



Your Social Investment Network

**Disclosure in accordance with Part Six Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 as at 31 December 2023**

**May 2024**

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## **1. INTRODUCTION**

### **1.1. Corporate Information**

Etoro (Europe) Limited (the "Company") was incorporated in Cyprus on 26 May 2007 as a private limited liability Company under the Cyprus Companies Law, Cap.113. The Company is an authorized Cyprus Investment Firm ("CIF"), regulated by the Cyprus Securities and Exchange Commission ("CySEC") under CIF license 109/10, dated 14 January 2010. The LEI Code of the Company is 213800GIFQMSV7HROS23.

The CIF license permits the Company to provide the investment services of reception and transmission of orders in relation to one or more financial instruments, execution of orders on behalf of clients, dealing on own account, portfolio management and investment advice. The Company is also licensed to provide the ancillary services of safekeeping and administration of financial instruments, including custodianship and related services, granting credit or loans to one or more financial instruments where the firm granting the credit or loan is involved in the transaction, foreign exchange services where these are connected to the provision of investment services and investment research and financial analysis or other forms. The assets covered are stocks, exchange traded funds ("ETFs") and Contracts for Difference ("CFDs")<sup>1</sup> on foreign exchange, commodities, indices, stocks and exchange traded funds. The Company deals with its clients as principal counterparty.

The CIF license was amended in June 2017 and the Company commenced offering clients the ability to open positions in crypto currencies. The Company offers both crypto-currency coins (on an agency basis) and crypto-currency CFDs (on a principal basis). For further details on the license information of the Company refer to <http://www.cysec.gov.cy/en-GB/entities/investment-firms/cypriot/37683/>.

The Company provides a multi-asset social investment network where clients can see, follow and copy other social investors and trade real assets in stocks, digital currencies and exchange traded funds and CFDs in foreign exchange, commodities, indices, stocks and digital currencies. The Company connects the traditional investing world with the new world of social networks. Customers buy and sell financial products on the platform whilst exchanging information with other customers. The Company acts as a custodian for its clients and its affiliates clients, holds digital currencies in segregated wallets 'earmarked' as clients' accounts, separately from the Company's own assets and acts as an agent for clients' crypto-assets transactions. Customers buy and sell financial products on the platform whilst exchanging information with other customers.

The Company acts as an agent for clients' crypto-assets transactions.

### **1.2. Regulatory Framework**

#### **1.2.1. Basis of Disclosures**

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<sup>1</sup> A CFD is a contract between two parties that allows the parties to make a profit or loss, as applicable, by reference to fluctuations in the price of an underlying asset, without either party actually owning the underlying asset or being required to deliver such underlying asset at a settlement. The amount of the profit or loss will be the difference between the price when the CFD is opened and the price when it is closed.

The Disclosures have been prepared in accordance with the following:

- Part Six of Regulation (EU) 2019/2033, known as the Investment Firm Regulation (“IFR”);
- Sections 37 and 50(1)(f) of Law 165(I)/2021 of the CySEC for the Prudential Supervision of Investment Firms, which harmonises the European Directive 2019/2034 (“Investment Firm Directive” or “IFD”) with local legislation;
- The Commission Implementing Regulation 2021/2284 of 10 December 2021 laying down implementing technical standards for the application of Regulation 2019/2033 of the European Parliament and of the Council with regard to supervisory reporting and disclosures of investment firms.

The IFR and IFD mentioned above, have become applicable on 26<sup>th</sup> of June 2021 and have replaced the previous prudential framework comprising of the Capital Requirements Regulation (“CRR”) and Directive (“CRD IV”) for the majority of EU investment firms (specifically, for Class 2 and Class 3 investment firms). The purpose of the newly introduced IFR/IFD package is to address the specific vulnerabilities and risks inherent to investment firms by means of proportionate and appropriate prudential requirements on capital adequacy and overall risk management arrangements.

The new rules introduce several changes to the methodologies that investment firms are required to apply for quantifying their exposure to risk and deriving their Capital Adequacy ratio, as well as to their required level of initial capital, their Internal Capital Adequacy Assessment Process (“ICAAP”) which is replaced by the Internal Capital Adequacy & Risk Assessment (“ICARA”) Process, and a newly introduced Liquidity Requirement according to which they are required to maintain liquid assets equal to at least one third of their Fixed Overhead Requirement, among others.

### **1.2.2. Scope of Disclosures**

These Disclosures present the evaluation and management of the various risks faced by the Company during the year ended 31 December 2023, in accordance with Part 6 of the IFR.

The Company does not fall under prudential consolidation as per Article 7 of the IFR and to this end, it makes these Disclosures on a solo basis. The Company’s Financial Statements are also prepared on a stand-alone basis and in accordance with the International Financial Reporting Standards (“IFRS”).

The Company is a Class 2 CIF and is required to hold €750k of initial capital set in accordance with Article 14 of IFR and Article 9 of the IFD.

Information in the Disclosures is presented in thousands of US Dollars (“US\$”), unless otherwise indicated.

### **1.2.3. Frequency, Means and Verification of Disclosures**

The Disclosures were approved by the Board of Directors (the “Board” or “BoD”), verifying the adequacy of risk management arrangements of the Company, and providing assurance that the risk management systems in place are adequate with regards to the Company’s profile and strategy.

The Company publishes the Disclosures prepared in accordance with Part 6 of the IFR on an annual basis on its website and can be found at: <https://www.etoro.com/en/customer-service/regulation-license/>.

### **1.3. Events after the reporting date**

- (a) During January 2024, the Company transferred the custody of crypto assets held on behalf of German clients to a licensed third-party crypto custodian.
- (b) During January 2024, the Company transferred the primary Custodianship of stock assets safeguarded on behalf of clients to eToro UK Ltd a licensed related party affiliate.

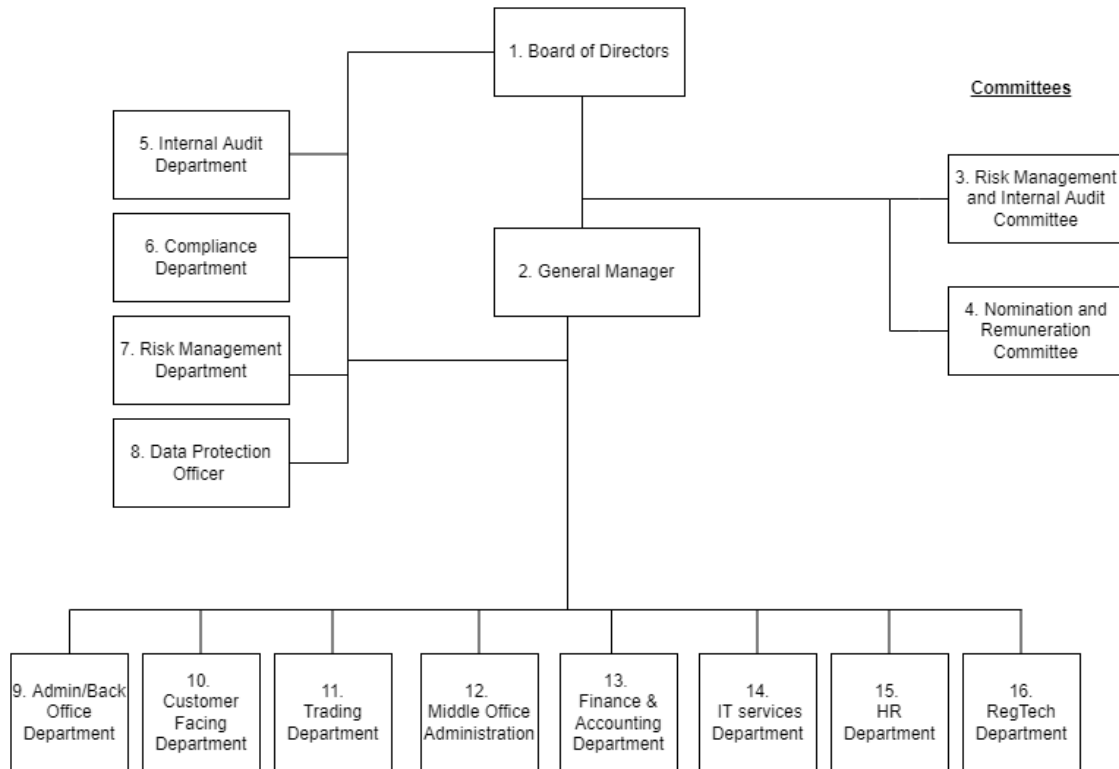
There were no other material events after the reporting period.

## 2. RISK MANAGEMENT, OBJECTIVES AND POLICIES

### 2.1 Risk Management Framework and Governance

Managing risk effectively in a multifaceted organization, operating in a continuously changing risk environment, requires a strong risk management function (“RMF”). To this end, the Company has established an effective risk oversight structure and the necessary internal organizational controls to ensure that it identifies and manages its risks adequately, establishes the necessary policies and procedures, sets and monitors relevant limits and complies with the relevant legislation. In this respect, the Board and Senior Management of the Company are satisfied that the Risk Management framework is appropriate given the risk profile of the Company and its strategy.

