaviors.

The Policy becomes effective upon approval of the Board of Directors. The conformity of remuneration for employees is evaluated every year.

2.9.3 Link between pay and performance

The individual performance measurement of Employees is ensured through the Appraisal System. The Staff Appraisal System is an essential management tool and feedback system. It is an open and trustful dialogue between Staff and their respective line managers (the direct supervisor). It is not linked to the amount of the merit payment.

The Executive's Performance is measured annually and is monitored by the Board of Directors. The Variable Remuneration and changes in Fixed Remuneration for Executives have to be approved by the Board. Target achievement and competency assessment serve as indicators for Executives overall performance level.

In the appraisal process Executives are rated on their individual performance in terms of accomplishing the agreed targets during the performance year. For the appraisal the degree of target achievement is expressed in percentages for each target.

The cash bonus for both staff and Executives is based on performance for at least one calendar year.

2.9.4 Design characteristics of the remuneration system

The main features of the Company's remuneration system are:

- a) Employees shall receive a Fixed and Variable Remuneration
- b) The fixed remuneration is determined on the basis of the role of the individual employee, including responsibility and job complexity, performance, local market conditions, level of expertise and experience. The fixed Remuneration shall be a substantial proportion of the total annual Remuneration.
- c) The Variable Remuneration of Executive consists of a cash bonus.
- d) All Variable Remuneration components are based on a performance measurement and can be 0%
- e) Performance-based pay is granted to employees with particular influence on the Company's results and shareholder value. In functions targeting capital markets, performance-based pay constitutes a significant proportion of the total remuneration package for selected employees to attract and retain the most talented people in these fields.

Performance-based pay is granted to reflect the individual employee's performance and departmental as well as the Company's results. A discretionary assessment is always made to ensure that other factors, also factors which are not directly measurable, are considered.

Guaranteed variable pay is granted only in exceptional cases to attract highly specialised individuals and such pay is granted for a term of one year only.

Employees engaged in risk management, compliance and internal audit functions are remunerated in a manner that is independent of the business performance of the Company. The level of Remuneration shall be adequate in terms of responsibility as well as in comparison to the level of Remuneration in the business areas.

2.9.5 Ratios between fixed and variable remuneration

The Remuneration shall be structured appropriately. This means, in particular, that:

- 1) The provisions for the Variable Remuneration shall take due account of possible mismatches of performance and risk periods. In particular, payments of Variable Remuneration shall be deferred as appropriate. Variable Remuneration is not guaranteed, i.e., all Variable Remuneration is based on a performance measurement and can be 0%.
- 2) There shall be an appropriate ratio between the Fixed and the Variable Remuneration. Guaranteed Variable Remuneration is exceptional and is only allowed in connection with the hiring of Employees and is limited to a maximum period of one year.

2.9.6 Aggregate Quantitative Information

The Regulatory Authority requires that the information on remuneration, broken down by business area, be disclosed as part of its Remuneration disclosure. This includes the senior management and other members of staff whose actions have a material impact on the risk profile of the firm.

The Company has calculated its aggregate quantitative information on remuneration inclusive of all elements of remuneration. The firm has only one business area (execution broker), so the disclosure below is not broken down. The aggregate quantitative remuneration for the Company's staff is as follows:

Table 2 - Aggregate Quantitative Information on Remuneration

Figures in €	Executive Directors	Non-Executive Directors	Heads of Compliance and Risk	Heads of Finance, Accounting, IT and heads of Brokerage	Other staff whose actions have a material impact on the risk profile of the Company	Grand Total
No of staff with fixed remuneration	2	1				37
Fixed remuneration	541,207					2,205,323
No of Staff with variable remuneration	-	-	-	-	-	-
Variable remuneration	-	-	-	-	-	-
Of which were cash	-	-	-	-	-	-
Of which were shares	-	-	-	-	-	-
Of which were share-linked	-	-	-	-	-	-
Of which were other type of instruments	-	-	-	-	-	-
Total Remuneration	541,207					2,205,323

During the period from 1st January 2022 until 31st December 2022, the Company did not make any payments of deferred remuneration from previous performance periods nor has it made any deferred remuneration awards for the current performance period.

During the period from 1st January 2022 until 31st December 2022, the Company did not award any amount of guaranteed variable remuneration awards.

During the period from 1st January 2022 until 31st December 2022, the Company did not award any amount of severance payment.

2.10 Directorships held by Members of the Management Body

As at 31st December 2022, the members of the Management body of the Company, given their industry experience, have been taking seats in other company boards. In line with this, Table 8 indicates the number of positions that each member holds (including the one in the Company). Positions held by a member of the Management body in the same group are considered as one position.

Table 3: Directorships held by Members of the Management Body

Name	Position in the IF	Directorships (Executive)	Directorships (Non-Executive)
Alexey Kirienko	Executive Director	2	-
Anatoly Knyazev	Executive Director	2	-
Paulo Fernandez	Non - Executive Director	-	1

During the period 1st January 2022 until 31st December 2022, the BoD has met 4 times discussing important issues surrounding the Company's operations in an effort to effectively discharge its duties.

2.11 Board Risk Management Declaration

The Company's Risk Management Committee is entitled to review and appropriately assess the effectiveness of the risk management strategies and procedures adopted by the Company.

