Disclosure and Market Discipline

2022

Contents

1. Introduction

TFI Markets Ltd (hereinafter called the "Company") obtained its license as an Investment Firm regulated by the Cyprus Securities and Exchange Commission (License no. 117/10) on 14th April 2010 and started operations in May 2010. On 1st December 2011, the Company also obtained a license from the Central Bank of Cyprus in order to operate as a Payment Institution, license no. 115.1.2.13. In July 2018, the Company was re-licensed by the Central Bank of Cyprus due to the provisions of Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market ("PSD2"), license no. 115.1.2.13/2018. In November 2021, the Company established a Branch in Greece.

The main activities of the Company are the provision of (a) investment services related to derivative financial instruments i.e., trading of contracts for differences ("CFDs") and (b) payment services through its offices in Cyprus. More specifically, in terms of the investment activities, the Company has the license to provide the following investment and ancillary services:

Investment Services
1. Reception and transmission of orders in relation to one or more financial instruments. 2. Execution of orders on behalf of clients. 3. Dealing on own account.

Ancillary Services
1. Safekeeping and administration of financial instruments, including custodianship and related services. 2. Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction. 3. Foreign exchange services where these are connected to the provision of investment services.

1.1. Pillar III Regulatory Framework

This report is prepared as required by Part Six of Regulation 2019/2033 of the European Parliament and of the Council. Under this regulatory obligation, the Company is required to disclose information relating to its capital and the risks it faces, as well as to promote market discipline.

On the 26th of June 2021 the capital adequacy and overall risk management requirements that used to apply to the Company, as well as the majority of EU investment firms, under the Capital Requirements Regulation & Directive ("CRR & CRDIV") prudential framework, were replaced by amended prudential rules. In particular, EU Regulation 2019/2033 on the prudential requirements of investment firms ("Investment Firm Regulation" or "IFR") and EU Directive 2019/2034 on the prudential supervision of investment firms ("Investment Firm Directive" or "IFD") – harmonized through the issuance of the Cyprus Law on the Prudential Supervision of CIFs of 2021 (165(I)/2021) – have been developed to address the specific vulnerabilities and risks inherent to investment firms by means of proportionate and appropriate prudential arrangements. The report is prepared on a Solo basis and the information disclosed relates to the reference date 30th June 2022.

Any information not contained in this report was either not applicable based on the Company's business or activities or such information is considered as proprietary to the Company. Sharing such information with the public would undermine the Company's competitive position.

1.2. Location and frequency of disclosure

The disclosures are published on an annual basis, in accordance with the provisions of Part Six of the IFR. To this end, they are uploaded on the Company's website at http://www.tfifx.com within five months after the financial year end.

1.3. Russian invasion to Ukraine

The impact of the Russian invasion to Ukraine on the Company's operations, capital adequacy and /or the funds held on own account or on behalf of its clients was minor. There was an overall decrease in income from foreign exchange hedging for commodity imports and FX transactions in RUB of less than 10%. The Company has taken all necessary steps to mitigate the risks arising from the sanctions imposed, such as restrictions in acceptance of clients and scrutiny on clients and potential clients with ties to Russia and Belarus. Having said the above, TFI Markets Ltd confirms that it does not have any legal relationships or dealings with any of the persons and/or entities listed in the EU Council's Restrictive Measures and other sanctions against Russia.

2. Risk Management Framework and Governance

2.1. Governance arrangements

The Company is governed by the Board of Directors ("BoD") which consists of a chairman, two executive directors and three non-executive directors. The BoD is responsible for overseeing the operations of the Company. The BoD ultimately approves the objectives and strategic direction of the Company and the Internal Procedures of the Company, as these are described in the Company's Internal Procedures Manual.

The number of directorships held by members of the BoD (including the directorship held in the Company) is shown in the table below. Directorships within the same group of companies are counted as one.

Table 1: Directorships held by the Board of Directors (BoD)[1]			
Name of Director	**Position within TFI Markets**	**Directorships Executive**	**Directorships Non-Executive**
Antis Kaplanis	Chairman and Non-Executive Director	1	3
Andros Karayiannis	Non-Executive Director	2	2
Maria Theodorou	Executive Director	1	-
Charis Charilaou	Executive Director	1	-
Aleksejs Sjarki[2]	Non-Executive Director	12	1
Ioannis Georgoulas	Non-Executive Director	-	4

Notes:

[1]*The information in this table is based only on representations made by the directors of the Company at the time of preparation of the disclosure.*

[2]*Mr. Aleksejs Sjarki is also a Non-Executive Director in TFI Markets Ltd. However, since he is an Executive director in another Company within the same group, it is counted as an Executive Directorship. The same approach is followed for similar cases in other groups.*

2.2. Risk management structure

The Risk Management structure has remained unchanged throughout the year.

