The Cyprus Investment and Securities Corporation Ltd

Pillar III Disclosures and Market Discipline for the year ended 31 December 2021

Disclosures in accordance with Part Six of 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

February 2023

Contents

1. Introduction

1.1 Corporate Information

These disclosures (the "Pillar III Disclosures") relate to The Cyprus Investment and Securities Corporation Ltd ("the Company" or "CISCO"), which is authorised and regulated by the Cyprus Securities and Exchange Commission ("CySEC") as a Cyprus Investment Firm ("CIF") to offer Investment and Ancillary Services under license number 003/03 dated May 12, 2003, and which has a LEI Code of 213800XP9YY3GNQGZE38.

The principal activities of the Company are those of an investment firm. The Company offers a full spectrum of Brokerage and Investment Banking services which include inter alia, underwriting, management and selling of securities in the primary market, provision of brokerage services in secondary markets, the provision of financial consultancy, as well as margin facilities for trading on the Cyprus and Athens Stock Exchanges to eligible clients through a well-structured and regulated product offering. CySEC's relevant Directive clearly governs the general operational framework for the provision of margin trading and the responsibilities of the parties involved. The Company's management monitors compliance with the Directive. During 2021, the Company was also licenced by CySEC to provide portfolio management and collective portfolio management services, provided that certain conditions are met. These conditions will be fully met following the merge of BOC Asset Management Ltd with the Company.

In particular, the Company has the license to provide the following investment and ancillary services, in the financial instruments outlined below:

Investment Services
• Reception and transmission of orders in relation to one or more financial instruments. • Execution of orders on behalf of clients. • Provision of investment advice. • Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis. • Placing of financial instruments without a firm commitment basis;

Ancillary Services
• Safekeeping and administration of financial instruments, including custodianship and related services. • Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction. • Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings. • Foreign exchange services where these are connected to the provision of investment services; • Investment research and financial analysis or other forms. • Services related to underwriting;

Financial Instruments
• Transferable securities. • Money-market instruments. • Units in Collective Investment Undertakings. • Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash. • Options, futures, swaps, forwards, and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event. • Financial contracts for differences.

1.2 Pillar III Regulatory Framework

The capital adequacy and overall risk management requirements that applied until recently to the Company under the EU Capital Requirements Directive 2013/36/EU (“CRDIV”) and EU Regulation No. 575/2013 (the “Regulation” or the “CRR”), have been replaced by amended prudential rules. In particular, the EU Regulation 2019/2033 (the “Investment Firm Regulation” or “IFR”) and EU Directive 2019/2034 (the “Investment Firm Directive” or “IFD”), where the latter has been harmonized into Cyprus legislation through the issuance of the Cyprus Law on the Prudential Supervision of CIFs of 2021 (165(I)/2021).

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 liquidity levels equal to at least one third of their Fixed Overhead Requirement, among others.

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

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

- Pillar I - Minimum Capital Requirements - ensures that the Company maintains at all times a sufficient amount of capital above the minimum requirement in relation to certain key risks, as calculated using prescribed methods.
- Pillar II - ICARA and Supervisory Review and Evaluation Process (“SREP”) - ensures that the Company and its supervisor, CySEC, actively assess, control and mitigate the various risks that the Company faces.
- Pillar III - Market Discipline - ensures the promotion of market discipline through the disclosure of the Company's regulatory requirements, risk management and risk governance policies and procedures, allowing market participants to view and compare meaningful information relating to the Company and its peers.

The present Pillar III Disclosures have been prepared in compliance with Part Six of the IFR and relate to the financial year ending on 31st of December 2021. The Company is making these Disclosures on an individual (solo) basis as it is not required by the Cyprus Companies Law, Cap. 113, to prepare consolidated financial statements because the parent company, Bank of Cyprus PCL, publishes consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the EU in Cyprus and the Company does not intend to issue consolidated financial statements for the year ended 31 December 2021.

As of 31/12/2021 and onwards, the Company should prepare its first Pillar III Disclosures document and arrange for its review and verification by its external auditors. Since CISCO is classified as a Class 2 CIF and thus is not a small and non-interconnected investment firm as specified in article 6 of IFR, CISCO can no longer be exempted from the publishment of Disclosures, as described in Part Six of IFR. Furthermore, the Company should upload its annual Pillar III Disclosures on its website, while it also should submit them to CySEC accompanied by its external auditors' verification report.

1.3 Events after the reporting date

Depending on the duration of the Coronavirus disease (COVID-19) pandemic, and continued negative impact on economic activity, the Company might experience negative results, and liquidity restraints. The impact on the Company's activities in 2022 and until the time of preparation of this Report was immaterial. However, management is continuing to monitor the latest developments and take necessary actions. Given the Company's operating activities, management does not anticipate significant adverse effects from the time of preparation of this Report and onwards, in line with the experience from 2021 and 2020.

Russian's invasion of Ukraine on 24 February 2022 has triggered disruptions and uncertainties in the markets and the global economy, as well as coordinated implementation of sanctions the EU, UK, and the U.S., in a coordinated effort joined by several other countries, imposed against Russia, Belarus and certain regions of Ukraine and certain Russian entities and nationals. The Company's policy is to comply with all applicable laws, including sanctions and export controls. At present, numerous complex regimes are developing rapidly in response to the military conflict and the Company is working carefully and assiduously to comply with all relevant requirements and to address their potential consequences.

The situation is still evolving and further sanctions and limitations on business activity, as well as consequences on the global economy in general, may arise but the full nature and possible effects of these are unknown. It is not possible for management to predict with any degree of certainty the impact of this uncertainty on the future operations of the Company and estimate the financial effect on the Company. However, it is noted that, during 2022 and until the time of preparation of this Report, the impact on the Company's activities from the Russian's invasion of Ukraine was immaterial.

In addition, the Company is in the process of absorbing its 100% subsidiary company, BOC Asset Management Ltd ("BOCAM"), through merger. The approval of the scheme of arrangement for the merger between CISCO and BOCAM is pending before the Nicosia District Court, with the hearing set for 15 February 2023. Once the scheme is sanctioned by the Court, the order sanctioning the scheme will be filed with the Registrar of Companies and shall become effective upon such submission.

There were no other material events after the reporting date, which have a bearing on the understanding of the financial statements.

2. Risk Management Arrangements

2.1 Risk Management Objectives and Policies

2.1.1. The Company's Approach to Risk Management

The primary mission of the Company's risk management function is to incorporate robust risk management practices in all areas of the Company to ensure that the level of risk faced by CISCO is consistent with the overall risk appetite and strategy.

The risk management department employs sound processes, professional expertise and adequate techniques and systems in order to comply, at all times, with the applicable laws and regulatory requirements of risk management. The key scope is to promote the effective and prudent management of all risks and to protect the Company and its investors from risks to which they may be exposed to.

2.1.2. Risk Management Function

The Risk Management Function is hierarchically and functionally independent from the other operating departments of the Company and reports directly to the Board of Directors of CISCO.

The Risk Management processes aim to:

- Identify risks relevant to CISCO and to the clients of CISCO.
- Measure the risks and quantify risk limits.
- Create and maintain an integrated and effective risk management framework.
- Develop plans to mitigate risks and monitor the progress of risk mitigation activities.
- Create and disseminate risk measurements and reports to the BoD and Audit & Risk Committee ("ARCO") of CISCO and regulators as required.
- Be involved in decision making, strategy and policy setting.
- Develop a robust risk culture.

2.1.3. Risk Management Governance

The responsibility for approving and monitoring the Company's overall strategy, risk appetite and policies for managing risks lies with the Board of Directors of the Company, which exercises this responsibility through the ARCO.