The abovementioned procedures are designed in order to manage and mitigate any deficiencies that the Company might face during its operations.

The Company's Management Body ensures that the Company has adequate measures and procedures in place so as to prevent and mitigate any risk arising from its operations.

2.12 Risk Profile

The Company's management body is appropriately informed and acknowledge the necessity of taking all the appropriate actions for complying with the Company's minimum requirements for its Own Funds Ratio and its Own Funds, which are **100.00%** and **€750,000**.

The Company applies adequate mechanisms and systems in order to detect the risks it's exposed to, arising from its operations. The Company's material risks are assessed on a quarterly basis via the use of a Risk Register and the results are communicated to the Company's BoD in order to decide which mitigating actions the Company should take.

Table 4 below summarizes the main risks identified and the controls the Company has already taken in order to manage and mitigate those risks.

Table 4 - Material Risks

Risk Type	Controls in place
Regulatory Risk	<p>The Company monitors its Total Own Funds Ratio and Own Funds on a quarterly basis in order to ensure that the Company complies with the relevant requirements (100.00% and €750,000, respectively).</p> <p>The Company's Total Own Funds Ratio stood at 390.59% as at 31st December 2022, which is above the minimum requirement of 100.00%. Additionally, the Company's Own Funds stood at €27,210,243, which is above the minimum requirement of €6,966,528 (to comply with the maximum between the minimum permanent capital of €750,000, the K-factor requirement of €3,390,819 and the Fixed Overheads requirement of €6,966,528).</p>
Risk to Client	<p>The Company monitors its K-factor requirements in relation to the RtC and reports the relevant factor amount and capital requirements on a quarterly basis.</p> <p>As at 31st December 2022 the Company's RtC requirement mainly emanated from K- CMH, K-ASA and K-COH in accordance to the Company's business and activities.</p> <p>As at 31st December 2022, the Company's capital usage for the RtC K-factor requirement amounted to €3,390,819. Additional information in relation to the Risk to Client requirement is disclosed in Section 4.1. Risk to Client.</p>
Risk to Market	<p>The Company monitors these exposures on a quarterly basis and has policies and procedures in place to minimize its market risk exposure.</p> <p>As at 31st December 2022 the Company's market risk mainly emanated from foreign exchange rates fluctuations which affect the Company's deposits in foreign currencies as well as from positions held during forex trading.</p>

	The Company's total capital usage for RtM K-factor requirement as at 31st December 2022 amounted to €1,649,324 . Additional information in relation to the Risk to Market requirement is disclosed in Section 4.2. Risk to Market .
Risk to Firm	<p>The Company monitors the value of its K-factors in relation to the RtF in order to detect any trend that could leave the Company with a materially different own funds requirement and reports these exposures on a quarterly basis.</p> <p>As at 31st December 2022, the Company's capital usage for RtF amounted to €105. Additional information in relation to the Risk to Firm requirement is disclosed in Section 4.3. Risk to Firm.</p>
Operational Risk	The Company is exposed to Operational Risk associated with inadequate personnel, processes, systems, infrastructure or external events of the Company. The Company assesses, monitors and mitigates its Operational risk exposure by having in place adequate measures, procedures and controls to be followed by its personnel. Additionally, the Company performs periodic checks on its IT infrastructure and ensures that security systems are in place and upgraded.

2.13 Reporting and Control

In line with the requirements set out in the Malta Investments Services Act and subsequent Directives, the Company has been able to maintain a good information flow to the Management body, as it can be seen in table 5 below:

Table 5 - Periodic Reporting Summary

Report Name	Report Description	Owner	Recipient	Frequency	Deadlines
Annual Compliance Report	To inform the Senior Management & the BoD of the Company regarding the Performance of Compliance function during the year	Compliance Officer	Senior Management, BoD, MFSA	Annual	30/04/2023
Annual Internal Audit Report	To inform the Senior Management	Internal Auditor	Senior Management, BoD, MFSA	Annual	30/04/2023

	& the BoD of the Company regarding the Internal Auditor during the year				
Annual Risk Management Report	To present the work undertaken by the Risk Manager during the year	Risk Manager	Senior Management, BoD, MFSA	Annual	30/04/2023
Pillar III Disclosures (Market Discipline and Disclosure) based on the Audited figures	To disclose information regarding Company's risk management, capital structure, capital adequacy and risk exposures based on its Audited figures.	Senior Management	BoD, MFSA, Public	Annual	31/05/2023
Financial Reporting	It is a formal record of the financial activities of the IF	External Auditor	BoD, MFSA	Annual	30/04/2023
Capital Adequacy Reporting	A measure of the IF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world	Risk Management Function/ Financial Department	Senior Management, MFSA	Quarterly plus, Audited	12/05/2023 12/08/2023 12/11/2023 12/02/2024

3 Capital Management and Adequacy

3.1 The Regulatory Framework

The prudential framework for investment firms takes into consideration specific business practices of different types of investment firms. In particular, the prudential regime takes into account the investment firms' size and interconnectedness based on financial and economic factors. The regulatory requirements are calibrated in a proportionate manner to the investment firms' type, the best interests of their clients and the promotion of the smooth and orderly functioning of their operating markets. The prudential regime was published on 5th of December 2019. They were translated into European law by a directive ([IFD](#)) and a regulation ([IFR](#)) which entered into force on 26th of June 2021 onwards.