The Company is exposed to a variety of risks as analysed below. The Company's continuous aim is to reduce the risks to which it is exposed and this is demonstrated by the maintenance of effective processes in the identification, assessment, monitoring and management of risks. All Company functions and specifically, accounting, back office, internal audit, compliance and risk management perform their duties in line with the set risk management procedures. These departments discharge their daily duties by working in tandem, taking into account the nature, scale and complexity of the activities undertaken in the course of business, towards the objective of enhancing the Company's risk management monitoring and managing structure.

The internal control and risk management system is overseen by the following committees/units reporting directly to the BoD: the four eyes, the Compliance Officer, the Risk Manager, the Internal Auditor, the Investment Committee, the Risk Management Committee and the Audit Committee.

The Four Eyes of the Company is a two-member team consisting of the two executives of the BoD. The Four Eyes members are effectively directing the business of the Company and are jointly responsible for it. They report directly to the BoD.

The Risk Management ("RM") Committee is dedicated primarily to managing the credit, market and operational risks resulting from the Company's operations, and as part of its responsibilities it has to set out, approve and regularly update the policies, arrangements and procedures, which form the risk strategy, as well as to monitor all risks on an ongoing basis. The Risk Management Committee consists of the two Executive Directors and the Head of Compliance and Risk Management. Between 1st July 2021 and 30th June 2022, the RM Committee met 8 times.

Moreover, the purpose of the Audit Committee is to assist the Board in its oversight of:

1. The integrity of the Company's financial statements
2. The Company's compliance with regulatory requirements
3. The performance of the Company's Internal Audit Function.

Furthermore, the Investment Committee has as its main responsibility to develop and monitor the investment strategy, in view of economic conditions and any relevant factors, that has to be followed by the Company in its relevant activities.

The purpose of the Remuneration Committee is to advise the BoD on the remuneration policies to be followed for the Executive Directors, Company Secretary and the Senior Management.

The Company's Internal Auditor is responsible for conducting independent reviews of the Company's departments and functions in order to ensure that the necessary internal controls that are in place are being adhered to. The Internal Auditor reports to the Audit Committee.

The Compliance Officer is responsible for monitoring the day-to-day operations of the Company and the actions of its personnel. Its aim is to ensure the overall compliance of the Company with laws and relevant directives imposed by the CySEC and the Central Bank of Cyprus. The duties of the Compliance Officer include but are not limited to the following:

- Monitoring of the procedures for the prevention of money laundering and terrorist financing and receiving information about suspicious transactions
- Supervision of staff and activities to ensure adherence to the legislative framework that governs the Company and setting up of internal policies and procedures in order to enhance compliance where needed
- Continuous supervision and evaluation of Compliance mechanisms and presentation to the BoD of proposals for its improvement.