The management and the Board of Directors (“BoD”) recognize that risk is embedded in all activities of the Company. Hence the Company supports the implementation of a risk management framework, as described in the following section. In this respect, the Company has established relevant Risk Appetite and Risk Assessment procedures. The BoD and the Management accept a required level of risk to achieve the required level of return, considering the risk identification assessment procedures performed. The Risk Management structure of the Company is depicted in the following diagram:



## **2.2 Risk Governance and Board Committees**

The purpose of the Company's committees, described in detail below, is to assist the BoD in identifying and managing the risks faced by the Company. Even if the Board deems necessary to provide these committees with the power to act upon the identified risks, so as to ensure effective, efficient and timely management of those risks, the ultimate responsibility does not lie with the committee itself. Ultimately, the responsibility of risk management lies with the Board.

### **2.2.1 The Board of Directors**

Risk management is embedded in the Company's strategy and decision-making process. The Board comprehends the multidimensional nature of risk. The BoD's responsibility against risk management is to set the risk appetite and ensure that the risk management framework is appropriate and effective.

The BoD ensures, on an ongoing basis, that the risk management framework in place monitors the process of identifying, evaluating, managing and reporting the risks faced. The BoD reviews and challenges the systems and controls in place. Policies and procedures relating to risk management are presented and approved by the BoD as the ultimate risk responsibility is borne by the BoD. The Internal Capital Adequacy and Risk Assessment (ICARA) Process is examined by the Board and has a direct effect on the decision making of the BoD.

### **2.2.2 Risk Management and Internal Audit Committee**

The Risk Management and Internal Audit Committee advises the BoD on the Company's overall risk appetite and strategy and assists the BoD in overseeing the implementation of that strategy by Senior Management ("SM"). It is the BoD that retains the overall responsibility of risk management.

The Committee collaborates with the Nomination and Remuneration Committee and regularly communicates with the internal control functions. The scope of this Committee covers the following:

- Advice and support to the BoD and SM in their supervisory function regarding the monitoring of the Company's overall actual and future risk appetite and strategy, by taking into account all types of risks, to effectively ensure these risks are in line with the Company's business strategy, objectives, corporate culture and values;
- Oversee the implementation of the Company's risk strategy and establish corresponding risk limits;
- Oversee the implementation of the strategies in regard to the capital and liquidity management and other relevant risks, in order to assess their adequacy against the approved risk appetite, limits and overall strategy;
- Provide recommendations to SM on necessary adjustments to the risk strategy resulting from, inter alia, changes in the business model of the Company, market developments or recommendations made by the RM function;
- Provide advice on the appointment of external consultants that the supervisory function may decide to engage for advice or support;
- Review various possible scenarios, including among other scenarios in stressed conditions and assess how the Company's risk profile would respond in such external and internal events;



- Oversee the alignment of all material financial products and services offered to clients with the Company’s business model and risk strategy. Assess the risks associated with the offered financial products and services and consider the alignment between the prices assigned to and the profits gained from those products and services;
- Assess the recommendations of internal or external auditors and follow up on the appropriate implementation of measures taken;
- Examine whether incentives provided by the remuneration policies and practices take into consideration the Company’s risk, capital and liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Nomination and Remuneration Committee.

During 2023, the Risk Management and Internal Audit Committee met 4 times.

**2.2.3 Nomination and Remuneration Committee**

The Company has a designated Nomination and Remuneration Committee with the main objective to ensure that all organizational units of the Company are staffed by competent and skilled people. Further information on the Nomination and Remuneration Committee is included in [Section 7.2](#) of the Disclosures.

**2.3 Risk Governance and Lines of Defense**

**2.3.1 First Line of Defense**

**Senior Management**

The Company’s SM has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks within their domains. Upon emergence of new threats, it is the responsibility of the SM to inform the other lines of defense as well as the BoD.

The risk and control activity per Business Unit of the Company is described in the table below as follows:

<b>Business Units</b>	<b>Risk and Control Activity</b>
<b>Account Management &amp; Operations</b>	Responsible for on-boarding and maintaining client accounts.
<b>Trading Desk</b>	Responsible for managing and monitoring all actions relating to client executions and exposures.
<b>Finance</b>	Responsible for monitoring and reporting on the adequacy of capital and liquidity, concentration risk, leverage, asset encumbrance and client money.
<b>Information Technology</b>	Responsible for managing the defense from external attacks and smooth operation of systems.

## **2.3.2 Second Line of Defense**

### **Risk Management Function**

The Company has an established Risk Management Function which has adequate authority, stature and resources to introduce appropriate and effective risk management policies covering the Company's management framework. The RMF is independent of the business lines whose risks it controls, even though there is sufficient interaction to enable monitoring and collaboration. It is the responsibility of RMF to ensure that effective risk management processes are in place, by being involved in all material risk management decisions. The RMF provides relevant independent information, analyses and judgement per type of risk, and guides risk-related decisions and proposals made by the rest of the Company.

The scope of the RMF covers the identification, quantification, management, reporting and monitoring of risks. All risks are identified and analyzed both on a qualitative and quantitative perspective. In addition, the monitoring of risks from business units is monitored and suggestions are provided on how to enhance it further. The RMF assess the robustness, sustainability and applicability of the risk strategy and appetite. Furthermore, risk appetite is monitored in terms of appropriate translation into risk limits and metrics. It is within the scope of the RMF to raise flags when SM is not acting in line with the Company's risk appetite. The function, if deemed necessary, recommends enhancements to the risk management framework and corrective measures to remedy potential breaches of risk policies, procedures and limits.

### **Compliance Function**

The Company has established a Compliance Function ("CF") to tackle compliance-related risks. The CF is independent of the business lines whose risks are controlled, even though there is sufficient interaction with the business units to enable monitoring and collaboration. The function has implemented a well-documented Compliance Policy, which has been communicated to all the Company's staff.

The CF has established a process which regularly assess changes in the applicable laws and regulations. In addition, the scope of this function includes the provision of guidance to the management body on measures to be taken to ensure compliance with applicable laws, rules, regulations and standards, and assessment of possible impacts from changes in the legal or regulatory environment on the Company's activities and compliance framework.

### **Anti-Money Laundering Function**

The Anti-Money Laundering Function ("AMLF") of the Company is a designated unit that manages and monitors the controls applied to clients' account profiles and transactions and has the responsibility for the application of the practices, measures, procedures and controls related to the prevention of money laundering, terrorist financing and adherence of sanction-related restrictive requirements.

Furthermore, AMLF is responsible for applying appropriate monitoring mechanisms for anti-money laundering (AML) compliance, examining and evaluating cases according to the determined risk-based approach, developing the AML program and raising awareness of staff through AML trainings across the

Company, ensuring appropriate reporting of AML issues to the BOD in timely manner. AMLF's internal controls include those policies, procedures and processes designed to mitigate the risks of money laundering and support compliance with AML regulations in accordance with relevant jurisdiction. AMLF is aiming to deter, detect and protect the Company and all its stakeholders by implementing appropriate monitoring measures and an AML program.

### **2.3.3 Third Line of Defense**

#### **Internal Audit Function**

The Internal Audit Function ("IAF") in the Company is independent, has sufficient authority, stature and resources. The IAF follows a risk-based approach to review and provide objective assurance of the compliance of all activities and units of the Company. The IAF is not involved in the design, selection, establishment and implementation of control policies, procedures and risk limits. However, it should be noted that the SM requests feedback and suggestions when it deems necessary.

The scope of the function dictates the assessment of the governance framework and whether the current policies and procedures are adequate and compliant with the regulatory framework. In addition, the alignment of the relevant policies and procedures with the risk appetite and the strategy dictated by the BoD should also be evaluated. The extent of the correct implementation of procedures as well as the adequacy, applicability and effectiveness of the controls introduced are evaluated by the IAF. The function does not only monitor the business units of the Company but also the Compliance, Anti-Money Laundering and Risk Management functions.

### **2.4 Concise Risk Statement**

In accordance with Article 47 of the IFR, the Company shall disclose a concise risk statement, approved by the management body, succinctly describing the overall risk profile associated with the firm's business strategy.

To this end, it is noted that the Company is exposed to various types of risks, as described in detailed within this Report. The Board of Directors has the overall responsibility over the risk management framework of the Company, covering the identification, assessment, monitoring and controlling of all risks affecting the Company. As described within these Disclosures the current risk management framework supports the effective risk management of all relevant to the Company risks, while ensuring that material risks are identified, including, but not limited to, risks that might threaten the Company's business model, future performance, liquidity, and capital.

These risks are key elements in the determination of the Company's overall business strategy. The management body acknowledged that the alignment of the business strategy of the Company with its risk appetite is pivotal, to ensure that the appropriate capital levels and other regulatory requirements are always maintained while achieving the business strategy of the Company. In order for the Company's risk profile to be – at all times - within the approved risk appetite, relevant risk reports and a risk appetite dashboard is regularly reviewed and discussed by the Board and the Risk Management Committee. It is

noted that the Company's Risk Appetite Framework provides the necessary escalation process to analyze the materiality and nature of any breaches, where these occur.