The Company follows the regulatory guidelines for Corporate Governance of the Bank of Cyprus Group ("BOC Group") and has defined a set of rules and controls governing its organisational and operational structure including reporting processes and functions for risk management, compliance, and internal audit.

CISCO has established the "Three Lines of Defence" model as a framework for effective risk management and control which depicts the relationship of risk management with other internal control functions, as well as the front line. All employees are responsible for identifying and managing risk with the scope of their role as part of the three lines of defence model.

Although the ultimate responsibility rests with the management of CISCO,the Company is supported by BOC Risk Management Department under a Service Level Agreement (“SLA”) agreement between CISCO and BOC Risk Management Division. In addition, the BOC Risk Management Division reviews and provides comments on the Company ICARA. The Subsidiaries Risk Manager is also responsible for the preparation of the CISCO Annual Risk Report that is submitted to the BoD and CySEC. The CISCO ICARA Report is ultimately the responsibility of CISCO Management, however, its review is performed by the Risk Management Division of Bank of Cyprus (“BOC” or “the Bank”).

2.1.4. Internal Audit

The Internal Audit function is assigned to the Internal Audit Division of BOC via an Outsourcing SLA Agreement between CISCO and the Group Internal Audit Division. This function runs the annual internal control audits, proposes actions for improvement and monitors their implementation. Through these audits, the Company's internal governance framework is assessed and evaluated against the laws and regulations of CySEC and best practices of the market. This function reports internal audit matters at least annually to the Company’s ARCO, Board of Directors and to Senior Management.

CISCO's internal controls, systems, procedures, corporate governance and risk management processes are examined and evaluated by the Internal Audit function of the BOC Group. Based on this, Internal Audit prepares a risk assessment and risk-based audit plan and conducts internal audit reviews of all operational and administrative functions of the company at least on an annual basis.

2.1.5. Regulatory and Anti-Money Laundering (“AML”) Compliance Function

These responsibilities are assigned to the Compliance Officer of the Company, who is a BOC employee and operates under an Outsourcing SLA Agreement between CISCO and BOC Group Compliance. The actions performed by this function include, inter alia, the oversight of the Company's employees' personal transactions on a daily basis, the daily oversight of significant client transactions, the implementation of Anti-Money Laundering procedures, the performance of client due diligence and the preparation of the Annual Compliance and Anti-Money Laundering reports that are submitted to the BoD and to CySEC. Moreover, the Compliance Officer monitors the Company's compliance with MiFID and all relevant CySEC Laws and Circulars.

2.1.6. Risk Appetite Statement

For more details you can refer to Appendix II.

2.1.7. Internal Capital Adequacy and Risk Assessment Process

The Company is in the process of updating its existing Internal Capital Adequacy and Assessment Process (“ICAAP”) in order to prepare its first Internal Capital Adequacy and Risk Assessment (“ICARA”) Process, through which it will ensure full alignment with the IFR & IFD framework and the Cyprus Law 165(I)/2021 on the Prudential Supervision of CIFs. This will form the basis of the Company’s Pillar II requirements that the Company views as the additional amount of capital and liquidity it needs to hold against any risks that are not covered by Pillar I.

The ICARA is embedded in the core of the Company's operations and serves as a valuable Risk Management tool which ensures that the Company's Risk Management framework receives the necessary attention from all the related functions/personnel of the Company, while contributing toward a robust organization by promoting a risk-averse culture within the Company.

The Board of the Company and the Senior Management ensure the appropriate design, adoption, and implementation of the Company's ICARA, by performing their ICARA-related duties and responsibilities as these are detailed in the relevant manual of the Company.

The CISCO ICARA Report is the responsibility of CISCO Management. In addition, a review is performed by the Risk Management Division of the Bank before being finalised.

2.2 Risk Governance – Board and Committees

2.2.1. Board of Directors

The size and composition of the Board of Directors ("the Board" or "BoD") takes into account the size and complexity and the nature and scope of its activities ensuring that:

- According to the Company's Memorandum and Articles of Association the number of Directors shall not be less than five (5) nor more than ten (10).
- The Board shall comprise of at least two Independent Directors and 2 Executive Directors.
- The Chairperson is a non-executive Member of the Board of Directors.
- The roles of the Chairperson and Executive Directors are separate and clearly established in the Board of Director's Manual.

The Board of Directors, at the time of the preparation of this Pillar 3 Disclosures document, consisted of two Executive and four non-Executive members, of which the three were Independent.

The Board of Directors' responsibilities

The primary role of the BoD is to provide ethical leadership and promote the Company's vision, values, culture and behaviour, within a framework of prudent and effective controls, which enables risk to be assessed and managed.

The Board is collectively responsible for the long-term success of the Company; it sets the Company's strategic objectives, integrates sustainability into the way business is conducted, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board also sets the Company's values and standards and ensures that its obligations towards its shareholder and other stakeholders are understood and met.

The Board is responsible for ensuring that the management maintains an appropriate system of internal controls which provides assurance of effective operations, internal financial controls and compliance with rules and regulations. It has the overall responsibility for the Company and approves and oversees the implementation of the Company's strategic objectives, risk strategy and internal governance.

Moreover, the Board is responsible for determining the nature and extent of the principal risks the Company is willing to take in achieving its strategic objectives and ensuring the maintenance of an effective risk management and oversight process across the Company in particular and the Group in general.

The Board has a responsibility to present a fair, balanced and understandable assessment of the Company's position and prospects, including in relation to the annual financial statements and other reports and reports required by regulators and by law.

There is a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business.

The Board is the decision-making body for all matters of importance that are of significance to the Company as a whole because of their strategic, financial or reputational implications or consequences.

The following matters are specifically reserved for decision by the Board of Directors:

- Objectives and strategic policy of the Company.
- Overall risk policy and risk management procedures.
- Overall capital adequacy planning.
- Annual and three-year budgets and business plans.
- Significant capital expenditures.
- Unusual transactions.
- Mergers, acquisitions and disposals of a significant part of the Company's assets.
- Directors' conflicts of interest.
- The selection, appointment re-appointment of Directors of the Company.
- The succession planning.

The delegation of any other matters than the above by the Main Body of the Board to any of its Committees does not under any circumstances discharge the obligations and responsibility of the Main Body in relation to these matters. For this reason, each Committee Chairperson will be responsible for presenting in summary to the Main Body of the Board the various decisions taken on matters delegated by it.

2.2.2. Board Committees

The Board may delegate all or any of its powers where appropriate to a Committee of Directors. For its proper and effective operation, the Board of Directors has established an Audit & Risk Committee. Should the Board of Directors consider it expedient to establish more Committees, it may proceed therewith. The Terms of Reference of any established Committee, specifying its role and the authority delegated to it by the Board of Directors, should be made available to the Company's shareholder and CySEC.

All the Committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The Board of Directors must establish a process for the co-ordination and communication among its different Committees.

The key duties of the Board Committee Chairperson should include:

- Provision of effective leadership to the Committee (e.g., promotes a team spirit, facilitates effective running of the Committee, ensures a stimulating experience by Committee members etc.).
- Effective chairmanship of meetings (e.g., effectively manages debates, encourages Committee members to challenge issues, ensures appropriate induction of the Committee appointees and ongoing training etc.); and

- Reporting to the Board in an effective and high-quality manner.

Audit and Risk Committee

The Company has established a combined Audit & Risk Committee ("ARCO"). The duties of the Company's ARCO include, inter alia, the monitoring and assessment of the adequacy and effectiveness of internal controls and information systems, the liaison with internal and external auditors in relation to their audit findings, ensuring that senior management takes the necessary corrective actions in a timely manner to address control weaknesses, and the provision of assistance to the BoD in overseeing the effective implementation of the risk strategy by CISCO Management.