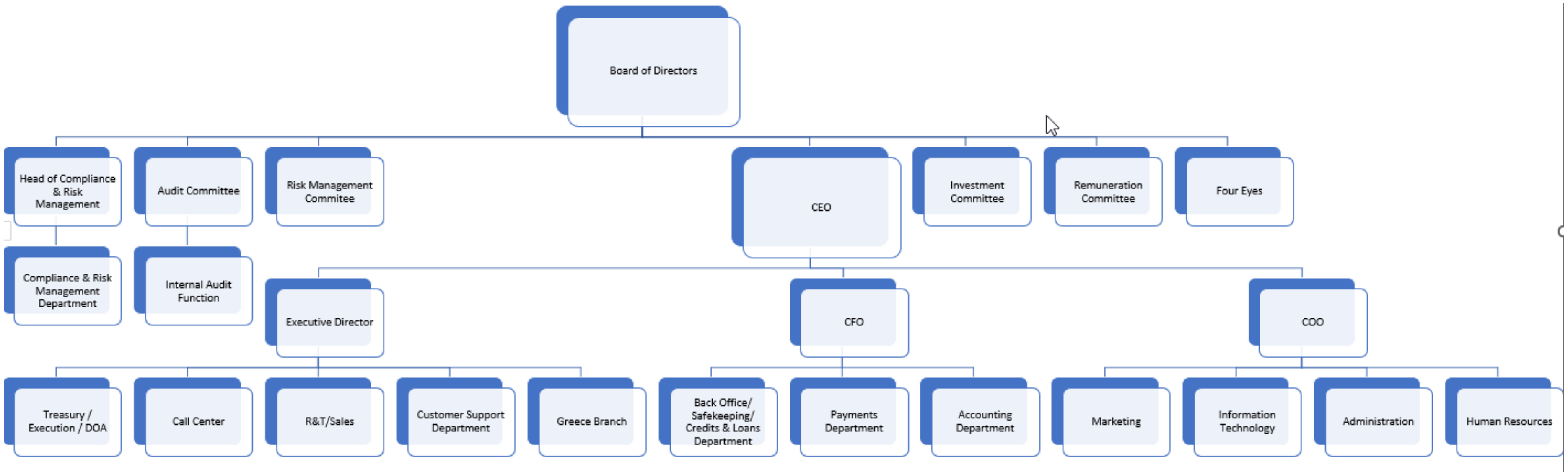
The Compliance Officer is also the appointed Risk Manager of the Company. In its role, the Risk Management Function implements and maintains suitable risk management policies, approved by the Risk Management Committee, in order to identify and manage risks relating to the Company's activities, processes and systems. Furthermore, it sets appropriate tolerance levels for identified risks and ensures compliance to these by means of adequate and effective policies and procedures.

The Back Office is responsible for the daily check and reconciliation of transactions entered in the Company's systems, while the Accounting department is responsible for the correctness, accuracy and completeness of the accounting entries of all transactions.

The preparation and submission of the Company's Capital Adequacy reports are primarily the responsibility of the Chief Financial Officer, whilst their continuous monitoring is performed in collaboration with the Risk Manager.

Clear reporting lines and responsibilities are specified through the Company's organizational structure, which can be found below:

Table 2: Organizational Structure



2.3. Board of Directors Risk Statement

The Company generally maintains low risk appetite and this is demonstrated by the maintenance of effective processes in the identification, assessment, monitoring and management of risks. A description of the main risks faced by the Company can be found below:

I. **Market Risk:** Market Risk is the risk of losses in on and off-balance-sheet positions arising from movements in market prices.

   The Company's main risk is fluctuations in P&L due to price movements in instruments belonging to the Trading Book. The main activities of the Company that expose it to Market Risk are market making and proprietary positions. Customers of the Company trade against the proprietary capital of the Company which results in long/short positions that expose the Company to risk.

   The Company generally maintains low levels of open FX positions. The Company has set limits for Market Risk which are monitored on a daily basis and breaches are reported to the BoD.

II. **Credit Risk:** Credit Risk arises from the inability of counterparties to honour contractual obligations or the change in the credit premium that the market demands as an effect of the market perception of increased Default Risk.

   The main activity of the Company that exposes it to Credit Risk is the deposit of funds with banks and other liquidity providers and the provision of temporary credit to clients.

   The Company diversifies funds over highly rated institutions and assigns limits to each institution which are monitored on a daily basis. Important breaches of the limits are reported to the BoD.

   The Company has also defined limits for temporary credits provided to clients, which are monitored daily and breaches are reported to the BoD.

III. **Operational Risk:** Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events.

   Operational Risk is one of the major risks that the Company is facing where errors, fraud or disruptions of service can have monetary or reputational cost.

   The Company monitors Operational Risk through a range of controls which are designed for the early identification of operational risks. Also, the Company maintains and regularly updates a risk register, as part of the Internal Capital Adequacy and Risk Assessment ("ICARA") Process.

IV. **Reputational Risk:** Reputational Risk occurs when negative publicity arising from customers, counterparties, shareholders or regulators regarding the Company's business practices affects the Company's ability to maintain existing or establish new business relationships and leads to a loss of revenue or litigation.
   The Company is highly sensitive to what regards reputational issues and generally strives to keep customers satisfied, to maintain good relationships with other counterparties and to comply with all relevant laws and regulations.

V. **Liquidity Risk:** Liquidity Risk is the risk that the Company will not be able to meet its financial obligations.

The Company's approach to this risk is to closely monitor liquidity and be aware, as far as possible, regarding future financial obligations, and ensure that it will have sufficient liquidity to meet its liabilities when they are due.