### 3. GOVERNANCE ARRANGEMENTS

#### 3.1 Number of Directorships

According to Article 48(a) of the IFR, investment firms shall disclose, at least on an annual basis, the number of directorships held by the members of their management body. In accordance with Section 9 of the Investment Services and Activities and Regulated Markets Law 87(l) of 2017 (the “Investment Services Law”), as subsequently amended, the number of directorships which may be held by a member of the Board of Directors of a CIF, shall not hold exceed any of the following combinations at the same time:

- (a) one executive directorship with two non-executive directorships;
- (b) four non-executive directorships.

Executive or non-executive directorships held within the same group shall count as a single directorship, as per the provisions of the Investment Services Law. As of 31 December 2023, the 7 directors of the Company held the following directorships, in compliance with the provisions of the Investment Services Law:

*Table 1: Directorships held by the Company's Directors*

Executive Directorships	Non-Executive Directorships	Number of Directors
1	-	2
-	1	1
1	2	1
1	3	1
1	1	1

All the Company's Directors have been approved by CySEC.

#### 3.2 Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between Directors.

These differences will be considered in determining the optimum composition of the Board and when possible, should be balanced appropriately. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge, which the Board as a whole requires to be effective. In reviewing Board composition, the Chairman shall consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to enable it to discharge its duties and responsibilities effectively.

The Investment Services Law (Section 10 (2) (b) (ii)) requires investment firms to set a target for the representation of the underrepresented gender in the BoD and the preparation of a policy on how to increase the number of the underrepresented gender in the BoD to achieve this target. The target, policy and their implementation shall be made public. At the date of this Report, the BoD has set the above required policy and aspires towards Board composition in which the underrepresented gender comprises

of at least one-third of the independent directors. A female Non-Executive director is currently appointed by the Company.

## 4. RISKS AND MITIGATING CONTROLS

In accordance with IFR Article 47, this section of the Disclosures presents the risk management objectives and policies for each separate category of risk set out in Parts Three (“Capital Requirements”), Four (“Concentration Risk”) and Five (“Liquidity”) of the IFR, together with a summary of the strategies and processes to manage those risks.

### 4.1 Risk to Client

Risk to Client (‘RtC’) is the risk that an investment firm poses to clients if it fails to carry out its services or operations correctly. There are four K-factors under RtC:

- **K-AUM (Assets Under Management)** – This looks at the risks associated with discretionary portfolio management and non-discretionary arrangements constituting investment advice of an ongoing nature.
- **K-CMH (Client Money Held)** – Captures the risk of an investment firm causing potential harm to clients where it holds their money.
- **K-ASA (Assets Safeguarded and Administered)** – The risk of harm associated with the safeguarding and administering of a client’s financial instruments.
- **K-COH (Client Orders Handled)** – Captures the potential risk to clients of an investment firm which executes orders in the name of the client.

Failure to carry out its services or operations correctly will be a key risk that the Company would need to manage. The negative impact on clients of this failure could be substantial if the management is not appropriate.

#### Assets Under Management (K-AUM)

eToro is subject to K-AUM factor due to the “Popular Investor Program” which includes individuals and legal entities that clients copy their positions. Hence, popular investors can act in a manner which will result into a negative impact to the company reputation and decrease of the assets under management. Also, copying portfolios with poor performance can cause a negative impact on the performance of the Company.

In order to mitigate this risk, the Company is offering a sufficient diverse universe of a copy portfolio, training, and verbal instructions. In case of a recession, the Panicmode or Crypto Portfolios are expected to act as a safe haven from the rest of the universe.

Operational events have strong links with reputational risk since often clients may be impacted.

During 2023 all events which had an impact on clients were clearly communicated and clients were compensated and treated fairly.

### Client Money Held (K-CMH)

The Company holds clients' funds as part of its day-to-day trading operations. As such, it has policies and processes in place to ensure that client funds are not comingled with the Company's own funds in accordance with Directive D187-01 for the Safeguarding of Financial Instruments and Funds belonging to Clients and Circular C458 on the enhancement of procedures regarding safeguarding of client funds held by CIFs.

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

When eToro Platform goes offline for minutes/seconds or bugs may materialise, this could impact client positions. Also, the failure of internal procedures may result to loss of client funds/assets. The Company has in place reconciliation procedures as well as "Four-eyes governance" to ensure that such a risk is sufficiently diversified. A dedicated source is also in place for code reviews and quick rectification of emerging bugs.

### Client Orders Handled (K-COH)

K-COH applies to the trades for which the Company executes orders in the name of the client. It seeks to assess the total value of clients' order handled in each business day in order to capture the operational risks related to those trades. The Company is required to control operational risk arising from systems, processes, people and external events.

## **4.2 Risk to Market**

Risk to Market ('RtM') is the risk that an investment firm poses to the financial markets that it operates in and the counterparties that it trades with. There are two K-factors under RtM:

- **K-NPR (Net Position Risk)** – The Company is subject to market risk as a result of its trading activities. The Company is therefore exposed to losses if adverse market movement cause the value of its trading positions to decline.
- **K-CMG (Clearing Margin Given)** – 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. This does not apply to the Company.

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

Market risk is the potential for loss resulting from unfavorable market movements, which would potentially affect the Company's profitability. The below risks are partially mitigated by hedging exposures exceeding the risk appetite of the firm. Limits per market risks are suggested by the trading department and approved by the Risk Management Committee or the BoD. Market risk arises mainly from the following, all of which are summarized below and detailed subsequently in this section:

- Foreign exchange risk
- Commodity risk
- Equity risk
- Cryptocurrency risk



- Interest rate risk

The Company calculates its minimum capital requirement for K-NPR by applying the Standardized Approach for Market Risk outlined in Title IV, Part Three of the CRR, in accordance with Article 22(a) of the IFR.

#### **4.2.1.1 Foreign Exchange Risk**

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of loss to a particular currency pair as well as through the utilization of sensitivity analysis (e.g., Value at Risk).

#### **4.2.1.2 Commodity Risk**

Commodity Risk arises from the positions of the Company in derivative contracts for which the underlying instruments are commodities. Commodity risk refers to the uncertainties of future market values, caused by the fluctuations in the prices of commodities.

#### **4.2.1.3 Equity Risk**

Equity risk is the risk that the price of one's equity investments will depreciate due to factors relating to the equity's issuer or to a broad equity market movement.

#### **4.2.1.4 Cryptocurrency Risk**

Cryptocurrency risk is the risk that the price of one's cryptocurrency investments will depreciate due to factors relating to the issuer or to a broad cryptocurrency market movement. eToro (EU) acts as agent for the execution of such assets thus there is no market risk emerging from client exposures rather than own positions.

##### **4.2.1.4.1 Strategies and processes**

As per the Company's Implemented Risk Appetite during 2023, the percentage of crypto holding held at non-cold wallets should not exceed 3%. Also, regarding the risk the holding of crypto assets held on behalf of clients, eToro maintains complete control and defenses over cold and warm storage solution as:

- It has no known or historical experience of claims to use as a basis of measurement
- It accounts for and continually verifies the amount of crypto assets within its control, and
- It has established security around custodial private keys to minimize the risk of theft or loss.

The Company, on a continuous basis invests heavily in cyber defenses to ensure materialisation of hacking events remain a low probability event. Historically even though in the crypto market numerous hacking events materialised, no successful hacking attempts have taken place in eToro, as a result of the high quality cyber defenses in place.

Lastly, the Company recognizes the fact that one of the most prominent emerging regulatory and compliance requirements which can have an impact on it, is the proposal for a European Regulation on

Markets in crypto-assets (MiCA). MiCA provides a sound legal framework for crypto-asset markets to develop within the EU by clearly defining the regulatory treatment of crypto-assets that are not covered by existing financial services legislation.

#### **4.2.1.4.2 Accounting treatment of Crypto-asset exposures**

The Company holds digital currencies recognised as inventory in the statement of financial position, for hedging contracts for difference on digital currencies held by clients of the Company. Digital currency (also called crypto-currency) is a digital medium of exchange used to trade for goods or services with some vendors. Its creation and transfer are based on an open-source cryptographic protocol and is not backed by any central bank or government. The digital currency has continuous market price against the main currencies.

The Company cryptocurrencies are primarily traded in active markets and are purchased with the intent to resell in the near future, generating a profit from the fluctuations in prices or margins. As a result, the Company has determined its holding of cryptocurrencies should be accounted for under IAS 2, Inventories, as it meets the definition of a broker-trader. These inventories are principally acquired for hedging clients positions or for the purpose of generating a profit from fluctuations in priced or broker-traders' margin. Under IAS 2, cryptocurrencies are measured at fair value less cost to sell, with changes in fair value recognised in profit or loss.

Also, The Company acts as a custodian of eToro Group Trading Limited, an affiliate company, and holds the cryptocurrencies assets in segregated wallets "earn-marked" as clients' omnibus accounts (off balance sheet items). All crypto currencies trades are executed by eToro Group Trading Limited, which acts as an executing broker for the clients.

#### **4.2.1.4.3 Capital Requirements for Crypto Asset Exposures**

The Company calculates capital requirements for its exposures to cryptos and/or in financial instruments relating to crypto assets amounting to USD1.157.612 in line with CySEC Circular C462 on the Prudential treatment of crypto assets and enhancement of risk management procedures associated with crypto assets.