The ARCO is comprised of only Non-Executive Directors, the majority of which should be independent. Also, one of the independent directors should be the chairperson of the ARCO.

The ARCO of the Company should meet at regular intervals. It must also report to the Board and circulate its minutes in advance of Board meetings. During 2021 no meetings were held since, due to the small number of BoD Members, all Audit/Risk/Compliance issues were examined at BoD level.

The Company must ensure that the ARCO has adequate access to the Internal Control Functions and that the Heads of Internal Control Functions are regularly invited to Committee meetings. Group Heads of Internal Control Functions, or their representatives, should be invited to attend such meetings at least once a year as observers. Due to the size of the Company, the participation of Group Committee respective Chairmen is not considered necessary.

2.2.3. Number of directorships held by members of the Board

The table below provides the number of directorships that each member of the management body of the Company holds at the same time in other entities, including the one in the Company.

As per the provisions of Section 9(5) of Law 87(I)/2017, for the purposes of the below, the following count as a single directorship:

a) executive or non-executive directorships held within the same group
b) executive or non-executive directorships held within:
    a. institutions which are members of the same institutional protection scheme, provided that the conditions set out in Article 113, paragraph (7) of CRR are fulfilled; or
    b. undertakings (including non-financial entities) in which the CIF holds a qualifying holding.

In addition, as per the provisions of Section 9(6) of Law 87(I)/2017, for the purposes of the below, directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account.

Table 1: Directorships of Board Members[1]

Name of Director	Position within CISCO	Number of Directorships	
		Executive	Non-Executive
Christos Kalogeris	Executive Director	1	-
Maria Ioannou	Executive Director	1	-
Andreas A. Andreou	Non-Executive Director, Independent	-	2
Sofronis Clerides	Non-Executive Director, Independent	-	1
Evrita Malli	Non-Executive Director, Independent	-	1
Eliza Livadiotou	Non-Executive Director, Non-Independent	-	1

[1] The information in this table is based only on representations made by the directors of the Company at the time of the preparation of this Pillar 3 Disclosures document.

Notes on directorships:

a) *Mr. Christos Kalogeris was appointed to the position of the new General Manager of the Company, replacing Mr. Cleanthis Chandriotis from April 4, 2022, however, the official appointment by the authorities of Mr. Christos Kalogeris was on 22 August 2022.*
b) *Mr. Andreas A. Andreou, Mrs. Eliza Livadiotou and Mrs. Evrita Malli were appointed on 14 March 2022*
c) *Mr. Marinos Gialeli (Non-Executive Director, Independent), Mr. Cleanthis Chandriotis (Executive Director) and Mr. Michalis Athanasiou (Non-Executive Director, Non-Independent) were resigned on 14 Ιουνίου 2021, 01 August 2022 and 20 August 2022 respectively.*

2.2.4. Diversity Policy/Fitness and Probity Policy

The Company recognizes the benefits and necessity of having an adequately diverse Board and considers diversity as requisite to maintaining a competitive advantage and meeting its business strategy. A diverse Board includes and makes good use of differences in the skills, regional and industry experience, background, race, age, gender, personal attributes and other distinctions between Directors. Such differences are taken into account when determining the optimum composition for an effective Board composition.

The Company is committed to ensuring that Directors and persons appointed to the management Body, the Executive Committee or other assessed person positions are fit and proper to hold office. This Fitness and Probity policy of the Company sets out the criteria for the assessment of the suitability of persons which hold specific and important positions within the Company and the appropriate procedure to be adopted and implemented in order to ensure that the persons involved are suitable for the position they hold on a continuous basis.

The Fitness and Probity policy sets out in writing the Company's strategy in assessing the fitness and probity of persons who hold, or who are appointed or elected to an assessed position on a continuous basis. This is in line with the professional and ethical values and long-term interests of the Company as well as its Code of Conduct and Corporate Governance Policy. As part of the governance structure of the Company it serves the purpose of providing for prudent management and of strengthening the efficiency of risk management of the Company.

The requisite knowledge, experience and abilities of each individual as well as the general requirements for the composition of the Management Body are factors that may ensure that informed and professional decisions are taken for the direction of the Company, the risk management oversight and the regulatory environment it operates in.

In brief the responsibilities of the Company in relation to the above legal and regulatory framework are:

- To make the initial and continuous assessment of the fitness and probity of assessed persons.
- To ensure that assessed persons have the requisite experience, specialization and knowledge for the discharge of their duties and responsibilities.
- To ensure that the assessed persons act in honesty, reliability and integrity, characteristics which promote the culture of compliance in an organisation.

The Company will also take reasonable steps to ensure that after a person is nominated or proposed for election or appointment to an assessed person position, the Company will make available to that person a copy of this Policy and the details of the competencies and training required for the relevant assessed person position before any assessment of their suitability to hold an assessed person position is conducted. This Policy will also form part of the induction process for all assessed persons.

The information that a position is assessed, and that the fit and proper assessment is mandatory before the appointment, must be specified in the job description.

3. Principal Risks

This section sets out the Company's objectives and policies to manage each key risk that arises from its activities and operations, as well as the strategies and processes it has put in place in order to manage and mitigate each such risk.

3.1 Risk to Client

Risk to Client ("RtC") is the risk that an investment firm poses to its clients in the event where it fails to properly carry out the services being offered to them. It reflects the risk covering the business areas of investment firms from which harm to clients can conceivably be generated in case of problems.

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 not managed appropriately.

There are four K-factors through which some of the core aspects of RtC are being captured and measured, and which act as proxies that cover the specific business areas that are referred to above. These K-factors consist of the following:

- **K-AUM (Assets Under Management)** – K-AUM captures the risk of harm to clients from an incorrect discretionary management of client portfolios or poor execution and provides reassurance and client benefits in terms of the continuity of service of ongoing portfolio management and investment advice. As the Company did not provide portfolio management or investment advice services and thus not having any financial assets under its management during the year ending 31 December 2021, the Company was not subject to the risk relating to this K-factor.

- **K-CMH (Client Money Held)** – K-CMH captures the risk of potential for harm where an investment firm holds the money of its clients, taking into account whether they are on its own balance sheet or in third-party accounts and whether arrangements under applicable national law provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. As part of its business, the Company holds bank balances on behalf of its clients which are presented as off-balance sheet items in order to purchase or sell financial instruments on behalf of its clients.

  ***Risk Mitigation Measures**:*
  According to CySEC Directive 87-01, the Company must upon receiving any client funds, promptly place those funds into one or more accounts opened with any of the following:
  - Central Bank.
  - Credit Institution as defined in Article 2(1) of the Business of Credit Institutions Law.
  - Bank authorised in a Third Country.
  - Qualifying money market fund.

  The Company maintains "Trading accounts" (with BOC) and "Clients' accounts" (with BOC and other credit institutions) for the safekeeping of its clients' funds. The Company has the following processes and policies in place to protect clients' funds:
  - Maintains records so that client funds are not commingled with the Company's own funds.
  - Use clients' accounts only for its clients and not for the clients of the Group.
  - Maintains accuracy of the accounts using audit trails.

- Conducts reconciliations on a daily basis.
- Establishes appropriate measures to reduce the risk of loss of clients funds due to misuse of client money, fraud, poor administration, inadequate record-keeping or negligence.

Also, the Management of the Company demonstrates the required diligence for the selection of the credit institutions that holds clients' funds and monitors at least annually the credit ratings and the financial statements of that institutions, where available. The expertise and reputation of the credit institutions is also taken into account by the Company. The Company also performs frequent checks and considers the diversification of clients' funds as part of its due diligence.