2.4. Policies for hedging and mitigating risk

The Company has various policies for hedging and mitigating risk, which govern its operations:

- Internal Procedures Manual
- Departmental Manuals
- Anti-Money Laundering and Terrorist Financing Manual
- Sanctions Compliance Policy
- Information Security Policy
- Password Protection Policy
- Backup Policy
- Business Continuity Plan
- Trading Book Policy
- Policy relating to Employees Personal Transactions
- Customer Complaint Policy
- Remuneration Policy
- Employees Handbook

The above manuals/policies are communicated to all relevant employees of the Company.

The above policies aim in identifying, assessing, managing and mitigating specific categories of risk. The Company has also defined exposure limits in order to daily monitor and manage Market Risk and Credit Risk. Reporting procedures and escalation procedures are in place in order to be able to identify and manage excessive risk taking.

2.5. Diversity Policy for the Selection of Members of the Management Body

The Company acknowledges the benefits of having a diverse Board, given its business activities and strategy it plans to follow. Diversity is based on skills, experience, knowledge and independence.

3. Pillar I - Capital Adequacy

The Capital Adequacy report is prepared on a consolidated basis at the level of the Parent Company of TFI Markets and the reporting currency is USD. The Company is a Class 2 CIF based on the relevant provisions of the IFR and is therefore subject to the full scope of prudential requirements that arise from the IFR & IFD framework.

The Capital Adequacy ratio of the Company for the financial year end 30th June 2022 was calculated at 284.67%, which is well above the 100% minimum Pillar I Capital Adequacy Ratio and a capital surplus of $3,274 ('000) under the fully-phased calculation, as presented in the table below:

Table 3: Capital Excess/ Ratio

	30 June 2022 $('000)	Reference
Capital		
Common Equity Tier 1	5,047	
Additional Tier 1	-	
Tier 2	-	
Total Own Funds	**5,047**	***a***
Own Funds Requirement		
K-factor Requirement	1,773	*b*
Fixed Overhead Requirement	**749**	*c*
Permanent Minimum Capital Requirement	**779**	*d*
Minimum Own Funds Requirement	**1,773**	***e = (higher of b, c, d)***
Capital Excess/Ratio		
Capital Excess	**3,274**	***a-e***
Capital Ratio	**284.67%**	***a/e***

3.1. Company Own Funds

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

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

The Company maintains only Common Equity Tier 1 capital as eligible Own Funds. The total Own Funds of the Company as at 30th June 2022 amounted to $5,047 ('000) and are presented more analytically in the table that follows:

Table 4: EU IF CC1.01 - Composition of regulatory Own Funds			
Common Equity Tier 1 (CET1) capital: Instruments and reserves		**Amount $('000) as at 30/06/2022**	**Source based on reference numbers/letters of the Balance Sheet in the audited Financial Statements (cross reference to EU IF CC2)**
1	**OWN FUNDS**	**5,047**	
2	**TIER 1 CAPITAL**	**5,047**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**5,047**	
4	Fully paid up capital instruments	3	Ref. 1 (Shareholders' Equity)
5	Share premium	7,397	Ref. 2 (Shareholders' Equity)
6	Retained earnings	(1,165)	Ref. 3 (Shareholders' Equity)
7	Accumulated other comprehensive income	-	
8	Other reserves	-	
9	Minority interest given recognition in CET1 capital	-	
10	Adjustments to CET1 due to prudential filters	(4)	Ref. 3 (Assets) & Ref. 1 (Liabilities)
11	Other funds	-	
12	**(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1**	**(1,184)**	
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	(1,012)	Ref. 3 (Shareholders' Equity)
18	(-) Goodwill	-	
19	(-) Other intangible assets	(73)	Ref. 1 (Assets)
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 entites 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	-	
27	CET1: Other capital elements, deductions and adjustments	(99)	Ref. 2 & Ref. 4 (Assets)
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 adjustments	-	

A reconciliation between the Company's audited Balance Sheet and its regulatory Own Funds calculation is provided in the table that follows:

Table 5: EU IF CC2 - Own Funds: Reconciliation of regulatory Own Funds to Balance Sheet in the audited financial statements			
Balance Sheet as in audited financial statements		**Amount $('000) as at 30/06/2022**	**Cross reference to EU IF CC1**
Assets			
1	Intangible assets	73	Ref. 19
2	Investor Compensation Fund	95	Ref. 27
3	Derivatives financial instruments	1,647	Ref. 10
4	Cash and cash equivalents – 3 per thousand ICF buffer	4	Ref. 27
5	Other non-current assets	147	
6	Other current assets	13,394	-
7	**Total Assets**	**15,360**	
Liabilities			
1	Derivatives financial instruments	1,925	Ref. 10
2	Other current liabilities (other)	8,212	
3	**Total Liabilities**	**10,137**	
Shareholders' Equity			
1	Share capital	3	Ref. 4
2	Share premium	7,397	Ref. 5
3	Reserves	(2,177)	Ref. 6 & 17
4	**Total Shareholders' Equity**	**5,223**	

3.2. Own funds requirements

The new IFR & IFD framework introduces a different approach for calculating the Minimum Capital Requirements, which for Class 2 investment firms are derived by taking the highest of the following three parameters:

(a) The K-Factor requirement, as described in section 3.2.1 of this Report,

(b) The Fixed Overheads Requirement, as described in section 3.2.2 of this Report, and

(c) The Permanent Minimum Capital Requirement, which corresponds to the initial capital requirement of the Company as defined in Article 9 of the IFD and for the year ended 30 June 2022 amounted to $779 ('000).

3.2.1 K-Factors

The K-factors are a series of risk parameters/indicators representing specific risks that the Company faces. The K-factors are divided into 3 main categories:

(a) Risk to Client (RtC) K-factors: They are proxies for the business areas of the Company from which harm to clients can manifest as problems that will impact the Company's own funds. Within this risk class, four K-factors are being identified:

1. Client assets under discretionary portfolio management and non-discretionary investment advisory of an ongoing nature (K-AUM): This captures the risk of harm to clients from the poor management or execution of client– This risk was not applicable to the Company for the year ended 30 June 2022 since it did not offer such services to its clients.

2. Client assets safeguarded and administered (K-ASA): This K-factor ensures that the Company holds capital in proportion to client assets under custody, regardless of whether safeguarding and administration is done by the Company or has been assigned to a third-party. For the year ended 30 June 2022 this risk was not applicable to the Company since it did not safeguard any client financial instruments (Note: The provision of custody services in relation to clients' positions in CFDs is considered to fall under K-CMH due to the inherent nature of CFD contracts).

3. Client Money Held (K-CMH): This captures the risk of harm where the Company holds clients' money under custody, considering whether they are on its own balance sheet or in third-party accounts and whether arrangements under applicable national law provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. This risk is applicable to the Company for the financial year end 30/06/2022. The Company holds money on behalf of clients in accordance with the client money rules set out in the CySEC's Directive DI87-01 for the Safeguarding of Client Assets, Product Governance Obligations and Inducements and are classified as "segregated client funds" in accordance with the CySEC regulatory requirements.

<u>*Risk Mitigation Measures*</u>: The Company has an appointed Safekeeping officer in charge to ensure that clients' funds are segregated from the Company's proprietary funds at all times as per the requirements of the regulator. The Safekeeping officer is responsible for the daily reconciliation between PI clients' accounts and balances, ensuring that the relevant adjustment between PI clients' accounts and own accounts is carried out as appropriate.

4. Client Orders Handled (K-COH): This captures the risk to clients of the Company when it executes orders in the name of clients, by acting on their behalf and without taking any proprietary position in the course of executing their orders. This risk is not applicable to the Company's operations, since the Company is executing its clients' orders by acting as principal to their trades.

<u>**(b) Risk to Market (RtM) K-factors:**</u> These apply to companies with a Trading Book, that deal on their own account or on behalf of clients, as well as to the Banking Book business in relation to foreign exchange and commodity risk. RtM is calculated using the following factors:

1. Net Position Risk (K-NPR): This measure follows the Market Risk rules under the Standardised Approach set out in the Capital Requirements Regulation (CRR). Market Risk is the risk of losses in on and off-balance-sheet positions arising from changes in market prices. The Net Position Risk K-factor is applicable for the Company for the foreign exchange factor, which arises from any Company assets and liabilities that are denominated and funded in foreign currencies, as well as from the open CFD positions of the Company which as at 30 June 2022, related entirely to FX products.

   In addition, the Company incurs Market Interest Rate Risk as a result of its open FX CFD positions, which generate General Interest Rate Risk under the Standardised Approach of the CRR.