Specifically, the Company calculates capital requirements, under the following K-Factors:

- **K-AUM**: for the crypto assets for which the Company provides portfolio management or investment advice services (crypto-related copy trades);
- **K-ASA**: for the crypto assets that it its safeguards and administers on behalf of its clients (off balance sheet items);
- **K-COH**; for the crypto-related orders that the Company executes in the name of the client;
- **K-CMH** for the safeguarding of clients' positions in CFD products on cryptos;
- **K-NPR (Commodity)**: for its crypto-related exposures by different instrument, according to Articles 355 to 361 of the CRR;
- **K-TCD**: a) for tis open trades in CFD products on cryptos, and b) for its trading book exposures to real cryptos held with crypto Liquidity Providers (digital currencies balance sheet item)
- **K-DTF**: for the crypto-related trades of the Company through dealing on own account or executing orders on behalf of clients in its own name;

#### 4.2.1.5 **Interest Rate Risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company's income and operating cash flows are substantially independent from changes in market interest rates since the Company is not exposed directly to any interest rate bearing instruments, other than cash at bank which attract interest at normal commercial rates.

## 4.2 **Risk to Firm**

Risk to Firm ('RtF') is the risk that an investment firm faces through its trading activity and market participation. There are three K-factors under RtF:

- **K-TCD (Trading Counterparty Default)** – This looks at 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. This includes both clients and liquidity providers.
- **K-DTF (Daily Trading Flow)** – This captures the operational risk related to the value of trading activity that the investment firm conducts.
- **K-CON (Concentration Risk)** – This seeks to apply additional own funds to manage concentration to a single counterparty or a group of connected counterparties to which a company incurs Trading Book exposures.

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

K-TCD captures the risk that a counterparty to a transaction could default before the final settlement of the transaction's cash flows. This may be a risk to the Company, due to the holding of large amounts with counterparties, which might default and result in loss of some/ all of the balances. In order to mitigate k-TCD the Company performs due diligence and risk checks.

There is also trading counterparty default risk stemming from clients, which is relatively a more diversified risk. Customers may experience negative balances which the Company cannot recover.

The mandatory stop loss implementation in response to ESMA requirements has assisted in the mitigation of counterparty credit risk stemming from client negative balances. To mitigate further the counterparty credit risk arising from the customers, the Company has in place a margin call process.

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

K-DTF applies to firms that are able to deal on own account, such as Etoro (Europe) Limited. It seeks to assess the total value of daily trading flow in each business day in order to capture the operational risks related to those trades. The Company is required to control operational risk arising from systems, processes, people and external events.

### **4.2.3 Concentration Risk K-CON**

The Company incurs concentration risk through its TCD exposures towards its clients for which it acts as the counterparty for executing their derivative transactions, as well as through its TCD exposures towards the affiliate that it places back-to-back trades with, to cover the market risk that arises from its aforementioned client servicing activities. In addition, the Company incurs concentration risk as a result of the positive excess of the long over short notional position in issuers of equity and interest-rate instruments in the Trading Book.

As the execution of clients' derivative transactions through its own account is core part of the business strategy of the Company, the Board considers the risk to each of these counterparties as acceptable. The same holds for the Company's exposure towards the various issuers of the underlying instruments of its CFDs. It is worth noting that these are closely monitored to ensure that they do not exceed the Company's capital thresholds.

The Company is also subject to concentration risk towards major international regulated banks with which it holds both client and own funds. To better manage and mitigate this risk, the Company is looking to diversify in order to better protect the clients and itself from the risk of default of one such counterparty. It should be noted that this risk reflects non-Trading Book exposures and is therefore not captured under the Company's k-CON calculations, but in its ICARA Process instead.

### **4.3 Credit Risk**

Credit risk is the risk that the Company may suffer losses, because of customers and/or counterparties defaulting on their contractual obligations. To limit credit risk, the Company performs due diligence prior conducting business with potential counterparties. Due diligence is also conducted on an ongoing basis, according to the due diligence policy. The Company also reviews and examines periodically the credit ratings as well as the Credit Default Swap ("CDS") spreads when available of the financial institutions and limits its assets according to the perceived risk of the institutions. Further to the above, the Company diversifies the credit risk and limits the amount of credit exposure according to the perceived credit quality.

### **4.4 Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behavior and systems or from external events. The following list presents some event types, included in operational risk, with some examples for each category:

- Internal Fraud: misappropriation of assets, embezzlement, bribery.
- External Fraud: theft of information, hacking damage, third-party theft and forgery.
- Employment Practices and Workplace Safety: discrimination, workers compensation, employee health and safety.
- Business Disruption & Systems Failures: utility disruptions, software failures, hardware failures.
- Execution, Delivery, & Process Management: data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets.

#### **4.4.1 Online fraud risk**

Online fraud could occur when clients illegally use credit cards or other online payment methods of others to fund their accounts with the Company. This risk exposes the Company to monetary loss and to potential implications with the credit cards' issuers.

To prevent and identify online fraud, the Company has developed risk identification tool to identify fraudulent transactions. To this end, the Company employs the Risk Rule Engine an automated alert and flagging system, as well as a semi-automated scoring system, whereby each deposit is scored according to internal fraud triggers. All flagged accounts are reviewed daily by dedicated risk analysts.

Following an alert by the Company's Risk Rule Engine, the Company investigates the relevant account(s) to establish whether the transaction(s) in question are indeed fraudulent. In case the Company concludes that fraud activity has been performed, the Company then refunds the funds to the original mean of payment.

In addition, credit card issuers have adopted credit card security guidelines as part of their ongoing efforts to prevent identity theft and credit card fraud. The Company continues to work with credit card issuers to ensure that its services, including customer account maintenance, comply with these rules. There can be no assurance, however, that the Company's services are fully protected from unauthorized access or hacking. When there is unauthorized access to credit card data that results in financial loss, there is the potential that the Company could experience reputational damage and parties could seek damages from the Company.

#### **4.4.2 Information Technology Risk**

Information Technology (IT) risk could occur because of inadequate information technology and processing. Given the company's high reliance on IT systems and procedures, this security & systems failure risk (before mitigation factors) is deemed to be a high risk by the company. However, efficient controls are in place to reduce the risk.

Monitoring abilities with automatic escalation, including integration to advanced alerting system, that is consolidating all alerts to one center place, policies have been implemented. Regarding improved backup procedures, these now include 3 levels of backup full site replication of trading systems, replication of core systems to all sites, software maintenance, full redundancy in all site connections to the internet, by the use of multiple internet connections via multiple internet providers, hardware maintenance, improved security policies and training, use of the internet, anti-virus procedures and monitoring systems.

The Company understands that there are new attack vectors that are directed towards internal employees, therefore security awareness is in the highest importance. All employees are being educated to mitigate, detect and alert on such scenarios, and detection systems were added in order to be able to detect a potential infection. Once such infection was detected, it can be contained, and problems can be mitigated. The Company pays attention to its data retention. To this end, the Company conducts frequent backups with respect to all the Company's IT systems for all types of data and information and stores these backups at multiple safe remote locations outside the Company's head offices and in different countries.

## **4.5 Funding and Liquidity Risk**

Liquidity risk may emerge in the form of insufficient liquid assets to meet liabilities as they fall due. The risk may materialize due to a mass exodus of clients resulting in large number of withdrawals, account closures and decrease in trading volumes. Another source of liquidity risk is liquidity providers increasing their margin requirements, during periods of high market volatility, requiring additional funds. Inability of matching the margin requirements, will result into closure of open positions and inability to hedge effectively.

In addition, liquidity is monitored on a continuous basis to ensure that potential droughts of liquidity will be proactively identified. The Company maintains liquid assets which are at least one third of the fixed overhead requirement as per the new Liquidity requirement based on IFR Article 43. The Company's liquid assets as at the reference date were comprising mostly of unencumbered short terms deposits, exceeding by far the liquidity requirement. The Company monitors the level of its liquid assets on at least a quarterly basis.

During the year, the Company had sufficient liquid assets to meet its liabilities, thus the Company satisfied the Liquidity Requirement as at the 31st of December 2023.

## **4.6 Regulatory Risk**

### **4.6.1 Money Laundering and Terrorist Financing Risk**

Money laundering is the process of taking the proceeds of criminal activity and making them appear legal. Terrorist financing involves using the funds obtained from various businesses, including non-profit organizations or unregistered money services businesses, to fund terrorist activities. As an internet-based financial services provider, the Company is continuously exposed to the risk that a customer's trading account may be used as a mean to launder money and/or finance terrorism. The Company has established policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks.

### **4.6.2 Regulatory Compliance Risk**

Compliance risk is the current and prospective risk arising from violations of, or non-conformance with, laws, bylaws, regulations, prescribed practices. This risk exposes the Company fines, civil money penalties & payment of damages. Compliance risk can lead to diminished reputation, reduced company value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts.

The Company has in place a Compliance Monitoring Program ("CMP") which embeds various monitoring techniques. Upon the performance of those monitoring techniques, the Compliance Officer assesses the risk level of the finding and provides recommendations on the areas that need improvement. The recommendations are first submitted to the management of the respective departments and once feedback on this recommendation is received, these are then submitted to the Board for review.

Compliance risk is mitigated due to the supervision applied by the Compliance Officers, as well as the monitoring controls and systems applied by the Company.