The general framework defined by the [IFR/IFD](#) is structured around three (3) pillars:

- **Pillar I** sets the minimum solvency requirements and defines the rules that investment firms, that are required to comply with the regulation, must use to measure risks and calculate associated capital requirements, according to standard or more advanced methods.
- **Pillar II:** relates to the discretionary supervision implemented by the competent authority, which allows them to assess the adequacy of capital requirements as calculated under Pillar I and their liquid assets, and to calibrate additional capital requirements with regard to risks.
- **Pillar III:** encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to make a better assessment of a given institution's capital, risk exposure, risk assessment processes and, accordingly, capital adequacy.

3.2 Regulatory Capital

According to the International Financial Reporting Standards ("IFRS"), the Company's regulatory capital consists of Common Equity Tier 1 and Tier 2 Capital.

Common Equity Tier 1 Capital ("CET1 Capital")

According to [CRR/CRDIV](#) and [IFR](#) regulations, CET1 capital is made up primarily of the following:

- Ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts.
- Retained earnings.
- Other reserves.
- Minority interest limited by [CRR/CRDIV](#)

- Interim profits where these have been subject to external auditor's verification and have received regulatory approval for inclusion.

Deductions from Common Equity Tier 1 capital essentially involve the following:

- Goodwill.
- Other Intangible assets.
- Losses for the current financial year
- Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities.
- Qualifying holding outside the financial sector which exceeds **15.00%** of own funds.
- Total qualifying holdings in undertaking other than financial sector entities which exceeds **60.00%** of its own funds.
- CET1 instruments in financial sector entities where the investment firm does not have significant investment.
- CET1 instruments in financial sector entities where the investment firm has a significant investment.
- Defined benefit pension fund assets on the balance sheet of the institution.
- The amount of direct, indirect and synthetic holdings of own CET 1 instruments, including own CET1 instruments that an investment firm is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation.
- Value adjustments to CET1 resulting from the requirements of prudent filters.

Tier 2 Capital

Tier 2 capital includes:

- Dated subordinated notes.
- Any positive difference between (i) the sum of value adjustments and collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardized approach and (ii) expected losses, up to **0.60%** of the total credit risk-weighted assets using the Internal Ratings Based approach.
- Value adjustments for general credit risk related to collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardized approach, up to **1.25%** of the total credit risk-weighted assets.

Deductions of Tier 2 capital essentially apply to the following:

- The amount of direct, indirect and synthetic holdings of own Tier 2 instruments, including own Tier 2 instruments that an investment firm could be obliged to purchase as a result of existing and contractual obligations.
- Tier 2 instruments of financial sector entities where the investment firm does not have a significant investment.

- Tier 2 instruments of financial sector entities where the investment firm has a significant investment.

Table 6 below summarizes the composition of own funds of the Company as of 31 December 2022. Detailed breakdown of the composition is included in **Appendix: EU IF CC1.01 – Composition of regulatory own funds**.

Table 6: Regulatory Own Funds Composition

As of 31 December 2022	€000
OWN FUNDS	27,210
TIER 1 CAPITAL	27,210
COMMON EQUITY TIER 1 CAPITAL	27,210
Fully paid-up capital instruments	50,388
Share premium	-
Retained earnings	729
Previous years retained earnings	729
(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(23,907)
(-) Losses for the current financial year	(1,705)
(-) Other intangible assets	(22,202)
(-) Other deductions	-
ADDITIONAL TIER 1 CAPITAL	-
TIER 2 CAPITAL	-

3.3 Capital Requirements and Capital Adequacy

The Company's objectives when managing capital are:

- to comply with the capital requirements set by the MFSA;
- to safeguard its ability to continue as a going concern; and
- to maintain a strong capital base to support the development of its business.

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains capital ratios with a reasonable headroom in order to support its business strategy.

The Company's policy on capital management focuses on maintaining the capital base sufficient in order to keep the stakeholder confidence and to secure the future development of the Company. Capital adequacy and the use of the regulatory capital are monitored by the Company's management

through its Internal Capital & Liquidity Adequacy Assessment Process. The Company is further required to report on its capital adequacy quarterly to MFSA. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. All reports are submitted to the Regulator within the deadlines set out.

Since the investment firm is a Class 2 investment firm, it shall at all times have own funds in accordance with Article 9 of the IFR which amount to at least D, where D is defined as the highest of the following:

- a) the fixed overheads requirement (“FOR”) calculated in accordance with Article 13 of the IFR;
- b) the permanent minimum capital requirement (“PMR”) in accordance with Article 14 of the IFR; and
- c) their K-factor requirement (“KFR”) calculated in accordance with Article 15 of the IFR.