K-ASA (Assets Safeguarded and Administered) – K-ASA captures the risk of safeguarding and administering client assets, and ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on their own balance sheet or in third-party accounts. During the year under review, the Company offered safeguarding services in relation to clients assets. Safeguarding services are offered to all clients trading at CSE, ASE, XNET and Global eTrading.

***Risk Mitigation Measures*:** It is noted that, CISCO is a White Label partner of Saxo Bank. The securities that Saxo holds on behalf of clients are protected both according with the rules in The Danish Financial Business Act, and under MiFID. Securities segregated in above manner cannot be considered part of an insolvency of Saxo and would be repatriable by the client. Saxo follows the naming convention from MiFID on all external accounts, clearly indicating whether an account holds proprietary or client assets. The segregation of assets extends to our subcustodians. Saxo is not allowed to rehypothecate any client securities, and that restriction also extends to our subcustodians. Furthermore, it is a requirement that any subcustodian segregates Saxo client assets from that of any other client or proprietary holdings. Saxo Bank performs a daily reconciliation of trades and positions across all client and proprietary holdings. A strict focus is in place on the number of breaks and heavy investment has taken place in systems and resources over the years to support that process.

In addition, in relation to the Margin Trading product the following risk mitigation measures are in place:

- Only one margin account per customer is allowed.
- Caps are applied regarding the maximum margin % and maximum credit limit applicable.
- Daily updated of all margin trading accounts with relevant transactions, portfolio values, margin % debt balances are automated.
- Margin calls: If customers exceed the allowable margin % and this is not covered immediately by them, CISCO proceeds with the liquidation of securities to bring it within the allowable margin.
- Securities pledged can only be pledged once.
- There is no undue concentration in any single security.
- The 4-eyes principle is applied for any material modifications to a customer's accounts/portfolio/agreement.

- **K-COH (Client Orders Handled)** – Captures the potential risk to clients of an investment firm which executes orders in the name of the client. The Company executes its clients' orders in the name of the client, on an agency basis, hence it is subject to this risk.

Risk Mitigation Measures: The Manager of the Brokerage Department performs random checks on clients' orders and trades. The purpose of these checks is to ensure conformity with the current Laws and Regulations and to detect any misconduct or wrongdoing. Orders are selected randomly on a monthly basis and must always include at least two orders from every available CISCO channel (Online, Tied Agents, Investment Firms, Telephone, Written Orders, Global eTrading, CSE and ASE etc).

During these random checks, attention is given to the following:

- To ensure that the Reception, Transmission and Execution of orders is conducted as per the CISCO Brokerage Internal Procedures Manual, the Company's Best Execution Policy and the abiding Laws and Regulations.
- To detect and identify from the orders received and transmitted and transactions executed, the orders and transactions that could constitute insider dealing, market manipulation or attempted insider dealing or market manipulation under Articles 8 and 12 of Regulation (EU) 596/2014 and of the non-exhaustive indicators of market manipulation referred to in Annex I to that Regulation.

In addition, if any order or transactions are detected during the sample checks that could constitute insider dealing, market manipulation or attempted insider dealing or market manipulation, then a Suspicious Transaction and Order Report (the STOR) is prepared and escalated to CISCO's Compliance Officer for further handling. The Compliance Officer will examine the STOR and once reasonable suspicion of actual or attempted insider dealing or market manipulation is formed, will submit the STOR to CYSEC within 48 hours.

The persons involved in the above procedures shall maintain for a period of 10 years the information documenting the analysis carried out with regard to orders and transactions that could constitute insider dealing, market manipulation or attempted insider dealing or market manipulation which have been examined and the reasons for submitting or not submitting a STOR.

Lastly, the staff involved in the monitoring, detection, and identification of orders and transactions that could constitute insider dealing, market manipulation or attempted insider dealing or market manipulation, including the staff involved in the processing of orders and transactions, are required to attend relevant training on an annual basis. Once the training is completed, staff shall inform CISCO's Compliance Officer with the relevant information and details of the courses attended.

3.2 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 that capture the principal risks under RtM:

- **K-NPR (Net Position Risk)** – This k-factor is based on the rules for Market Risk for positions in equities, interest rate financial instruments, foreign exchange and commodities in accordance with Regulation (EU) No. 575/2013 ("CRR"). Therefore, K-NPR captures the Market Risk, which is defined as the risk that changes in market prices will affect the Company's income or the value of its holding of financial instruments. The Company's exposure to market risk at any point in time depends primarily on short-term market conditions and client activities during the trading day. The Company is exposed to Foreign Exchange risk, since it holds funds in foreign currencies for the settlement of trades. The Company's Foreign Exchange exposure arises from deposits kept in short term current bank accounts in the non-reporting currency (e.g., USD, GBP, CAD, DKK). The Company is not exposed directly to any instrument bearing interest rate on its on/off balance sheets items. Interest rate changes can affect indirectly the Foreign Exchange rates. Interest rate changes can also affect the interest changed on Company's bank accounts

Risk Mitigation Measures**:** CISCO is primarily subject to FX Risk. Interest Rate Risk is less material for CISCO as bank balances are charged on a variable rate.

FX is the primary source of market risk for CISCO. While CISCO, does not keep trading FX positions, FX risk exposure is derived from FX positions kept mainly for the purposes of clearing and settlement of brokerage transactions executed at XNet.

The net foreign exchange position of CISCO as at 31/12/2021 was €524k. The Company monitors and assesses on a continuous basis its Foreign Exchange exposures and takes actions when deemed necessary.

- **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. CMG means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. According to IFR, the Competent Authority (CySEC), shall allow an investment firm to calculate K-CMG for all positions that are subject to clearing, or on a portfolio basis, where the whole portfolio is subject to clearing or margining under several conditions. Given that these conditions are not met by CISCO, since it is part of a group containing a credit institution, k-CMG is not applicable for the Company.

3.3 Risk to Firm

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

There are three K-factors that capture the key aspects of RtF, namely:

- **K-TCD (Trading Counterparty Default)** – K-TCD captures the Counterparty Credit Risk arising from an investment firm's exposure to the default of its trading counterparties. In particular, it 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 K-factor is not applicable to the Company since it does not have any transactions recorded in its trading book under dealing on own account.

- **K-DTF (Daily Trading Flow)** – K-DTF captures the Operational Risk related to the value of trading activity that an investment firm conducts. It reflects the risk of transactions that an investment firm enters through dealing on own account or executing orders on behalf of clients in its own name. As the Company did not provide dealing on own account services during the year ending 31 December 2021, the Company was not subject to the risk relating to this K-factor.

- **K-CON (Concentration Risk)** – K-CON seeks to apply additional own funds to manage concentration to a single counterparty / issuer of financial instruments or a group of connected counterparties / issuers to which a company incurs Trading Book exposures. Similarly, to the above, as the Company did not provide dealing on own account services during the year ending 31 December 2021, it was not subject to the risk relating to this K-factor.

3.4 Other Risks

3.4.1. Operational Risk

Legal Risk

Legal risk is defined as the possibility of the operations and conditions of the Company to be disrupted or adversely affected as a result of lawsuits, adverse judgements or unenforceable contracts. Legal risk could also arise from legal actions as a result of unauthorized disclosure of customer's details, and/or legal actions as a result of public liability violation of laws, regulations, agreements. In addition, Management considers legal risk as high due to the great impact a lost legal case would have to the Company's business.

The Management of CISCO monitors the pending legal cases on a continuous basis by recording and updating each case in line with external advisors. The Company follows the BOC Group guidelines with regards to the assignment of the probability of loss to litigation cases. In this respect, an assessment of the probability of loss on a case-by-case basis is performed on all Company legal cases using the BOC litigation evaluation tool created for this purpose.