#### **4.7 Business Risk**

Business Risk is the risk stemming from underperformance of economic results, failure to increase or retain market share, meet business goals due to lack of business direction, planning and leadership that may cause inadequate profits or result in losses to the Company. Business risk is influenced by volume of trades, high costs, competition, and overall economic climate and government regulations. The Company is exposed to Business Risk mainly due to a potential decrease in the number of active investors and volume they trade that may lead to a reduction in the Company's profits. Another business risk is the introduction of new products which on the one hand, can create opportunities, whereas on the other hand can result in negative returns on the investment. Additionally, the company acknowledges that business risks could be triggered by numerous factors which may also be correlated with both regulatory and cross border risks as well as reputational risks.

Policies and procedures are in place to mitigate the business risks, including the regular monitoring of Company's Budgets (considering the overall economic conditions) and continuous support upon additional capital requirement by the parent company. In addition, every introduction of a new product is subjected to a detailed risk analysis and approval by the Risk Committee and Board.

#### **4.8 Group Risk**

Group risk could occur as adverse impact due to relationships (financial or non-financial) of the Company with other entities in the group. The company is reliant on certain services from other entities of the Group including the parent company. Lastly the reputation of the group overall, as well as the members of the group are highly correlated with the reputation of eToro (EU). Management ensures independence between entities to minimize impact of any regulatory or reputational events in other group operations.

In the event of group structure change (i.e., new companies added to the Group) the Board, the Risk Committee and the Risk Manager consider and analyze the risks under such a structure in relation to regulatory, reputational, credit and operational risk.

#### **4.9 Reputation Risk**

Reputation risk is the risk that an adverse perception of the image of the Company by its clients, counterparties, shareholders, investors or regulators may impact earnings and capital. Reputation risk could be triggered by the loss of one or more of the Company's key directors, poor client service, fraud or theft, client claims, legal action, regulatory fines and from negative publicity relating to the Company's operations whether such fact is true or false. The Company has policies and procedures in place when dealing with possible client complaints to provide the best possible assistance and service under such circumstances.

## 5. OWN FUNDS

Capital Management Risk is the risk that the Company will not comply with capital adequacy requirements or may not be able to continue as a going concern. The primary objective of the Company with respect to capital management is to ensure that it complies with the imposed capital requirements with respect to its Own Funds and that the Company maintains strong capital ratios to support its business, to maximize shareholders' value and to optimize its debt and equity balance.

In this respect, the Company must have Own Funds which are always more than its minimum capital requirements, in accordance with the thresholds set by Article 9(1) of the IFR. Specifically, Article 9 of IFR, requires that investment firms 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 exceed all of the following thresholds:

- 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.

During the year, the Company reported to CySEC its capital adequacy, on a quarterly basis. The Senior Management as well as the Risk Manager monitor such reporting and have policies and procedures in place to assist in meeting the specific regulatory requirements. This is achieved through the preparation (on a monthly basis) of management accounts to monitor the financial and capital position of the Company. The Company manages its capital structure and adjusts it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

As at 31 December 2023, the Company's Own Funds comprised of Common Equity Tier 1 ("CET1") capital and Additional Tier 1 ("AT1") capital.

The CET1 capital more specifically included:

- Share capital and share premium:
  - Share capital comprises of fully paid ordinary shares, of nominal value of €1 per share.
  - Share premium arises from the issue of ordinary shares at a value above the nominal value.
- Retained earnings and other reserves, and;
- Perpetual Capital Note: Issued on 1 October 2018, by the Company to eToro Group Ltd, amounting to US\$80.000.000. It is perpetual and has no fixed or final redemption date. eToro Group Ltd does not have the right to call for the Note redemption. The Company is entitled, at its sole discretion, following the five-year anniversary of the Note ("First Call Date"), to call for the payment (in one or more installments) of the Note by providing a 7-day prior written notice. Notwithstanding the above, the Note has not been called by the Company.

There was no Tier 2 capital as of 31 December 2023.



A detailed description of the main features of Common Equity Tier 1 and Additional Tier 1 instrument issued by the Company are presented in Appendix I of these Disclosures (Template EU IF CCA).

Table 2 below presents the composition of the Company's Own Funds as at 31/12/2023, while Table 3 indicates how these Own Funds reconcile with the Company's Audited Financial Statements as of this date, and they have been prepared using the format set out in the Final Report on the Draft Implementing Standards issued by the EBA on reporting and disclosure requirements of investment firms under the IFR (EBA/ITS/2021/02).

As shown below, the Company's Own Funds as at 31 December 2023 amounted to \$295.812K (2022: \$280.902K).

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

Template EU IF CC1				
Ref	(USD '000)	Amounts 31/12/2023	Amounts 31/12/2022	Source based on reference numbers/letters of the Balance Sheet in the audited financial statements (Cross reference to EU IF CC2)
<b>1</b>	<b>OWN FUNDS</b>	<b>295.812</b>	<b>280.902</b>	
<b>2</b>	<b>TIER 1 CAPITAL</b>	<b>295.812</b>	<b>280.902</b>	
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>215.812</b>	<b>200.902</b>	
4	Fully paid up capital instruments	4	4	Ref 1 (Shareholders' Equity)
5	Share premium	150.763	150.763	Ref 2 (Shareholders' Equity)
6	Retained earnings	72.411	54.069	Ref 5 (Shareholders' Equity)
8	Other reserves	5.044	4.395	Ref 4 (Shareholders' Equity)
10	Adjustments to CET1 due to prudential filters	(102)	(124)	Ref 3, 4, 6 (Assets)*
12	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(3.954)	-	
20	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(3.954)	-	
27	CET1: Other capital elements, deductions and adjustments	(8.355) <sup>2</sup>	(8.207) <sup>2</sup>	Ref 8 (Assets)
<b>28</b>	<b>ADDITIONAL TIER 1 CAPITAL</b>	<b>80.000</b>	<b>80.000</b>	
29	Fully paid up, directly issued capital instruments	80.000	80.000	Ref 3 (Shareholders' Equity)
<b>40</b>	<b>TIER 2 CAPITAL</b>	<b>-</b>	<b>-</b>	
	<i>*Multiplied by 0,1% as per Additional Valuation Adjustment methodology in line with CRR Article 35 and delegated Regulation (EU) 2016/101</i>			



**Table 3: Template EU IFCC2: Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements**

Template EU IF CC2				
(USD '000)		Balance Sheet as in the audited financial statements <sup>2</sup>		Cross reference to EU IF CC1
		As at 31/12/2023	As at 31/12/2022	
Ref	Assets - Breakdown by asset classes according to the Balance Sheet in the Audited Financial Statements			
	<b>Non-current assets</b>			
1	Property and Equipment	534	1.445	
2	Right of use assets	227	548	
3	Deffered tax asset	3.954		
		<b>4.715</b>	<b>1.993</b>	
	<b>Current assets</b>			
	Inventory	2.835	5.802	Ref 10
	Derivative assets with Counterparties	65.676	55.320	Ref 10
	Trade and other receivables	23.048	51.629	
	Financial instruments held with Counterparties	32.990	62.209	Ref 10
	Restricted Cash	8.799 <sup>3</sup>	10.627	
	Cash and cash equivalents	223.742	132.949	Ref 27
		<b>357.090</b>	<b>318.538</b>	
	<b>Total Assets</b>	<b>361.805</b>	<b>320.531</b>	
	<b>Liabilities - Breakdown by liability classes according to the Balance Sheet in the Audited Financial Statements</b>			
	<b>Non-current liabilities</b>			
1	Lease liability	-	122	
		-	<b>122</b>	
	<b>Current liabilities</b>			
2	Trade and other payables	53.335	30.755	
3	Lease Liability	249	421	
		<b>53.584</b>	<b>31.176</b>	
	<b>Total Liabilities</b>	<b>53.584</b>	<b>31.298</b>	
	<b>Shareholders' Equity</b>			
1	Share capital	4	4	Ref 4
2	Share premium	150.763	150.763	Ref 5
3	Perpetual Capital Note	80.000	80.000	Ref 29
4	Contributions from parent	5.044	4.395	Ref 8
5	Retained Earnings	72.411 <sup>4</sup>	54.069	Ref 6
	<b>Total Shareholders' Equity</b>	<b>308.222</b>	<b>289.232</b>	

<sup>2</sup>Column titled "Under regulatory scope of consolidation" and prescribed by Commission Implementing Regulation (EU) 2021/2284, has not been included in the abovementioned table since the Company complies with the disclosure requirements of Part Six of the IFR on an individual basis.

<sup>3</sup>The amount of "restricted cash" includes US\$8.355 thousands, which corresponds to the Additional Cash Buffer that is calculated as per CySEC's Circular C334, which requires members of ICF to keep a minimum cash buffer of 3 per thousand of the eligible funds and financial instruments of their clients as at the previous year in a separate bank account in case there is need for an extraordinary contribution, and this should not be used for any other purpose. In accordance with the same Circular, Cyprus investment firms should deduct the additional cash buffer of 3 per thousand of the eligible funds and financial instruments of their clients from the Common Equity Tier 1 capital, as shown in table EU IF CC1.01 (Reference 27).

<sup>4</sup>The increase in retained earnings is in line with the profit for the year ended 2023 .