   <u>*Risk mitigation measures*</u>: The Company's management monitors the exchange and interest rate fluctuations on a continuous basis and acts accordingly. In addition, as part of the end of day procedure, the accounting department is in charge to check the closing foreign exchange rates according to the independent information on FX rates collected from the Company's MT4 platform. Furthermore, Market Risk is managed and monitored through the setting of position limits and loss limits. Any limit violations are disclosed in the end of year reports.

2. Clearing Margin Given (K-CMG): This is an alternative to K-NPR to provide for Market Risk for trades that are subject to clearing as set out in Article 23 of IFR. CMG means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. Bearing in mind that the Company's trading activities consist exclusively of Over-The-Counter ("OTC") trading in CFDs, this K-factor is not applicable to the Company.

<u>(c) Risk to Firm (RtF) K-factors:</u> They capture an investment firm's exposure to the Risk of Default of its Trading Counterparties (K-TCD), the Concentration Risk arising from its Trading Book exposures to counterparties and their connected persons (K-CON) and Operational Risks from its Daily Trading Flow of transactions (K-DTF). There are three RtF K-Factors, all of which are applicable to the Company:

1. Trading Counterparty Default (k-TCD): This captures the risk of losses arising from the default of a counterparty with which a Company maintains open Trading Book positions in derivatives and other specified transactions and includes positions with both clients and liquidity providers.

   <u>Risk Mitigation Measures</u>: Acceptable trading counterparties for the Company are only (a) the company's client base and (b) counterparties approved by the RM Committee. The head of the Dealing on Own Account ("DOA") department is responsible for ensuring that any deposits/funds held by any counterparty do not exceed the counterparty credit limits set out by the RM Committee, for combined client accounts and Company account balances, and that any Company funds and exposures held by any counterparty do not exceed the large exposures (i.e. k-CON) limit.

   The RM Committee approves the exposure levels for all counterparties where the Company or its clients are exposed to Counterparty Credit Risk. For each counterparty to be approved, the Risk Manager must submit to the RM Committee his/her recommendation which are based on the creditworthiness of the counterparty and its reputation. The counterparties and respective credit limits are reviewed and approved by the RM Committee at least on a yearly basis.

2. Daily Trading Flow (K-DTF): This K-factor captures the operational risks the Company faces when executing trades either for its own account or for clients in its own name, which could result from inadequate or failed internal processes, people, systems or external events. This K-factor is applicable to the Company based on the services provided and its role in the clients' trade execution process, as previously explained.

   <u>Risk mitigation measures</u>: The DOA department continuously evaluates its risk position and maintains or covers such risk within the discretion of each individual trader that the risk is assigned to, provided that all risk appetite parameters set out by the RM Committee and communicated in writing to the head of the DOA department are satisfied.

3. Concentration Risk (K-CON): Is the risk from an individual client, counterparty or issuer together with its connected persons, with / towards which the Company maintains one or more Trading Book exposures that cumulatively exceed 25% of its Own Funds or, for exposures towards banks and investment firms, the maximum between EUR 150 million and 25% of its Own Funds, but capped to 100% of its Own Funds. K-CON was applicable to the Company for the financial year ended 30 June 2022, in relation to the clients / counterparties with which it maintained its open positions in FX CFDs. However, no capital requirements for this factor were incurred, since the Company's cumulative exposure to each such party, on a connected basis, did not exceed the applicable k-CON limits.

<u>*Risk Mitigation measures*</u>: The Company monitors closely its concentration to certain clients, counterparties, countries and sectors and takes the necessary steps to ensure that such risks are mitigated.

The K-Factor Own Funds Requirements are presented in the below table in aggregate form:

Table 6: K-Factor Requirements	
K-Factor Category	**Own funds Requirement 30/06/2022 $('000)**
Risk to Client (RtC)	32
Risk to Market (RtM)	549
Risk to Firm (RtF)	1,192
Total	**1,773**