Information Security Risk

Information Security risk is defined as the unauthorized access to information and systems security misfunction of systems due to passwords compromised / unauthorized programs run on system / external attack by hackers.

As a result of a number of deficiencies identified by Group IT Internal Audit Department, as well as vulnerabilities and penetration issues identified by Information Security in CISCO's existing front end trading system, Z-Trade, CISCO is currently proceeding with the installation of a new-front-end system, Andromeda, to replace the existing one.

Employee Retention/ Recruitment Risk

CISCO operates in a highly specialised area that requires staff to be professionally qualified, experienced and certified by regulators as a minimum. Given these requirements, employee retention and recruitment are key to ensuring the continuation of the business.

During Q4 2019 the Investment Banking Manager participated in the Voluntary Staff Exit Plan and subsequently left CISCO at the end of 2019. Further to this, in July 2021 another resource from the same team was re-located to another division within BOC.

While the General Manager of CISCO has been acting also as the Manager of Investment Banking, given his experience, this resource deficiency is a risk that is to be addressed by the Company.

Control and Process Risk

Control and Process Risk looks to the internal oversight, control environment, manual intervention as well as effective and thorough policies and procedures in place (Transaction Processing and Execution Risk).

As CISCO operates in highly regulated markets and must comply with numerous international and local regulations (e.g., AML, MiFID), managing the Control and Process Risk is very important.

Lack of automation in the client on-boarding process could lead to operational inefficiencies, human error and compliance gaps. As a result, CISCO is proceeding with the installation of an on-boarding module ("the On-Boarding Module") where new clients will input their data, answer the relative appropriateness questionnaire, and upload required files so that their data is received and processed electronically by CISCO. It is a web-based application for customer onboarding which incorporates the required process and functionality and enables clients to go through, from the start of their journey to become a customer and beyond (i.e., updating of their records).

There is no digital filing system for customers' documents and currently CISCO customer documents are not scanned. The lack of digital files could lead to the leakage of personal data, inefficiencies and absence of back-ups which could ultimately have negative reputational and regulatory impacts. CISCO's aim is to switch from a hard-copy based system to a digital solution. This will increase reliability, disaster recovery and business continuity, provide better accessibility, security and increased user friendliness.

Reputational Risk

Reputational risk is the current or potential risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors, or regulators.

Reputational risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor customer service, fraud, theft, customer claims and legal action, regulatory fines, and other factors. In addition, there is a risk of violating existing or new (legal) requirements which may lead to negative reputational impacts. Also, prospectuses prepared (or other information issued) by the Company on behalf of its clients might include unsupported or misleading information, due to their nature which also may lead to negative reputational impacts.

The risk of loss of reputation may result in a reduction of the Company's clientele, reduction in revenue and new legal cases against the Company. Measures taken to manage Reputational risk include, among others, ensuring compliance with regulatory requirements, management of customer complaints and monitoring of negative media.

3.4.2. Business Risk

Business risk may arise as a result of a number of factors, including declines in the volume of trades, high costs, competition, reputation, and overall economic and government regulations, amongst other. Business risk is assumed to contain risks related to Strategic and Competition Risk.

Strategic risk may be defined as the risks associated with initial strategy selection, execution or modification over time resulting in a lack of achievement of the overall objectives. The Board of directors of CISCO is actively involved in the operations of the Company and stays up to date with the financial and competitive standing of CISCO so that its strategic goals are monitored efficiently. CISCO has set some medium to long term objectives (i.e., become a profitable subsidiary of BOC, maintain its status as market leader in brokerage services in Cyprus, increase its market share at the Athens Stock Exchange, grow margin trading, increase income from Global trading, increase investment banking revenue and expanding the products offered to execution only clients by offering mutual funds) and to achieve these objectives in a prudent manner.

In addition, CISCO plans to develop ways to monitor business volumes and is able to assess its stability under severe market conditions, establish criteria to measure revenue stability, avoid over-reliance on specific products and markets and maintain governance standards that are above average for the industry. The Company will continue to strive to offer better client services to maintain its brokerage market leader status in Cyprus and top 20 in Athens. To that respect, CISCO is well diversified in terms of the products offered to its clients. This diversification is further (re)enhanced with the absorption of the portfolio management business from BOCAM.

In addition, CISCO recognises the concentration risk with respect to its clients as part of Business Risk. CISCO acknowledges its exposure to concentration risk due to concentration of its clients in Cyprus from which its majority of trading volumes stem. However, the fact that the Company's trading platforms provide clients the opportunity to trade globally, gives CISCO a way to diversify its revenue and develop its clientele further.

Competition risk remains high in this highly populated industry. The evolving global trading platform environment helps CISCO compete at a higher level, but CISCO will benefit further with greater resources. Further, the provision of portfolio management services, following the absorption of BOCAM, will improve CISCO's competitive advantage further being able to offer a wider range of products and services to clients.

3.4.3. Regulatory Risk

Regulatory Risk is the risk that may arise if a change in regulation occurs which negatively affects the business of the Company. Regulatory Risk may also arise when a Company does not comply with the applicable regulatory requirements.

Operating in a highly regulated industry, CISCO is materially exposed to Regulatory Risk. Breaches may lead to loss of business, financial loss, fines, civil action, payment of damages or voiding of contracts, customer complaints and harm to the Company's reputation.

To this respect, the Compliance function of the Company monitors compliance of the Company with the relevant CySEC, CSE, ATHEX and CB regulatory requirements (e.g., AML). The Compliance function also ensures that Management and relevant staff are regularly informed of any new regulations/reporting obligations.

In addition, the Company has policies and procedures in place when dealing with customer complaints in order to provide sufficient information about terms and conditions and deliver the best possible assistance and service.

Compliance and AML Risk

As per the CySEC AML Directive, CISCO should ensure that customer identification records remain completely updated with all relevant identification data and information throughout the business relationship. The Company should examine and check the validity and adequacy of the customer identification data and information it maintains and request for the updating of clients' records on a regular basis, based on their risk level. According to the current legislation and the Company's internal processes, client documents are completed and signed in original form, together with certified true copies of the ID's and the utility bills of the clients. The certification of these documents can be done by CISCO employees or any other employee of the Bank.

In 2021, CISCO experienced significant delays and backlogs in processing these client updates as they become due through a combination of resource limitation, manual processing and COVID-19 restrictions preventing client visits. In liaison with the Group, a plan is underway to update client records with the assistance of the BOC branch network.

3.4.4. BOC Group Risk

Group risk could occur as adverse impacts due to relationships (financial or not) of the Company with other entities in the same Group, or by risks which may affect the financial position of the whole group (i.e., reputational contagion).

The Company acknowledges that group risk could arise by a breach in the Company's intercompany agreements held with the parent company, or any financial distress/ difficulties of the parent company.

CISCO keeps the majority of its cash balances within the BOC group. These positions expose CISCO to significant group risk in case of an adverse impact to the BOC group.

The BoD of the Company monitors the financial strength of the parent Company on a continuous basis and ensures independence between entities in order to minimize the impact of any regulatory or reputational events in other Group operations.

3.4.5. Credit Risk

Credit Risk arises when a failure by counterparties and/or customers to discharge their obligations could reduce the amount of future cash inflows from financial assets held at the balance sheet date. Moreover, Credit Risk arises from the possibility that mitigation measure will become less effective than expected.

The Company’s exposures arises both from the proprietary and clients’ funds kept with bank and other financial institutions as well as the margin positions taken by clients as a result of the introduction of the Margin Trading product offered since April 2018. CISCO is mostly exposed to the banking sector with BOC having 11% of its total exposures (after provision and excluding clients’ funds) and CSE and ATHEX 26% as at 31/12/2021. In addition, as at 31/12/2021, the Company’s exposure to its subsidiary BOCAM constitute 16% of its total exposures.