## **6. CAPITAL REQUIREMENTS**

In accordance with the IFR/IFD framework, investment firms shall at all times have own funds in accordance with Article 9 of IFR, which amount to at least D, where D is defined as the highest of the following:

- (a) fixed overheads requirement (Article 13 IFR);
- (b) permanent minimum capital requirement (Article 14 IFR)
- (c) K-factor requirement calculated (Article 15 IFR).

Therefore, the Supervisory Review and Evaluation Process (“SREP”) is one of the main tools for supervision, through which competent authorities form a comprehensive view on the business model and risk profile of the supervised entity, as well as its overall viability and sustainability. As part of SREP, based on the comprehensive assessment, competent authorities set additional own funds requirements and apply other supervisory measures as necessary.

The Company has an ICARA process for calculating its overall capital requirements, which is an integral part of the overall risk management approach of the Company, and is integrated with the Company’s strategic processes, including its Risk Appetite Framework. The Company’s ICARA process comprises of the risk identification and assessment exercise, the capital planning whereby the solvency position of the Company for the next three years is calculated and the stress testing which is forward-looking and looks at the resilience of the Company to risk under extreme yet plausible scenarios.

The Company held an internal risk assessment exercise in 2024 with reference date 31 December 2023, which was approved by the Board. Within this ICARA Report, the Company performed sensitivity analyses and stress testing scenarios, considering all material risks. The ICARA report for the year ended 31 December 2023 will be submitted to CySEC upon its request, once approved by the Company’s Board of Directors.

### **6.1 Fixed Overheads Requirements**

The Company’s policy is to monitor Fixed Overheads Requirements at least on a quarterly basis. The Company complies with Article 13 of the IFR stating that the Company shall hold Own Funds of at least one quarter of the fixed overhead expenses of the preceding year. The Fixed Overheads Requirement as at 31 December 2023 amounted to \$15.809K (2022: \$17.465K).

### **6.2 Permanent Minimum Capital Requirement**

The Company’s policy is to monitor on a continuous basis its Own Funds and ensure that they remain above the Permanent Minimum Capital Requirement of €750K, which corresponds to the initial capital that applies to the Company, in accordance with Article 9 of the IFD and Article 14 of the IFR.

### 6.3 K-Factor Requirement

The following table breaks down the minimum capital requirement that the Company is required to hold as of 31<sup>st</sup> December 2023. The Company's K-factor requirement is calculated in accordance with Articles 16 through to 33 of IFR. As stated in Article 11(1) and Article 15 of IFR, the Company is required to hold the higher of its K-factor requirement, fixed overhead requirement and permanent minimum capital requirement.

**Table 4: Minimum Capital Requirements**

Minimum Capital Requirements		As at 31/12/2023	As at 31/12/2022
K-Factor Requirement		USD '000	USD '000
Risk-to Client (RtC)	k-AUM	110	144
	k-CMH	4.116	4.214
	k-ASA	2.250	2.151
	k-COH	2.433	2.075
Risk-to Market (RtM)	k-NPR	45.427	49.304
	k-CMG	-	-
Risk-to Firm (RtF)	k-TCD	28.243	19.617
	k-DTF	3.614	3.335
	k-CON	53.731 <sup>4</sup>	249
<b>Total K-Factor Requirement</b>		<b>139.924</b>	<b>81.089</b>
<b>Fixed Overhead Requirement ('FOR')</b>		<b>15.809</b>	<b>17.465</b>
<b>Permanent Minimum Capital Requirement ('PMCR')</b>		<b>829</b>	<b>800</b>
<b>Total Own Funds Requirement</b>		<b>139.924</b>	<b>81.089</b>

<sup>4</sup> Increase in concentration risk and counterparty risk due to combination of higher volumes of trading activity and increased concentration exposures to specific Liquidity Providers that were reduced and diversified in the beginning of 2024.

The Table below shows that the company has excess capital of \$155.888k (2022: \$199.813k above the minimum it is required to hold. This equates to a capital ratio of 211,40% (2022: 364,41%), which is above the minimum threshold of 100% set out in Article 9(1)(c) of IFR.

**Table 5: Capital Excess/Ratio**

<b>USD '000</b>	<b>31 December 2023</b>	<b>31 December 2022</b>	<b>Reference</b>
<b>Capital</b>			
Common Equity Tier 1	<b>215.812</b>	<b>200.902</b>	
Additional Tier 1	<b>80.000</b>	<b>80.000</b>	
Tier 2	-	-	
<b>Total Own Funds</b>	<b>295.812</b>	<b>280.902</b>	<b>a</b>
<b>Own Funds Requirement</b>			
K-factor Requirement	<b>139.924</b>	<b>81.089</b>	b
Fixed Overhead Requirement	<b>15.809</b>	<b>17.465</b>	c
Permanent Minimum Capital Requirement	<b>829</b>	<b>800</b>	d
<b>Minimum Own Funds Requirement</b>	<b>139.924</b>	<b>81.089</b>	<b>e =</b>
<b>Capital Excess/Ratio</b>			
Capital Excess	<b>155.888</b>	<b>199.813</b>	a - e
Capital Ratio	<b>211,40%</b>	<b>364,41%</b>	a / e

## **7. REMUNERATION POLICY AND PRACTICES**

### **7.1 Remuneration System & Policy**

The principles employed within the Company's Remuneration Policy shall be appropriate to its size, internal organization and the nature, the scope and the complexity of its activities whilst adhering to the provisions of the applicable circulars, detail guidance and Q&As.

The Company is in the process of updating its Remuneration Policy in order to ensure that it complies with the relevant provisions of the new regulatory framework IFR/IFD, the revised EBA Guidelines on sound remuneration under IFD issued in November 22, 2021 (EBA/GL/2021/13), the Commission Delegated Regulation (EU) 2021/2154 with regard to regulatory technical standards specifying appropriate criteria to identify categories of staff whose professional activities have a material impact on the risk profile of an investment firm or of the assets that it manages and the Commission Delegated Regulation 2021/2155 supplementing IFD regarding variable remuneration.

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, consequently the Senior Management, members of the Board and the Heads of the departments (thereafter "executive management"). The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long-term success. The remuneration mechanisms in place are well known management and human resources tools that consider the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives. The remuneration system considers the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

### **7.2 Remuneration Committee**

The Company has an established Nomination and Remuneration committee, which is responsible for the design of the remuneration policy and the remuneration practices, which are approved by the Board of Directors. The Compliance and Internal Audit Functions monitor the implementation of the Remuneration Policy and are responsible to report any discrepancies or deficiencies to the Board of Directors. Furthermore, the Nomination and Remuneration Committee is responsible for the annual review of the senior staff remuneration and the adherence to the established policy.

### **7.3 Fixed and Variable Remuneration**

The total remuneration of staff currently consists of primarily a fixed component, and varies across the various employees' positions/roles, functional requirements, educational level, experience, accountability, and responsibility for the performance of the relevant role. The fixed component of the remuneration is stated on the employment contract and it is reviewed annually and also considers standard market practices. Furthermore, the remuneration system also includes a variable component, which includes among others sales commissions, cash bonuses, employee option plan and employee investment accounts. The Company considers both quantitative and qualitative criteria for the determination of the variable component of remuneration.

The determination of the fixed and variable remuneration lies with the Nomination and Remuneration Committee, in regard to the remuneration of senior staff. The remuneration considers various performance metrics, such as individual performance, qualitative annual goal achievement, industry remuneration levels, general economic environment and affordability.

The Company complies with the general requirements for the ratio between fixed and variable remuneration set out in Section 24(2) of Law 165(l)/2021, namely that the Company sets appropriate ratios between the variable and the fixed component of the total remuneration, taking into account the business activities of the Company and its associated risks, as well as the impact that different categories of staff have on the risk profile of the investment firm. The fixed component represents a sufficiently high proportion of the total to allow a flexible variable remuneration policy on variable remuneration components, including the possibility of paying no variable remuneration component.

### **Principles Related to Variable Remuneration**

The Company takes into consideration the following principles for the determination and implementation of its Remuneration Policy:

- Where Remuneration is performance related, the total amount of Remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall results of the Company and when assessing individual performance, financial and non-financial criteria are taken into account;
- The assessment of performance is set in a multi-year framework in order to ensure that the assessment process is based on long-term performance and that the actual payment of performance-related components of Remuneration is spread over a period which takes into account the underlying business cycle of the Company and its business risks;
- The total variable Remuneration does not limit the ability of the Company to strengthen its capital base;
- The Company does not provide guaranteed variable remuneration;
- Fixed and Variable components of the total Remuneration are appropriately balanced and the fixed components represent a sufficiently high proportion of the total Remuneration to allow the operation of a fully flexible policy on variable Remuneration components, including the probability to pay no variable Remuneration component, where applicable;
- The allocation of the variable Remuneration components must also take into consideration all types of current and future risks;
- Every month a part of the variable remuneration shall be deferred for a period. The length of the deferral period shall be established in accordance with the business cycle, the nature of the business, its risks and the activities of the staff member in question;
- The variable Remuneration, where applicable, is subject to claw-back arrangements;
- Variable Remuneration is not paid through vehicles or methods that facilitate non-compliance with the applicable Directive and Regulation.
- In accordance with Article 30(2) of the IFD, the Company strives towards setting the appropriate ratios between the variable and the fixed component of the total remuneration in its remuneration



policy, currently being updated, taking into account its business activities and associated risks, as well as the impact that different categories of staff have on the risk profile of the Company.