3.2.2 Fixed Overheads Requirement

The Fixed Overheads Requirement amounts to one quarter of the fixed overhead expenses of the preceding year. Fixed overheads do not include the following items:

a) staff bonuses and other remuneration, to the extent that they depend on the net profit of the investment firm in the respective year;
b) employees', directors' and partners' shares in profits;
c) other appropriations of profits and other variable remuneration, to the extent that they are fully discretionary;
d) shared commission and fees payable which are directly related to commission and fees receivable, which are included within total revenue, and where the payment of the commission and fees payable is contingent on the actual receipt of the commission and fees receivable;
e) fees to tied agents;
f) non-recurring expenses from non-ordinary activities.
g) fees, brokerage and other charges paid to central counterparties, exchanges and other trading venues and intermediate brokers for the purposes of executing, registering or clearing transactions, only where they are passed on and charged to customers. These shall not include fees and other charges necessary to maintain membership or otherwise meet loss-sharing financial obligations to central counterparties, exchanges and other trading venues;
h) interest paid to customers on client money, where there is no obligation of any kind to pay such interest;
i) expenditures from taxes where they fall due in relation to the annual profits of the investment firm;
j) losses from trading on own account in financial instruments;
k) payments related to contract-based profit and loss transfer agreements according to which the investment firm is obliged to transfer, following the preparation of its annual financial statements, its annual result to the parent undertaking.
l) payments into a fund for general banking risk in accordance with Article 26(1)(f) of the CRR;

m) payments into a fund for general banking risk in accordance with Article 26(1)(f) of the CRR;

n) expenses related to items that have already been deducted from own funds in accordance with Article 36(1) of the CRR.

The Fixed Overheads Requirement of the Company for the financial year end 30 June 2022 amounted to $749 ('000).

4. Liquidity Risk

Liquidity Risk is the risk that the Company will not be able to meet its financial obligations. Liquidity arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Company's approach to this risk is to closely monitor liquidity in real time and be aware, as far as possible, regarding future financial obligations, and ensure that it will have sufficient liquidity to meet its liabilities when they are due.

According to Article 43 of the IFR and the newly introduced Liquidity Requirement, the Company is obliged to hold an amount of liquid assets equivalent to at least one third of its Fixed Overheads Requirement. As at 30 June 2022, the Company's liquid assets amounted to $8,928 ('000), which satisfied the Liquidity Requirement of $250 ('000).

5. Concentration Risk

Concentration Risk is the risk of having an exposure or a group of exposures which can potentially produce losses large enough to threaten the Company's health or its ability to maintain its core operations. The Company monitors closely its concentration to certain clients, counterparties, countries and sectors and takes the necessary steps to ensure that such risks are mitigated.

6. Pillar II risks and Internal Capital Adequacy & Risk Assessment Process (ICARA)

The changes introduced by the new rules of the IFR & IFD framework that affect the Pillar I methodologies for deriving investment firms' Capital Adequacy Ratio and measuring their liquidity position, also have an effect on the process that needs to be followed to determine the level of internal capital and liquidity, consisting of the Internal Capital Adequacy Assessment Process ("ICAAP"), which under the new rules is replaced by the Internal Capital Adequacy & Risk Assessment ("ICARA") Process.

As per the requirements of Chapter 2, Part A of Law 165(I)/2021, the Company shall have in place sound, effective and comprehensive arrangements, strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital and liquid assets that it considers adequate to cover the nature and level of risks which it may pose to others and to which itself is or might be exposed. As a result, the Company prepares and updates its ICARA report on an annual basis. The ICARA is designed and implemented in the following steps:

I. Identification and articulation of future business plans and objectives

II. Procedure for identification and assessment of risks before and after internal controls

III. Aggregation of identified risks

IV. Assessment of the impact of stress test scenarios on forecasted capital and liquidity plan

V. Allocation of capital and liquid assets in accordance with the profile of the risks identified and in line with stress test results.

The ICARA is clearly owned and approved by the Company's Board of Directors.

Given the low complexity of the Company's operations and its relatively small size, the Company follows the Minimum Capital Requirement Approach, where the Company uses the Pillar I minimum capital requirement as foundation and assesses the following categories of risks, determines their risk profile and sets additional measures for their mitigation:

i. Pillar I risks
ii. Risks not fully covered by Pillar I
iii. Risks not covered in Pillar I

7. Remuneration Policy and Practices

TFI Market's Remuneration Policy is determined by the Remuneration Committee. The Company's Board of Directors is responsible for overseeing the Policy's implementation, which is applicable to all risk taker employees of the Company.

The Company organizes annual appraisals for all employees, as well as monthly appraisals for the employees who are entitled to Performance-Related Remuneration. These appraisals include both qualitative and quantitative criteria which are used to confirm the quality of service provided and work performed before any release of Variable and Performance-Related Remuneration. Monthly reports are also prepared for each employee and the Company as a whole, to ensure that Performance and Variable Remuneration compared to Fixed Remuneration is within the thresholds and appropriate ratios of the Company's Remuneration Policy and the applicable Law.