Further, in order to facilitate pre-funding requirements from SAXO from clients using the Global trading platform, BOC has provided a bond of high quality as a collateral to SAXO. This supports the SAXO requirement to allow trading up to amount within the 3:1 ratio for client funds, mitigating the credit risk for SAXO. All economic benefits of this bond are derived by BOC, not CISCO.

Therefore, CISCO has Credit Risk exposures in the following main areas:
- Concentration Risk: The investment into subsidiaries BOCAM and LCP plus holdings with banks and other financial institutions.
- Cyclical Economic Risk: Potential negative impacts from a downturn in the economic cycle.
- Margin Trading: Collateral Risk – Margin positions taken by clients as a result of the Margin Trading product offering.

Counterparty Concentration Risk

A material part of CISCO's assets is comprised of its investments into BOCAM and LCP. As of 31/12/2021, CISCO recognized an impairment loss from these investments of €39k for BOCAM and €749k for LCP. The impairment loss was covered in full by the dividends as both companies were profitable in 2021 and thus the decrease in their Net Asset Value was lower.

Further, concentration exists with cash held as collateral with the CSE and ATHEX amounting to 26% of total exposure.

An investor compensation fund for investors is required by CySEC for the purpose of compensating investors in the case of losses where the broker is liable (2020: €751k, and 2021: €544k,). In 2020 and 2021, CISCO proceeded with write-offs of €32k and €207k respectively, relating to loss distribution of the Company's ICF amount.

Cyclicality and Economic Cycle Risk

The Company is vulnerable to negative economic conditions/cycles which could result in a reduction on the Company's growth potential.

CISCO monitors and assesses on a continuous basis the developments in the local and global financial markets and in the case of crisis it provides its clientele the option to shift their focus to different markets and investment products through its electronic trading platforms. The Company offers to its clients access to investments worldwide which gives it the advantage for diversification and continued development of its clientele. For non-brokerage areas of CISCO, the vulnerability to negative cyclical economic effects may be more difficult to mitigate.

Risks from Margin Trading

CISCO has been offering Margin Trading to clients since 2018. Through a structured product offering, CISCO offers margin facilities for trading on Cyprus and Athens Stock Exchange to eligible clients. The margin trading product allows customers to create a larger security portfolio than allowed by their existing capital, using a leveraging technique, with the aim of increasing profits (conversely losses).

The in-built credit facility provided by CISCO entails Credit Risk for the Company. CISCO has put in place the necessary procedures and controls to restrict this risk:
- This product is specifically regulated by Directive 144-2007-14.
- Completion of all documentation as required by applicable legislation is ensured.
- Only one margin account per customer is allowed.
- Caps are applied regarding the maximum margin % and maximum credit limit applicable.

- Daily updated of all margin trading accounts with relevant transactions, portfolio values, margin % debt balances are automated.
- Margin calls: If customers exceed the allowable margin % and this is not covered immediately by them, CISCO proceeds with the liquidation of securities to bring it within the allowable margin.
- Securities pledged can only be pledged once.
- There is no undue concentration in any single security.
- The 4-eyes principle is applied for any material modifications to a customer's accounts/portfolio/agreement.

The Company operates in regulated markets where safety nets are in place in case of contractual breaches. Such safety nets are the cash collateral requirements for brokers by ASE and CSE in order to compensate any losses incurred in the case of default of any market maker. In addition, an investment compensation fund for investors is also required by CySEC for the purpose of compensating investors that suffered losses under unexpected events for which their broker was liable.

3.4.6. Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet obligations when they fall due or experience difficulty in obtaining funds to meet urgent commitments. Liquidity risk is often crystallized through the lack of liquid assets held (cash, deposits, bonds, etc.) resulting in a reduced ability to meet immediate liquidity needs within a short-term horizon.

As CISCO is the parent of some investment firms, liquidity risk can also be triggered by changes in market conditions which can impact the ability of CISCO to liquify these assets at expected values, without material losses. In order to manage any liquidity risk that might arise due to a maturity mismatch between assets and liabilities, the Company aims to maintain sufficient cash, other highly liquid current assets and to maintain an adequate level of committed credit facilities (CISCO has approved credit lines from BOC) to provide sufficient liquidity. CISCO uses tools, such as cash flow forecasting and ratio analysis, in order to project future liquidity needs and monitor current liquidity levels.

The Company monitors its liquidity positions on a day-to-day basis for the shorter time horizons, and over a series of more distant time periods thereafter. On a daily basis, the Company also controls the outflow of funds and monitors the use of credit.

The current Liquidity Key Risk Indicators of CISCO are:

- Zero tolerance for any limit breaches and aims to comply with regulatory limits.
- To ensure that it has sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company expects to strengthen its liquidity position by meeting its financial targets and so this is linked to profitability.

Moreover, according to Article 43(1) of IFR, Investment Firms shall hold an amount of Liquid assets equivalent to at least one third of their Fixed Overhead Requirement. As at 31 of December 2021, no issues exist as CISCO meets the IFR Liquidity Requirement. Specifically, as at 31 December 2021, the Liquid Assets of the Company amounted to €920k, which exceeded the Liquidity Requirement of €148k.

4. Own Funds

CISCO holds capital to act as a financial cushion and to protect the shareholder and other stakeholders against excess volatility of returns. Comprising the equity of the Company, this includes the required level of capital adequacy for the Company to undertake business in the areas it is licensed to. It is paramount that the capital remains intact and grows into the medium term so that the Company is always able to satisfy regulatory requirements and remain a going concern.

The management continuously monitors the capital adequacy and regulatory own funds of the Company. In December 2019, the European Parliament approved the new prudential regime for Investment Firms, the IFR on the prudential requirement of Investment Firms and the IFD on the prudential supervision of Investment Firms. IFR on the prudential requirements of Investment Firms became directly applicable in all EU Member States on 26 June 2021 whereas IFD on the prudential supervision of Investment Firms was transposed into national legislation by CySEC by issuing Law 97(I)/2021 on the capital adequacy of Investment Firms applicable as from 26 June 2021, Amending Law 164(I)/2021 on the capital adequacy of Investment Firms applicable as from the 5 November 2021 and Law 165(I)/2021 on the prudential supervision of Investment Firms applicable as from 5 November 2021.

Under the new regime, CISCO has been classified as Class 2 investment firm. Class 2 Investment Firms are subject to the new IFR/IFD regime in full.

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

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

Table 2 below presents the composition of the Company's Own Funds as of 31 December 2021, while Table 3 indicates how these Own Funds reconcile with the Company's audited Balance Sheet as of this date, and they have been prepared using the format set out in the 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 at 31 of December 2021, the Company's Own Funds comprised entirely of Common Equity Tier 1 capital. As shown below, the Company's Own Funds as of 31 December 2021 amounted to €2.269K.