Investment firms shall have own funds consisting of the sum of their Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, and shall meet all the following conditions at all times:

$$(a) \quad \frac{\text{Common Equity Tier 1 capital}}{D} \geq 56 \%$$

$$(b) \quad \frac{\text{Common Equity Tier 1 capital} + \text{Additional Tier 1 capital}}{D} \geq 75 \%$$

$$(c) \quad \frac{\text{Common Equity Tier 1 capital} + \text{Additional Tier 1 capital} + \text{Tier 2 capital}}{D} \geq 100 \%$$

The IFR provides transitional provisions to facilitate the gradual phase-in of the new capital requirements. By way of derogation from points (a) and (c) of Article 11(1) – i.e., *if D is defined either by FOR or by KFR*, the Company may apply lower own funds requirements for a period of five years from 26 June 2021, *equal to twice* the relevant own funds requirement pursuant to Chapter 1 of Title I of Part Three of CRR (i.e., €1,260k for the Company). In addition, by way of derogation from point (b) of Article 11(1) – i.e., *if D is defined by PMR*, the Company may limit its PMR to those provided under CRR and CRD, that would have applied if the investment firm had continued to be subject to CRR and CRD, subject to an annual increase in the amount of those requirements of at least EUR 5 000 during the five-year period. This means that for the second year since IFR implementation (i.e., from June 2022 to June 2023) the PMR will be €735k under these transitional provisions.

The Company’s Own Funds requirement as of 31 December 2022 is €735k (transitional) as defined by the PMR since it continues to be larger than FOR and KFR calculated as of the same date. The fully loaded PMR is €750k as per the IFR.

Table 7: Own Funds Requirements

As of 31 December 2022	€000
Own Funds requirement	6,967

Permanent minimum capital requirement	750
Fixed overhead requirement	6,967
Total K-Factor Requirement	3,391
Transitional own funds requirements	
Transitional requirement <i>based on CRR own funds requirements</i>	1,460
Transitional requirement <i>based on fixed overhead requirements</i>	-
Transitional requirement <i>for investment firms previously subject only to an initial capital requirement</i>	-
Transitional requirement <i>based on initial capital requirement at authorisation</i>	-
Transitional requirement for investment firms that are not authorised to provide certain services	-
Transitional requirement of at least 250 000 EUR	-

Table 8: Capital Ratios – fully loaded

As of 31 December 2022	Regulatory requirement	€000
CET 1 Ratio	≥56.00%	390.59%
Surplus(+)/Deficit(-) of CET 1 Capital		23,309
Tier 1 Ratio	≥75.00%	390.59%
Surplus(+)/Deficit(-) of Tier 1 Capital		21,985
Own Funds Ratio	≥100.00%	390.59%
Surplus(+)/Deficit(-) of Total capital		20,244

Table 8 (cont.) : Capital Ratios – transitional

As of 31 December 2022	Regulatory requirement	€000
CET 1 Ratio	≥56.00%	1,863.71%
Surplus(+)/Deficit(-) of CET 1 Capital		26,480
Tier 1 Ratio	≥75.00%	1,863.71%
Surplus(+)/Deficit(-) of Tier 1 Capital		26,115
Own Funds Ratio	≥100.00%	1,863.71%
Surplus(+)/Deficit(-) of Total capital		25,750

4 K-Factor Requirement

The [IFR](#) introduced a new approach of accounting the potential harm that an investment firm can do to its clients, the markets in which it operates and to itself.

The K-factor requirement captures the Risk-to-Client, Risk-to-Market and Risk-to-Firm. As per the Article 15 of the [IFR](#), an investment firm's capital requirement equals to the sum of the following K-factor requirements:

- **Risk-to-Client:** Risk-to-Client covers risks carried by an investment firm during its services, actions or responsibilities, which could negatively impact its clients. RtC captures the risks arising from the clients' assets under management and ongoing advice, client money held, assets safeguarded and administered, and client orders handled.
- **Risk-to-Market:** risk of loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets, including real estate assets. Risk-to-Market captures the net position risk ("K-NPR") from the trading book in accordance with the market risk provisions of the [CRR](#) or, where permitted by the competent authority for specific types of investment firms which deal on own account through clearing members, based on the total margins required by an investment firm's clearing member ("K-CMG").
- **Risk-to-Firm:** risk of an investment firm's exposure to the default of its trading counterparties, concentration exposure in its large exposures to specific counterparties and operational exposures from its daily trading flow. Risk-to-Firm captures an investment firm's exposure to the default of its trading counterparties ("K-TCD"), concentration risk ("K-CON") in an investment firm's large trading book exposures to specific counterparties and operational risks from an investment firm's daily trading flow ("K-DTF").

The K-factor requirement is tailored to the investment firms based on the type and scale of the investment firm's activities. The investment firms are required to calculate the K-factor requirement only for the K-factor components that are relevant to the services and activities that they are authorized to provide.

During the year under review, the Company based on its type and scale of activities and the services authorized to provide, was solely exposed to risks arising from the potential harm that an investment firm can do to its clients, the markets in which it operates and to itself.

The Company monitors the value of its K-factors in order to detect any trend that could leave the Company with a materially different own funds requirement and reports these exposures on a quarterly basis.

4.1 Risk to Client

The K-factors under the RtC captures the client assets under management and ongoing advice (K-AUM), client money held (K-CMH), assets safeguarded and administered (K-ASA) and client orders handled (K-COH). The K-factors under RtC are proxies covering the business areas of the Company from which harm to clients can conceivably be generated in case of problems.

4.1.1 Client Money Held (K-CMH)

CMH means the amount of client money that an investment firm holds, taking into account the legal arrangements in relation to asset segregation and irrespective of the national accounting regime applicable to client money held by the investment firm.