#### **7.4 Performance Appraisal**

The Nomination and Remuneration committee established practices to ensure that:

- The rewards for the executive management are linked to the Company's performance;
- To provide an incentive for achieving the key business aims;
- To achieve an appropriate link between reward and performance;
- To ensure that the base salary levels are not set at artificially low levels.

In this respect, the Company implements a performance appraisal method, which is based on a set of Key Performance Indicators ("KPIs"), developed for each business unit and for the Company as a whole. The appraisal process during the recent years was performed as follows:

##### Objectives setting:

- At the beginning of each quarter the Company sets the objectives of each function, department and individual. These are expected to be achieved over an upcoming period of time.

##### Performance checks and feedbacks:

- Managers provide support and feedback to the concerned staff during the time periods decided, during the daily activities or during formal or informal performance reviews. The aim of the performance checks and provision of feedback to staff is to assist the development of their skills and competencies.

##### Annual performance evaluation:

- Takes place annually, usually at the end of each year.

## 7.5 Aggregate Quantitative Information

The details of remuneration for 2023 of all members of staff whose professional activities have a material impact on the Company's risk profile expressed in thousand USD are as shown below:

**Table 6: Aggregate Quantitative Information on Remuneration**

2023 (USD '000)	Remuneration		Variable Remuneration of which:			Total Remuneration	Number of beneficiaries
	Fixed	Variable	Cash outs, Verification, Moderation, overtime etc.	Bonus	Options		
<b>Senior Management</b>	<b>176</b>	<b>44</b>	19	25	-	<b>220</b>	<b>7</b>
<b>Other Key Management Personnel</b>	<b>1.489</b>	<b>247</b>	68	153	26	<b>1.736</b>	<b>23</b>
<b>Total</b>	<b>1.665</b>	<b>291</b>	87	178	26	<b>1.956</b>	<b>30</b>

*During 2023, the total Fixed Remuneration reached 95% of Total remuneration and Variable Remuneration reached 5% of total remuneration.*

2022 (USD '000)	Remuneration		Variable Remuneration of which:			Total Remuneration	Number of beneficiaries
	Fixed	Variable	Cash outs, Verification, Moderation, overtime etc.	Bonus	Options		
<b>Senior Management</b>	<b>258</b>	<b>22</b>	8	14	-	<b>280</b>	<b>6</b>
<b>Other Key Management Personnel</b>	<b>1.692</b>	<b>298</b>	92	206	-	<b>1.990</b>	<b>28</b>
<b>Total</b>	<b>1.950</b>	<b>320</b>	100	220	-	<b>2.270</b>	<b>34</b>

*During 2022, the total Fixed Remuneration reached 95% of Total remuneration and Variable Remuneration reached 5% of total remuneration.*

In accordance with the Financial Statements of the Company for the year ended 31 December 2023, the remuneration of Directors (fees and salaries) amounted to USD\$ 216.379 (2022: USD\$ 225.515). Additionally, during 2023, there were options valued USD\$26.000 exercised. No directors were granted share options in 2023 and 2022.

**Notes:**

- "*Cashouts, Verification, Moderation, overtime etc.*" relates only to cash outs by the employees relating to their trading accounts on the eToro platform and overtime paid.
- "*Bonus*" is the annual discretionary bonuses given and relates to the following: The Employee may be entitled at the end of each year subject to attainment of individual as well as company and departmental targets as defined and notified by the Company to the Employee.
- "*Options*" relate to exercised options of eToro shares by Company employees. More specifically, the Company participates in the eToro Group's share-based scheme, whereby employees of the Company have an option to buy shares of the parent company at a discounted price in return for their services to the Company. The Employee Share Ownership Plan is entirely managed by eToro Group Ltd.

Also, during the abovementioned period, the Company did not pay or award any further deferred remuneration, any severance payments or any guaranteed variable remuneration. In addition, the Company did not award any deferred remuneration or severance payments for/in previous performance periods.

Moreover, IFD derogation as per Article 32(4) states the following:

Points (j) and (l) of paragraph 1 and the third subparagraph of paragraph 3 shall not apply to:

- a) an investment firm, where the value of its on and off-balance sheet assets is on average equal to or less than EUR 100 million over the four-year period immediately preceding the given financial year;
- b) an individual whose annual variable remuneration does not exceed EUR 50 000 and does not represent more than one fourth of that individual's total annual remuneration.

Based on the above, it is noted that the Company does not benefit from this derogation based on point (a) (firm- basis) while, based on the level of annual variable remuneration of several of its employees, the Company does not benefit from the above-mentioned derogation according to point (b) (individual-basis). Therefore, points (j) and (l) of paragraph 1 and the third subparagraph of paragraph 3 of IFD Article 32 apply in full.

## 8. INVESTMENT POLICY

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

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

Article 52 (2) of the IFR states:

*"The investment firm referred to in paragraph 1 shall comply with that paragraph only in respect of each company whose shares are admitted to trading on a regulated market and only in respect of those shares to which voting rights are attached, where the proportion of voting rights that the investment firm directly or indirectly holds exceeds the threshold of 5% of all voting rights attached to the shares issued by the company. Voting rights shall be calculated on the basis of all shares to which voting rights are attached, even if the exercise of those voting rights is suspended."*

As at the reference date the Company did not hold any shares that would meet the criteria stated in Article 52(2) of IFR and therefore no disclosures regarding investment policy were made.

## 9. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISKS

### 9.1. ESG Disclosures Overview

In accordance with Article 53 of the IFR, investment firms, which do not meet the criteria referred to in Article 32 (4) of the IFD, shall disclose information on environmental, social and governance risks, including physical risks and transition risks, as defined in Article 35 of the IFD. The following should be disclosed:

- a) definition of ESG risks, including physical risks and transition risks related to the transition to a more sustainable economy, and, with regard to transition risks, including risks related to the depreciation of assets due to regulatory change, qualitative and quantitative criteria and metrics relevant for assessing such risks, as well as a methodology for assessing the possibility of such risks arising in the short, medium, or long term and the possibility of such risks having a material financial impact on an investment firm;
- b) an assessment of the possibility of significant concentrations of specific assets increasing ESG risks, including physical risks and transition risks for an investment firm;
- c) a description of the processes by means of which an investment firm can identify, assess, and manage ESG risks, including physical risks and transition risks;
- d) the criteria, parameters and metrics by means of which supervisors and investment firms can assess the impact of short-, medium- and long-term ESG risks for the purposes of the supervisory review and evaluation process.

### 9.2. ESG Risks – Definitions

#### a) Environmental Risks

Environmental risks relate to the financial risks posed by an institution's exposures to counterparties or invested assets that may potentially be affected by or contribute to the negative impacts of environmental factors, such as climate change and other forms of environmental degradation (e.g. air pollution, water pollution, scarcity of fresh-water, land contamination, biodiversity loss and deforestation), in addition to corrective policy actions aimed at addressing such factors.

The type of environmental risk that has been most widely recognized is climate-related risk. This could take the form of physical damage caused by extreme weather events or a decline in the asset value of a counterparty.

Environmental factors can give rise to negative financial impacts through a variety of risk drivers that can be categorized as physical risks and transition risks. On the one hand, physical risks arise from the physical effects of climate and environmental change. They can be categorized either as:

- *acute* (i.e., those that arise from extreme climate events such as storms, floods, fires or heatwaves or
- *chronic* (i.e., those that arise from longer-term changes such as temperature increases, rising sea levels, reduced water availability and biodiversity loss).

On the other hand, transition risks refer to the uncertainty related to the timing and speed of the process of adjustment to an environmentally sustainable economy. Transition risks refer to a number of underlying risk drivers such as market, technology, reputation, policy and legal.

#### **b) Social Risks**

Social risks refer to human rights violations, inequalities, relationships with employees, labor practices, customer & community interactions and health and safety. Social risks can be driven by either environmental risks, changes in social policy or changes in market sentiment regarding social matters and these risks might have an impact on the activities of the Company's counterparties.

#### **c) Governance Risks**

Governance risks are driven by governance factors, such as executive leadership, unfair compensation, lack of/poor internal controls, tax avoidance, Board of Directors ("BoD") independence, lack of BoD/senior management diversity, infringements of shareholder rights, corruption and bribery, lack of transparency and integrity, and also the way environmental and social matters are included in the policies and procedures of an organisation, amongst other factors.

### **9.3. Policies & Procedures**

eToro is deeply committed to actively monitoring and effectively mitigating a wide range of environmental, social, and governance (ESG) risks. As part of the Company's commitment, we have in place a comprehensive set of policies to ensure the diligent identification, assessment, and monitoring of the various types of risks. Some of the key policies and initiatives that contribute to the Company's positive social impact are outlined below:

- a) *Potential Vulnerable Clients Policy:* We have established a robust policy to identify and support potentially vulnerable clients, ensuring their needs are adequately addressed and providing them with appropriate resources and assistance. eToro aims to implement such processes across the organization (Group) considering the interests of its clients and treats them fairly. Fair treatment of customers is at the heart of the Firm's business model.
- b) *Diversity Policy:* eToro strongly believes in fostering a diverse and inclusive work environment. Our Diversity Policy emphasizes equal opportunities, nondiscrimination, and the promotion of diversity in all aspects of our operations, including recruitment, promotion, and decision-making processes.
- c) *Remuneration Policy:* To reinforce our commitment to fairness and transparency, we have implemented a Remuneration Policy that aligns employee compensation with their performance, while considering long-term sustainability and responsible business practices.