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

Template EU IF CC1			
Ref	**(€'000)**	**31 Dec 2021 (€'000)**	**Source based on reference numbers/letters of the Balance Sheet in the audited Financial Statements**
1	**OWN FUNDS**	**2.269**	
2	**TIER 1 CAPITAL**	**2.269**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**2.269**	
4	Fully paid-up capital instruments	43.611	Ref 1 (Shareholders' Equity)
5	Share premium	534	Ref 2 (Shareholders' Equity)
6	Retained earnings	(38.743)	Ref 3 (Shareholders' Equity)
7	Accumulated other comprehensive income	(179)	Ref 3 (Shareholders' Equity)
12	TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(2.295)	
19	Other intangible assets	(5)	Ref 2 (Assets)
24	CET1 instruments of financial sector entities where the institution has a significant investment	(2.290)	Ref 3 (Assets)
27	CET1: Other capital elements, deductions, and adjustments	(659)	Ref 6 & 7 (Assets)
28	**ADDITIONAL TIER 1 CAPITAL**	-	
40	**TIER 2 CAPITAL**	-	

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

Template EU IF CC2			
(€'000)		**Balance Sheet as in audited Financial Statements**	**Cross reference to EU IF CC1**
		31 December 2021	
Ref	**Assets**		
1	Property, plant, and equipment	48	
2	Intangible assets	5	Ref 19
3	Investments in subsidiaries (LCP Holdings and Investments Public Limited) *	2.290	Ref 24
4	Investments in subsidiaries (BOC Asset Management Ltd) *	1.088	
5	Financial assets at fair value through other comprehensive income	6	
6	Trade and other receivables (Investors Compensation Fund)	544	Ref 27

7	Restricted cash (Minimum cash buffer of 3 per thousand of the eligible funds and financial instruments of clients)	115	Ref 27
8	Trade and other receivables (current)	4.598	
9	Deposits and prepayments	11	
10	Cash and cash equivalents	920	
11	**Total Assets**	**9.625**	
	Liabilities		
1	Bank overdrafts	3.396	
2	Trade and other payables	922	
3	Current tax liabilities	84	
4	**Total Liabilities**	**4.402**	
	Shareholders' Equity		
1	Share capital	43.611	Ref 4
2	Share premium	534	Ref 5
3	Reserves	(38.922)	Ref 6 & 7
4	**Total Equity**	**5.223**	

***Table 4: The Company's Investments in its subsidiaries**

Name	Principal activity	Country of incorporation	2021 % direct holding	2020 % direct holding
LCP Holdings and Investments Public Limited	Holding of investment in securities and participation in private companies and schemes active in various business sectors and projects. However, in its field of activity, the company does not participate in active trading – listed company.	Cyprus	67%	67%
CLR Investment Fund Public Ltd	Holding of investment in securities and participation in private companies and schemes active in various business sectors and projects.	Cyprus	-	3%
BOC Asset Management Ltd	Management, administration, and safekeeping of UCITS units catering to the current and future investments needs of client in Cyprus.	Cyprus	100%	-

On 22 January 2021, the Company issued 658.967 ordinary shares of par value €1,71 each for a total consideration of €1.126.833 to its shareholder, Bank of Cyprus PCL, and in exchange the shareholder contributed to the Company 744.306 shares held in BOC Asset Management Ltd representing 100% ownership in the investee.

On 27 October 2021, the Company disposed its investment in CLR Investment Fund Public Ltd with a carrying amount of €85.584 to Global Capital Securities & Financial Services Ltd for a consideration of €46.713. As a result, the Company recognised a loss on disposal of investment in subsidiary of €38.871 in the statement of comprehensive income.

As of 31 December 2020, the Company, and the Group that the Company belongs to considered that it exercised control over CLR Investment Fund Public Ltd ("CLR") and its subsidiaries through control of the members of the Board of Directors and was exposed to variable returns through its holding. The Company had also an indirect holding in CLR, through the shares held by LCP Holdings and Investments Public Limited ("LCP") in CLR representing 26,2% of CLR's share capital. As of 31 December 2021, since both the Company and LCP disposed their investment in CLR Investments Fund Public Ltd to Global Capital Securities & Financial Services Ltd on 27 October 2021, CLR is no longer considered a subsidiary of the Company and of the Group the Company belongs to.

5. Minimum Capital Requirements

5.1 Capital Requirements

The new IFR & IFD framework introduces a different approach for calculating the Minimum Capital Requirements, which for Class 2 investment firms dictates that they are derived by taking the highest of the Fixed Overhead Requirement (“FOR”), the Permanent Minimum Capital Requirement ("PMCR") and the K-factors that apply to each investment firm.

5.1.1. Fixed Overheads Requirement (“FOR”)

The Company’s policy is to monitor it’s FOR at least on a quarterly basis. The Company calculates it’s FOR by taking the one quarter of the fixed overhead expenses of the preceding year in accordance with the provisions of Article 13 of the IFR. The Fixed Overheads Requirement as of 31 December 2021 amounted to €445K.

5.1.2. Permanent Minimum Capital Requirement (“PMCR”)

The Company monitors its Own Funds on a continuous basis and ensures that they remain above the Permanent Minimum Capital Requirement of €750K. which corresponds to the initial capital that applies to the Company in accordance with Article 9 of the IFD.

5.1.3. K-Factors (RtC, RtM, RtF)

The Company’s K-factor requirement is calculated in accordance with Articles 15 through to 33 of the IFR. The Total K-Factors as of 31 December 2021 amounted to €183K.

The table below breaks down the Pillar I minimum capital requirement that the Company was required to hold as of 31st of December 2021 (i.e., the highest of the FOR, the PMCR and the Total K-Factor requirement).

Table 5: Minimum Capital Requirements

Minimum Capital Requirements		
K-Factor Requirement		**31 December 2021 (€’000)**
Risk-to-Client (RtC)	k-AUM	-
	k-CMH	37
	k-ASA	103
	k-COH	1
Risk-to-Market (RtM)	k-NPR	42
	k-CMG	-
Risk-to-Firm (RtF)	k-TCD	-
	k-DTF	-
	k-CON	-
Total K-Factor Requirement		**183**
Fixed Overhead Requirement – FOR		**445**
Permanent Minimum Capital Requirement – PMCR		**750**

Therefore, with the new IFR & IFD requirements, the Company's Own Funds Requirement as of 31 December 2021 should have been at least the PMCR of €750K.

As at 31 of December 2021, the Company's Own Funds comprised entirely of Common Equity Tier 1 capital and amounted to €2.269K which exceeds the Own Funds Requirement of €750K and thus resulting to a capital surplus of €1.519K.

Therefore the. fully-phased in, Capital Adequacy (CAD) ratio as of 31 December 2021 was calculated at 302,51%, which is well above the 100% minimum CAD ratio.

5.1.4. IFR & IFD Transitional Arrangements

According to IFR, a Company can make use of a 5-year transitional arrangement allowed by Article 57. Specifically, according to Point 4b of Article 57, the Company may limit its PMCR to the level of initial capital that would have applied if the investment firm had continued to be subject to CRR/CRD, subject to an annual increase in the amount of those requirements of at least €5k during the five-year period.

Therefore, as of 31 December 2021, the Company's Own Funds Requirement under the 5-year transitional arrangement amount to €730K. As mentioned above, the Company's Own Funds were calculated at €2.269K, which exceed the Own Funds Requirement under transitional arrangements by €1.539K.

Therefore, using transitional provisions, the CAD ratio of the Company as at 31 December 2021 amounted to 310,79%, which exceeded by far the minimum required threshold of 100% (compared to a fully-phased in ratio of 302,51%), showing a capital surplus of €1.539K (versus a surplus of €1.519K under the fully-phased calculation).

Table 6: Capital Excess/Ratio

(€'000) - 31 December 2021	Fully phased in	Transitional	Reference
Capital			
Common Equity Tier 1	2.269	2.269	a
Additional Tier 1	-	-	b
Tier 2	-	-	c
Total Own Funds	**2.269**	**2.269**	***d = (a + b + c)***
Own Funds Requirement			
K-factor Requirement	183	183	*e*
Fixed Overhead Requirement	445	445	*f*
Permanent Minimum Capital Requirement	750	730	*g*
Minimum Own Funds Requirement	**750**	**730**	***h = max(e, f , g)***
Capital Excess/Ratio			
CET 1 Ratio	**302,51%**	**310,79%**	**a/h**
Surplus(+)/Deficit(-) of CET 1 Capital	1.849	1.860	*a-(h*56%)*

Tier 1 Ratio	**302,51%**	**310,79%**	***(a+b)/h***
Surplus(+)/Deficit(-) of Tier 1 Capital	1.706	1.721	*(a+b)-(h*75%)*
Own Funds Ratio	**302,51%**	**310,79%**	***d/h***
Surplus(+)/Deficit(-) of Total capital	1.519	1.539	*d-h*

6. Remuneration Policy and Practices

Remuneration of Executive Directors

For Executive Directors, the Company adopts and applies the Human Resources Division remuneration policies and practices of BOC Group to which the Company belongs.