The K-CMH is split into segregated and non-segregated accounts. Segregated accounts, for the purpose of the K-CMH, means accounts with entities where client money held by an investment firm is deposited in accordance with Article 4 of Commission Delegated Directive (EU) 2017/593 and, where applicable, where national law provides that, in the event of insolvency or entry into resolution or administration of the investment firm, the client money cannot be used to satisfy claims in relation to the investment firm other than claims by the client. The Company only uses segregated client accounts.

For the purpose of calculating K-CMH, CMH is the rolling average of the value of total daily client money held, measured at the end of each business day for the previous nine months, excluding the three most recent months. CMH is the arithmetic mean of the daily values from the remaining six months. The average amount is shown in Factor amount column in **Table 10** which is then multiplied by the coefficient 0.04%.

4.1.2 Assets Safeguarded and Administered (K-ASA)

ASA means the value of assets that an investment firm safeguards and administers for clients, irrespective of whether assets appear on the investment firm's own balance sheet or are in third-party accounts.

For the purpose of calculating K-ASA, ASA is the rolling average of the value of total daily assets safeguarded and administered, measured at the end of each business day for the previous nine months, excluding the three most recent months. ASA is the arithmetic mean of the daily values from the remaining six months. The average amount is shown in Factor amount column in **Table 10** which is then multiplied by the coefficient 0.4%.

4.1.3 Client Orders Handled (K-COH)

COH means the value of orders that an investment firm handles for clients, through the reception and transmission of client orders and through the execution of orders on behalf of clients.

For the purpose of calculating K-COH, COH is the rolling average of the value of the total daily client orders handled, measured throughout each business day over the previous six months, excluding the three most recent months. COH is the arithmetic mean of the daily values from the remaining three months.

The COH is measured as the sum of the absolute value of buys and the absolute value of sells for both cash trades (the value is the amount paid or received on each trade) and derivatives (the value of the trade is the notional amount of the contract). The average amount is shown in Factor amount column in **Table 10** which is then multiplied by the coefficient 0.01% for derivative instruments and 0.1% for fully funded/cash trades.

4.2 Risk to Market

4.2.1 Net Position Risk (K-NPR)

The K-NPR requirement applies to all trading book positions, which include in particular positions in debt instruments (including securitization instruments), equity instruments, collective investment undertakings (CIUs), foreign exchange and gold, and commodities (including emission allowances). In addition, the K-NPR of an investment firm includes positions other than trading book positions where those give rise to foreign exchange risk or commodity risk.

For the purpose of calculating K-NPR, the own funds requirement for the trading book positions of an investment firm dealing on own account, whether for itself or on behalf of a client, is calculated using the approaches available under Title IV, Part three of the CRR. Due to the size and complexity, the Company utilizes the standardized approach as set out in Chapters 2, 3 and 4 of Title IV of Part Three of the CRR.

The investment firm is authorized to deal on its own account which means that it can maintain an own trading book which can be both speculative as well as acting as a market maker on the trading positions of its clients. As at year end, the Company held a number of trading book positions for speculative and interest earning purposes and therefore there is K-NPR arising from position risk calculation for debt instruments and market risk from foreign exchange risk.

Table 9: K-NPR breakdown

As of 31 December 2022 €000	K - factor requirement
Total standardised approach	1,649
Position risk	1,226
Equity instruments	-
Debt instruments	1,226
Of which: securitisations	-
Particular approach for position risk in CIUs	-
Foreign exchange risk	423
Commodities risk	-

4.2.2 Trading Counterparty Default risk (K-TCD)

K-TCD: captures the risk arising from the possibility that the counterparty may default on amounts owned on a derivative transaction. Derivatives are financial instruments that derive their value from the performance of assets, interest or currency exchange rates, or indexes. The Company applies the Article 25 to 32 of the IFR for the calculation of the K-TCD requirement.

The Company's trading book activities do not give rise to trading counterparty default risk since on-balance sheet assets held are fully funded securities; therefore, no calculation of the K-TCD is implemented.

4.3 Risk to Firm

4.3.1 Daily Trading Flow risk (K-DTF)

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. The Company calculates the K-DTF requirement in accordance with the Articles 15 and 33 of the IFR.

The DTF is measured as the sum of the absolute value of buys and the absolute value of sells for both cash trades (the value is the amount paid or received on each trade) and derivatives (the value of the trade is the notional amount of the contract). The average amount is shown in Factor amount column in **Table 10** which is then multiplied by the coefficient 0.01% for derivative instruments and 0.1% for fully funded/cash trades.

4.3.2 Concentration risk (K-CON)

Part Four of the IFR specifies the limits, monitoring obligations and calculation methodology for concentration risk capital requirement for investment firms. The exposure value with regard to a client or group of connected clients for the purposes of concentration risk is the sum of:

- a) the positive excess of the investment firm's long positions over its short positions in *all the trading book financial instruments* issued by the client in question, the net position for each instrument calculated in accordance with the provisions referred to in points (a), (b) and (c) of Article 22;
- b) the exposure value of contracts and transactions referred to in Article 25(1) with the client in question, calculated in the manner laid down in Article 27.

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. Based on the Company's profile the below are deemed large exposures for which a K-CON should be calculated:

- i. Any exposure by counterparty which is not an institution or an investment firm which is above 25% of own funds
- ii. Any exposure by counterparty which is an institution or an investment which is above 100% of own funds.