Any Variable and Performance-Related Remuneration is discretionary upon satisfaction of all the criteria set out in the Remuneration Policy. Moreover, such Remuneration is also subject to clawback for up to 100% in cases of incompliance of the affected employees with the Company's rules and policies. In addition to the above, any Variable and Performance-Related Remuneration is deferred for such a period as to ensure compliance with the Policy.

7.1. Retirement Benefit Schemes

The Company operates a defined contribution scheme, the assets of which are held in a separate fund. The scheme is funded by contributions by both the employees and the Company.

7.2. Variable vs Fixed Remuneration

In accordance with the Remuneration Policy of the Company, Variable and Performance-Related remuneration shall not be higher than 100% of the estimated annual Fixed Remuneration per employee, unless in exceptional cases where it can increase up to 200% subject to approval by the shareholders and the Remuneration Committee, and notification of CySEC.

7.3. Remuneration for 2022

The remuneration of the Senior Management and members of staff whose actions have a material impact on the risk profile of the Company, is shown in the following tables:

Table 7: Remuneration analysis split by Senior Management and other risk takers				
01/07/2021-30/06/2022	**Number of beneficiaries**	**Fixed Remuneration[3]**	**Variable Remuneration**	**Aggregate Remuneration**
		$000	**$000**	**$000**
Senior Management[1]	9	457	17	474
Other Staff[2]	7	189	21	210
Total	**16**	**646**	**38**	**684**

<u>Notes:</u>

1. *Senior Management personnel includes the Executive & Non- Executive members of the BoD, the CFO, the COO and the Head of Compliance & Risk Management.*
2. *Other Staff includes the Heads of Departments whose actions have a material impact on the risk profile of the Company, which consist of the Head of Treasury, Reception & Transmission / Sales, Customer Support, Back Office, Payments and the IT Department, as well as the manager of the branch in Greece.*
3. *The fixed remuneration presented in this table do not include the employer's contribution.*
4. *The variable remuneration paid by the Company during the year was entirely in the form of cash.*
5. *The variable component did not exceed 100% of any employee's fixed component of total remuneration for the year.*
6. *The Company did not pay any severance payments during the year, that were awarded in the year or in previous periods.*
7. *No guaranteed variable remuneration was awarded during the year.*
8. *The remuneration of the Non-Executive Directors of the Company comprises of a fixed annual fee.*

Moreover, the Company has a policy to defer variable remuneration by one month. The following table provides the amounts of deferred variable remuneration awarded for the previous as well as for the current performance period, split into the amount due to vest in the referenced financial year and the amount due to vest in subsequent years, broken down by senior management and other staff whose professional activities had a material impact on the risk profile of the Company for the year in question. There was no deferred remuneration that was due to vest in, and was paid out during the financial year, that was reduced through performance adjustments.

Table 8: Deferred variable remuneration split by Senior Management and other risk takers		
01/07/2021-30/06/2022	Awarded in the previous financial year (ended 30/06/2021) and paid in the financial year ended 30/06/2022	Awarded in this year (ended 30/06/2022) that will be paid in the next financial year ending 30/06/2023
	$	**$**
Senior Management	867	2.014
Other Staff	994	2.557
Total	**1.861**	**4.571**

Appendix I – Main Features of Own Funds

Table 9: EU IF CCA: Own Funds: Main features of own instruments issued by the Company		
1	Issuer	TFI Markets Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Public or private placement	Private
4	Governing law(s) of the instrument	Cyprus Law
5	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
6	Amount recognised in regulatory capital ($, as of most recent reporting date)	3.009
7	Nominal amount of instrument	3.009
8	Issue price	$1 each
9	Redemption price	N/A
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	10/08/2009 – 3.000 08/10/2009 - 1 21/02/2011 - 2 05/02/2019 - 4 03/01/2020 - 1 06/02/2020 - 1
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
22	Existence of step up or other incentive to redeem	No
23	Non-cumulative 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
35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the instrument (signposting)	N/A

TFI Markets Ltd, 27 Pindarou, Alpha Business Centre, Block A, 3rd floor, Office 301, 1060 Nicosia, Cyprus — P.O.Box 16022, 2085 Nicosia, Cyprus
Tel: (+357) 22 749 800 — **Fax:** (+357) 22 817 496 — **Email:** info@tfimarkets .com — **Website:** www.tfimarkets.com