- d) *Health and Safety Policy*: eToro prioritizes the health and safety of its employees, clients, and stakeholders. Our policy implements rigorous safety measures, including risk assessments, training programs, and adherence to regulations. We are committed to maintaining a secure and healthy work environment through continuous monitoring and employee engagement.

The relevant set of policies and processes are subject to annual review that will allow the appropriate identification, assessment, and management of ESG risks, including physical risks and transition risks, where relevant to the Company's business and operating environment. In this context, to ensure effective governance and risk mitigation practices, eToro has in place a robust Risk Management Policy, which outlines the framework for identifying, assessing, and managing risks, including governance risk within the organization, promoting accountability, transparency, and ethical conduct. As such, the risk governance followed for these risks, as outlined in the Risk Management Policy should be followed.

As part of the three lines of defence model used throughout the Company's risk management framework, the governance of ESG risks follows a similar approach.

As part of the first line of defence, each department is responsible for identifying, assessing, monitoring and reporting any ESG risks that it may face within its relevant activities undertaken for the Company.

The Chief Risk Officer and the Risk Management Function are responsible for integrating ESG into the Company's risk management framework as part of the second line of defence. Hence, ESG risks are embedded in other risk categories identified by the Company. The Risk Management Function is also supported by the Compliance and AML Function within the second line of defence.

As a third line of defence, the Internal Audit provides assurance to senior management and the Board of Directors that the first and second lines' efforts in relation to ESG risks are consistent with expectations and offers independent and objective evaluation and reporting, as well as providing recommendations to the BoD, improving the effectiveness of ESG risk management, control, and governance processes.

The Company plans to further enhance the Risk Management Policy to incorporate all ESG risk factors, applicable to the organization and operations of Etoro. For more detailed information regarding the specific risks we monitor and the mitigation measures in place, please refer to the company policies published on the eToro website as well as in the rest sections of this report.

The firm has developed and enhanced its internal framework, policies and procedures so as to embed ESG within the entire organization, including the management and mitigation of ESG risks, where these are material to the Company.

This includes, but will not be limited to, the following:

- Defining the ESG risks relevant to the firm, including physical risks and transition risks, related to the transition of the Company to a more sustainable economy,
- Developing the processes for the identification, assessment, and management of ESG risks and of a methodology in relation to the assessment of the possibility of such risks arising in the short,

medium, or long term as well as the possibility of such risks having a material financial impact on Etoro. Under the policy the Company identifies Key ESG risks that could potentially stem from the Company's existing risk categories and based on its operations, are identified (through regular horizon scanning as well as following any changes to the Company's operations or business environment) and are embedded within the Company's risk register.

- During the process of developing and updating the ESG risk register the risk department assesses the possibility of significant concentration of specific assets increasing ESG risks, including physical risks and transition risks for eToro;

eToro acknowledges that the regular review and update - where needed - of relevant policies, processes and procedures support our commitment towards embedding and integrating ESG principles within the organization, while remaining aligned with evolving best practices and emerging challenges in the industry.



## 10. APPENDICES

### Appendix I: Own Funds Main Features

Template EU IF CCA			
		Common Equity Tier 1 instruments	Additional Tier 1 instruments
1	Issuer	eToro (Europe) Limited	eToro (Europe) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Public or private placement	Private	Private
4	Governing law(s) of the instrument	Cyprus Law	Cyprus Law
5	Instrument type	Ordinary Shares	Additional Tier 1
6	Amount recognised in regulatory capital (in thousands of USD\$)	US\$150.767,194	US\$80,000
7	Nominal amount of instrument (in thousands of USD\$)	US\$3,791	US\$80,000
8	Issue price (in thousands of USD\$)	US\$3,791	N/A
9	Redemption price	N/A	US\$80,000
10	Accounting classification	Shareholders' equity	Perpetual Capital Note
11	Original date of issuance	N/A	10/01/2018
12	Perpetual or dated	N/A	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	N/A	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates	N/A	N/A
	<i>Coupons / dividends</i>		
17	Fixed or floating dividend/ coupon	N/A	N/A
18	Coupon date and any related index	N/A	N/A
19	Existence of a dividend stopper	No	N/A
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	N/A
22	Existence of step up or other incentive to redeem	N/A	N/A
23	Noncumulative or cumulative	Non-cumulative	N/A
24	Convertible or non-convertible	Non-convertible	N/A
25	If convertible, conversion trigger(s)	N/A	N/A
26	If convertible, fully or partially	N/A	N/A
27	If convertible, conversion rate	N/A	N/A
28	If convertible, mandatory or optional conversion	N/A	N/A

Template EU IF CCA			
		Common Equity Tier 1 instruments	Additional Tier 1 instruments
29	If convertible, specify instrument type convertible info	N/A	N/A
30	If convertible, specify issuer of instrument it converts into	N/A	N/A
31	Write-down features	No	N/A
32	If write-down, write-down trigger(s)	N/A	N/A
33	If write-down, full or partial	N/A	N/A
34	If write down, permanent or temporary	N/A	N/A
35	If temporary write-down, description of write-up mechanism	N/A	N/A
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
38	Link to the full term and conditions of the instrument (signposting)	N/A	N/A

## Appendix II: References to the IFR

IFR Article ref.	High-level summary	Public Disclosures Section Reference
<b>Scope</b>		
46 (1)	Publicly disclosure of the information specified in Part Six on the same date as the publication of the annual financial statements.	Section 1.2.2
46 (2)	Investment firms that meet the conditions for qualifying as small and non-interconnected investment firms which issue Additional Tier 1 instruments shall publicly disclose the information set out in Articles 47, 49 and 50 on the same date as they publish their annual financial statements.	Not applicable – not a small and non-interconnected investment firm
46 (3)	Investment firms no longer meeting all the conditions for qualifying as a small and non-interconnected investment firm, shall publicly disclose the information set out in Part 6 of IFR as of the financial year following the financial year in which it ceased to meet those conditions.	Not applicable - not a previously a small and non-interconnected investment firm
46 (4)	Determine the appropriate medium and location to comply effectively with the disclosure requirements referred to in Article 46(1) and 46(2). All disclosures shall be provided in one medium or location, where possible.	Section 1.2.3
<b>Risk management objectives and policies</b>		
47	Disclosure of information on strategies and processes to manage each separate category of risk set out in Parts Three – Five of the IFR, and a concise risk statement describing the investment firm’s overall risk profile associated with the business strategy.	Sections 2 & 4
<b>Governance</b>		
48 (a)	Number of directorships held by member of the management body.	Section 3.1
48 (b)	Diversity policy 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.	Section 3.2
48 (c)	Disclosure of whether a separate risk committee is in place, and number of meetings in the year.	Section 2.2.2
<b>Own Funds</b>		
49	Information regarding the Company’s Own Funds.	Section 5
<b>Own Funds Requirements</b>		
50 (a)	Summary of institution’s approach to assessing adequacy of capital levels.	Section 5 & 6
50(b)	Result of ICAAP on demand from competent authority.	Not applicable since not demanded by CySEC
50 (c)	The K-factor requirements in aggregate form RtM, RtF and RtC, based on the sum of the applicable K-factors.	Section 6
50 (d)	The fixed overhead requirement.	Section 6
<b>Remuneration policy and practices</b>		
51	Remuneration Policy.	Section 7
<b>Investment Policy</b>		
52	Investment Policy	Section 8 – Not applicable to the Company
<b>Environmental, social and governance risks</b>		
53	Information on environmental, social and governance risks, including physical risks and transition risks.	Section 9

### Appendix III: Glossary

Abbreviation	Description
AML	Anti-Money Laundering
AMLF	Anti-Money Laundering Function
ASA	Assets Safeguarded and Administered
AT1	Additional Tier 1
AUM	Assets Under Management
BoD	Board of Directors
CET1	Common Equity Tier 1
CF	Compliance Function
CFD	Contact for difference
CIF	Cyprus Investment Firm
CMH	Client Money Held
CMP	Compliance Monitoring Program
COH	Client Orders Handled
CON	Concentration
CRD	Capital Requirement Directive
CRR	Capital Requirements Regulation
CySEC	Cyprus Securities and Exchange Commission
DTF	Daily Trading Flow
EBA	European Banking Authority
ETF	Exchange traded funds
EU	European Union
FOR	Fixed Overhead Requirement
IAF	Internal Audit Function
ICAAP	Internal Capital Adequacy Assessment Process
ICARAP	Internal Capital Adequacy and Risk Assessment Process
IT	Information Technology
K	Thousand
MiCA	European Regulation on Markets in Crypto-Assets
NPR	Net Position Risk
PMCR	Permanent Minimum Capital Requirement
RMF	Risk Management Function
RtC	Risk to Client
RtF	Risk to Firm
RtM	Risk to Market
TCD	Trading Counterparty Default
SM	Senior Management
REP	Supervisory Review Process