The Company carries out regular analyses of the exposures, including estimates of the trends, and takes into account the results of these analyses in setting and verifying the adequacy of the processes and limits, thresholds or similar concepts for concentration risk management. Examples of elements of such analysis, although not exhaustive are:

- undertaking a more detailed review of the risk environment in particular sector(s);
- reviewing with greater intensity the economic performance of borrowers;
- reviewing approval levels for business;
- reviewing risk mitigation techniques, their value and their legal enforceability;
- reviewing outsourced activities and contracts signed with third parties (vendors);
- reviewing the funding strategy, so as to ensure the maintenance of an effective diversification in the sources and tenor of funding; and

- reviewing the business strategy.

No significant concentration of credit risk towards trade debtors was identified as the Company has established procedures to collect fees and commissions within the predetermined payment period.

Management have established relevant monitoring procedures to early-detect any breaches of the exposure limits to each counterparty. Management will ensure that such limits are not breached and based on its operating model and nature of the business, this is well within its discretion to allow and control or disallow.

As at year end, the Company did hold any trading book positions that are near the 25% or 100% of own funds thresholds and therefore no K-CON is calculated. The Company monitors and controls its concentration risk and where the trading book exposures with regard to a client or group of connected clients exceeds the limits as set out in the IFR. The Company calculates its own funds requirement in accordance to Article 39 of the IFR and notifies the MFSA of the excess, the name of the individual client concerned and where applicable the group of connected clients concerned without delay as per Article 38 of the IFR.

4.4 Quantitative Information

Table 10 below illustrates the Company's RtC, RtM and RtF exposure as at 31st December 2022.

Table 10: K-Factor Requirement Calculation

As of 31 December 2022 €000	Factor amount	K-factor requirement
TOTAL K-FACTOR REQUIREMENT		3,391
Risk to client		1,741
Assets under management	-	-
Client money held - Segregated	54,057	216
Client money held - non-segregated	171,902	860
Assets safeguarded and administered	1,512,367	605
Client orders handled - Cash trades	55,456	55
Client orders handled - Derivatives Trades	52,459	5
Risk to market		1,649
K-Net positions risk requirement		1,649

Clearing margin given	-	-
Risk to firm		0
Trading counterparty default		-
Daily trading flow - Cash trades	105	0
Daily trading flow - Derivative trades	-	-
K-Concentration risk requirement		-

5 Fixed Overheads Requirement

The Fixed Overheads requirement is measured on the basis of the Company's activity of the preceding year and it is designed to capture the operational risks of the Company. The Company calculates the Fixed Overhead Requirement based on Article 13 of the IFR. Therefore, the FOR is defined as at least one quarter of the fixed overheads of the preceding year. Investment firms use figures resulting from the applicable accounting framework which is further interpreted as figures of the investment firm's most recent audited annual financial statements after distribution of profits.

Operational risks (including accounting and environmental risks) correspond to the risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss. This section describes the monitoring of the Company's operational risk, in addition to providing an analysis of the Company's operational risk profile and regulatory capital requirements.

The Company has developed processes, management tools and a control infrastructure to enhance the Company-wide control and management of the operational risks that are inherent in its various activities. These include, among others, general and specific procedures, permanent supervision, business continuity plans and functions dedicated to the oversight and management of specific types of operational risks, such as fraud, risks related to external service providers, legal risks, information system security risks and compliance risks.

In order to control the exposure to operational risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance.

To that effect, the management of operational risk is geared towards:

- Maintaining a strong internal control governance framework.
- Managing operational risk exposures through a consistent set of processes that drive risk identification, assessment, control and monitoring.

The Company implements the below Operational Risk Mitigation Strategies in order to minimize its Operational Risk Exposure:

- The development of operational risk awareness and culture.
- The provision of adequate information to the Company’s management, at all levels, in order to facilitate decision making for risk control activities.
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives.
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.
- Established a “four-eye” structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company, namely through the existence of a Senior Management. The Board further reviews any decisions made by the Management while monitoring their activities.
- Detection methods are in place in order to detect fraudulent activities.
- Comprehensive business contingency and disaster recovery plan.

The Senior Management employs specialized tools and methodologies to identify, assess, mitigate and monitor operational risk. These specialized tools and methodologies assist operational risk management to address any control gaps. To this effect, the following are implemented:

- Incident collection.
- Key Risk Indicators.
- Business Continuity Management.
- Training and awareness.

Table 11: Fixed Overheads Requirement Calculation

As of 31 December 2022	€000
Fixed Overhead Requirement	6,967
Annual Fixed Overheads of the previous year after distribution of profits	27,886

Total expenses of the previous year after distribution of profits	43,950
Of which: Fixed expenses incurred on behalf of the investment firms by third parties	-
(-) Total deductions	(16,084)
(-)Fees, brokerage and other charges paid to CCPs that are charged to customers	(9,787)
(-)Expenditures from taxes	(123)
(-)Expenses related to items that have already been deducted from own funds	(2,776)

6 Liquidity Requirement

Liquidity risk corresponds to the risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost. Liquidity requirement introduced by the [IFR](#) and intends to ensure that the Company has some resilience to unexpected liquidity shocks.

The Company's primary objective is to ensure the funding of its activities in the most cost-effective way by managing liquidity risk and adhering to regulatory constraints. The liquidity system aims at providing a balance sheet framework with assets and liabilities target structure that is consistent with the risk appetite defined by the BoD:

- The assets' structure should allow the businesses to develop their activities in a way that is liquidity-efficient and compatible with the target liabilities structure.
- The liabilities' structure is based on the ability of the businesses to collect financial resources from customers and the ability of the Company to sustainably raise financial resources on the markets, in accordance with its risk appetite.

The principles and standards applicable to the management of liquidity risks are defined by the Company's governing bodies, whose duties in the area of liquidity are listed below:

- The Company's BoD(i) establishes the level of liquidity risk tolerance as part of the Risk Appetite exercise, (ii) meets regularly to examine the Company's liquidity risk situation, on a quarterly basis.
- The Senior Management (i) sets budget targets in terms of liquidity (ii) allocates liquidity to the pillars.

To minimize its exposure to liquidity risk, the Company implements the below Liquidity Risk Mitigation Strategies:

- Regular analysis & reporting to the BoD on the funding needs of the Company.
- Monitoring of the Company's exposures and diversification to avoid rise of concentration.
- Risk as per the internal policies.
- Cash Management.

The Company calculates its Liquidity requirement in accordance with the Article 43 of [IFR](#). Table 12 below illustrates the Company's Liquidity requirement as at 31st December 2022 compared with the liquid assets of the Company at the same period.

Table 12 - Liquidity Requirement and Liquidity Assets

As of 31 December 2022	€000
Liquidity Requirement	2,322
Client guarantees	-
Total liquid assets	12,324
Unencumbered short term deposits	10,076
Total eligible receivables due within 30 days	-
Level 1 assets	2,248
Coins and banknotes	0
Central government assets	2,248
Level 2A assets	-
Level 2B assets	-
Qualifying CIU shares/units	-
Total other eligible financial instruments	-

7 Appendix: EU CCA Own funds: main features of own instruments issued by the firm

Table 13: Main features of the ordinary shares of the Company

		2022
1	Issuer	XNT Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for	635400MMGYK7HLRQG
3	Public or private placement	Private
4	Governing law(s) of the instrument	MT
5	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
6	Amount recognised in regulatory capital	€ 50,388,456
7	Nominal amount of instrument	€ 1
8	Issue price	€ 1
9	Redemption price	N/A
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
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	N/A
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory (in	Fully discretionary
21	Fully discretionary, partially discretionary or mandatory (in	Fully discretionary
22	Existence of step up or other incentive to redeem	No
23	Noncumulative or cumulative	Non-cumulative
24	Convertible or non-convertible	N/A
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	N/A
32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A
34	If write-down, permanent or temporary	N/A
35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the instrument (siennostine)	N/A

8 Appendix: EU IF CC1.01 – Composition of regulatory own funds

Table 14: EU IF CC1.01

Common Equity Tier 1 (CET 1) capital: instruments and reserves			
	€	December 31, 2022 (Audited)	Source based on reference numbers/ letters of the balance sheet in the audited financial statements
1	OWN FUNDS	27,210,243	
2	TIER 1 CAPITAL	27,210,243	
3	COMMON EQUITY TIER 1 CAPITAL	27,210,243	
4	Fully paid-up capital instruments	50,388,456	2000005
5	Share premium	-	
6	Retained earnings	728,701	2000010
7	Accumulated other comprehensive income	-	
8	Other reserves	-	
9	Minority interest given recognition on CET1 capital	-	
10	Adjustments to CET1 due to prudential filters	-	
11	Other funds	-	
12	(-) TOTAL DEDUCTIONS FROM CET 1 capital	(23,906,914)	
13	(-) Own CET 1 instruments	-	
14	(-) Direct holdings of CET 1 instruments	-	
15	(-) Indirect holdings of CET 1 instruments	-	
16	(-) Synthetic holdings of CET 1 instruments	-	
17	(-) Losses for the current financial year	(1,704,527)	3101020, 3102025, 2102030
18	(-) Goodwill	-	
19	(-) Other intangible assets	(22,202,387)	1102010, 1102015, 1102020, 1103035, 1103040, 1103050
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 holding in undertaking other than financial sector entities which exceeds 60.00% of its own funds	-	
23	(-) CET 1 instruments of financial sector entities where the institution does not have a significant investment.	-	

24	(-) CET 1 instruments of financial sector entities where the institution has a significant investment.	-	
25	(-) Defined benefit pension fund assets	-	
26	(-) Other deductions	-	
27	CET 1: Other capital elements, deductions and adjustments	-	
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	-	
43	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
44	(-) Own T2 instruments	-	
45	(-) Direct holdings of T2 instruments	-	
46	(-) Indirect holdings of T2 instruments	-	
47	(-) Synthetic holdings of T2 instruments	-	
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	-	
49	(-) T2 instruments of financial sector entities where the institution has a significant investment	-	
50	Tier 2: Other capital elements, deductions and	-	

9 Appendix: EU IF CC2: Own funds reconciliation of regulatory own funds to the Audited balance sheet

Table 15: EU IF CC2

		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to EU IF CC1
		As at period end December 31, 2022 (Audited)	As at period end December 31, 2022 (Audited)	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Property, plant and equipment	1,855,560	N/A	
2	Intangible assets	22,202,387	N/A	19
3	Loans receivable	4,383,306	N/A	
4	Available for sale financial assets	12,392,193	N/A	
5	Trade and other receivables	3,330,780	N/A	
6	Cash and cash equivalents	10,076,467	N/A	
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Derivative financial liabilities	1,594,637	N/A	
2	Deferred tax liabilities	567,072	N/A	
3	Trade and other payables	903,852	N/A	
4	Current liabilities	1,762,502	N/A	
Shareholders' Equity				
1	Share capital	50,388,456	N/A	4
2	Retained Earnings	(975,826)	N/A	6

10 Appendix – References to EBA guidelines

Templates	Compliance reference	Section
EU IF CC1.01	Composition of regulatory own funds	8
EU IF CC2	Own funds reconciliation of regulatory own funds to balance sheet in the audited financial statements	9
EU IF CCA	Own funds main features of own instruments issued by the Company	7
Table 1- Qualitative information on Environmental risk	Information on environmental risks	2.7, n/a
Table 2 – Qualitative information on Social risk	Information on social risks	2.7, n/a
Table 3 – Qualitative information on Governance risk	Information on governance risks	2.7, n/a
Template 1 - Banking book - Climate change transition risk	Information on climate change transition risk	2.7, n/a
Template 2: Climate change Transition risk: Loans collateralised by immovable property collateral – Energy efficiency of the collateral	Information on climate change transition risk	2.7, n/a
Template 4 - Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms	Information on climate change transition risk	2.7, n/a
Template 5 - Banking book - Climate change physical risk: Exposures subject to physical risk.	Quantitative information on climate change transition risk	2.7, n/a
Template 6 – Summary of KPIs on the Taxonomy - aligned exposures.	Information on climate change transition risk	2.7, n/a
Template 7 - Mitigating actions: Assets for the calculation of GAR.	Information on climate change transition risk	2.7, n/a
Template 8 – GAR (%)	Information on climate change transition risk	2.7, n/a
Template 9 - Mitigating actions: BTAR	Information on climate change transition risk	2.7, n/a
Template 9.1 - Mitigating actions: Assets for the calculation of BTAR	Information on climate change transition risk	2.7, n/a
Template 9.2 - BTAR %	Information on climate change transition risk	2.7, n/a
Template 10 – Other climate change mitigating actions that are not covered in the EU Taxonomy	Information on climate change transition risk	2.7, n/a
Template 9 - Mitigating actions: BTAR	Information on climate change transition risk	2.7, n/a

Template 9.1 - Mitigating actions: Assets for the calculation of BTAR	Information on climate change transition risk	2.7, n/a
Template 9.2 - BTAR %	Information on climate change transition risk	2.7, n/a
Template 10 – Other climate change mitigating actions that are not covered in the EU Taxonomy	Information on climate change transition risk	2.7, n/a

11 Appendix - Specific References to IFR

Table 16: References to IFR

IFR Ref	High Level Summary	Compliance Reference (Document Sections)
Scope of disclosure requirements		
46(1)	Requirement to publish Pillar III disclosures.	1.1
46(2)	Disclosure of information set out in Articles 47, 49 and 50.	N/A
46(3)	Requirement to publish Pillar III disclosures where the investment firm meets the conditions for qualifying as small and non-interconnected investment firms set out in Article 12 of the IFR,	N/A
Risk management objectives and policies		
47	Disclosure of the risk management objectives and policies for each separate category of risk set out in Parts Three, Four and Five in accordance with Article 46 of IFR, including a summary of the strategies and processes to manage those risks and a concise risk statement approved by the investment firm's management body succinctly describing the investment firm's overall risk profile associated with the business strategy.	2.1, 2.11, 2.12
Governance		
48(a)	Number of directorships held by members of the management body.	2.10
48(b)	Diversity with regard to the selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved.	2.5, 2.8
48(c)	Whether or not the investment firm has set up a separate risk committee and the number of times the risk committee has met annually	2
Own Funds		
49(1)(a)	Full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and applicable filters and deductions applied to own funds of the investment firm and the balance sheet in the audited financial statements of the investment firm	9
49(1)(b)	Description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the investment firm	7
49(1)(c)	Description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments and deductions to which those restrictions apply	3.2, 8

Own Funds Requirements		
50(a)	Summary of the investment firm's approach to assessing the adequacy of its internal capital to support current and future activities.	2.3
50(b)	upon a request from the competent authority, the result of the investment firm's internal capital adequacy assessment process, including the composition of the additional own funds based on the supervisory review process as referred to in point (a) of Article 39(2) of Directive (EU) 2019/2034	N/A
50(c)	K-factor requirements calculated, in accordance with Article 15 of the IFR, in aggregate form for RtM, RtF, and RtC, based on the sum of the applicable K-factors.	4.4
50(d)	Fixed overheads requirement determined in accordance with Article 13 of the IFR.	5
Remuneration Disclosures		
51	Remuneration Policy and practices.	2.9
Investment Policy Disclosures		
52	Investment Policy.	2.6
Environmental, social and governance risks Disclosures		
53	Environmental, social and governance risks.	2.7