In general, the remuneration of the Executive Directors of the Company includes:

- Basic salary
- COLA
- Shift allowance

The salary scales of the Executive Directors are determined, as for the rest of the Company's employees, under the applicable Collective Agreement between the BOC Group and the Cyprus Union of Bank Employees.

The Company also makes annual performance reviews/appraisals of the Executive Directors over defined targets. Any increments that may be granted by the Company (e.g., annual increments or additional increments) are added to the basic salary.

Remuneration of Non-Executive Directors

The remuneration of the Non-Executive Directors of the Company is determined by the Board of Directors of BOC Group and includes a fixed salary.

According to the remuneration policy for the Non-Executive Directors, directors’ fees are paid only to the Company's Independent Non-Executive Directors, whereas no directors’ fees are paid to the Non-Executive Directors that represent BOC Group.

The table below provides aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the Company:

Table 7: Quantitative information on remuneration by CISCO

Description	No. of beneficiaries	Fixed Remuneration	Variable Remuneration	Total Remuneration
		€‘000	€‘000	€‘000
Senior Management (Executive Directors)	2	161	-	161
Senior Management (Non-Executive Directors)	2	5	-	5
Heads of Departments & other staff	1	70	-	70
Total	**5**	**236**	**-**	**236**

It is noted that during 2021, the Company did not pay or award any variable remuneration, deferred remuneration, severance payments, or any guaranteed variable remuneration. There were also no deferred remuneration or severance payments that were awarded in previous periods, and which have been paid out during 2021.

In addition the Company, based on its financial figures and zero variable remuneration, benefits from the derogation laid down in Article 32(4) of IFD.

7. Investment Policy

According to paragraph 1 of IFR Article 52, investment firms which do not meet the criteria referred to in point (a) of Article 32 (4) of IFD 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.

It is noted that point (a) of IFD Article 32 (4) refers to 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. This point is also in line with point 6 of CySEC's Circular C487 for redefining threshold criteria of 'significant CIF'. As at the reference date, CISCO does not consider itself as a significant CIF as it does not exceed this threshold, therefore no disclosures regarding investment policy were made.

Appendix I – Main Features of Own Instruments issued by the Company

Template EU IF CCA		Common Equity Tier 1 instruments
1	Issuer	The Cyprus Investment and Securities Corporation Ltd
2	Unique identifier (Legal Entity Identifier Code)	213800XP9YY3GNQGZE38
3	Public or private placement	Private Placement
4	Governing law(s) of the instrument	Cyprus Company law
5	Instrument type	Ordinary Shares
6	Amount recognised in regulatory capital (in EUR)	€44.145.015
7	Nominal amount of instrument	€43.610.600
8	Issue price (in EUR)	€1,71
9	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	19/11/1982*
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates	N/A
	Coupons / dividends	
17	Fixed or floating dividend/ coupon	Floating
18	Coupon date and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
22	Existence of step up or other incentive to redeem	No
23	Non-cumulative or cumulative	Non-cumulative
24	Convertible or non-convertible	Non-cumulative
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible info	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	No
32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A
34	If write down, permanent or temporary	N/A
35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the instrument (signposting)	N/A

**It is noted that after the incorporation date of the Company, several share capital issuances have been made. The most recent one was during 2021 when the Company issued 658.967 ordinary shares of par value €1,71 each for a total consideration of €1.126.833*

Appendix II – Risk Appetite Statement

Risk Category	Comment
Earnings	a) Maximum loss in absolute terms should not exceed 30% of projected after-tax earnings for any year included in the Company's business plan. In the case that CISCO is forecasting losses, these losses should not deviate (be worse) by more than 30% of the projected number in the business plan. This business and business line risk appetite is set by reference to the approved budget and business plan sanctioned by the BoD. b) The quality of earnings must improve through time. Close monitoring of the ratios below will serve as advance indicators for further action if required. The quality of earnings improves when the ratios below are stable or increase: 1. Fees & Commissions / Total Revenues 2. Operating Income / Assets 3. Profit before provisions / Assets 4. Profit after tax / Assets Furthermore, the quality of earnings deteriorates when the cost to income ratio increases. As a principle, heavy reliance on a small number of revenue/narrow business lines should be avoided. If a single revenue source from a narrow business line accounts for more than 75% of revenues this should be clearly highlighted to Executive management and Company's BoD and appropriate actions documented.
Credit Risk	CISCO does not have a strategy of knowingly engaging in higher credit risks to achieve returns. However, credit related losses for an institution of a systemic nature, which is diversified across the entire spectrum of the economy, are inevitable. Therefore, credit losses have been set as a percentage that should be less than 30% worse of the projected credit provision losses in the approved budget and business plan. In the case that the Company is forecasting losses, credit losses should not deviate (be worse) by more than 30% of the projected number in the business plan. This business line risk appetite is set by reference to the approved business plan.
Market Risk	a) CISCO does not take open positions on its own account (proprietary trading). b) Structural FX positions are created by the operations of the Company. Such structural FX positions, due to their operating nature, are difficult to hedge. Aside from structural and minor legacy positions that might create volatility in earnings, no major and material losses from market price related moves should be suffered. Limits and controls should be in place so that these losses do not exceed 4% of CET1 on a worst-case scenario. The Company should ensure that, as circumstances dictate, the following are in place: - Established limits with defined maximum losses to ensure that the Company's conservative low risk policy is effectively managed. These limits (both intraday and overnight) are subject to annual review and any excesses are strictly monitored, reported and examined. - Operational issues and strict separation of duties and proper controls will need to be addressed/ in place. All Products used need to be approved.
Customer Concentration Risk	Customer concentration risk arises if one or more of the Company's customers' total revenue for the year represents 20% or more of all its customers' revenue for the same year (this excludes BOC as a client).
Funding	The Company should be self-funded. Any group assistance should be of temporary nature or for specific business activities with a clear repayment source.
Liquidity	a) The Company has a zero tolerance for any limit breaches and aims to comply with regulatory and internal limits in the medium term. b) CISCO aims to ensure that it has sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.
Operational Risk	a) Aggregate Operational losses should not exceed 5% of the Net Operating Income (Fee and Commission income less commissions payable), per quarter. b) Maximum tolerable gross loss per single operational risk incident is €20K. Any amount over €20K is to be immediately notified to Group level for operational loss provision or/and write off approval so as to trigger immediate rectification actions. c) Operational Risks identified as part of the ORM Framework and assessed using the Impact X Likelihood model/criteria as bearing a "Critical" Impact score (i.e., 5) and a "High" or "Critical" Likelihood score (i.e., 4 or 5) are not tolerated and shall trigger mitigating actions as soon as possible. Acceptance of such risks shall require appropriate Risk Management approvals.
Internal Fraud	a) Risk tolerance per single incident: No tolerance. b) Risk tolerance for aggregate gross losses per annum: No tolerance.
External Fraud	a) Risk tolerance per single incident: €10.000 gross loss. b) Risk tolerance for aggregate gross losses per Quarter: €20.000.
Cyber Risk	CISCO has a very low appetite for threats and losses arising from external cyber-attacks or internal malicious attacks on its information technology systems and infrastructure.

	a) Any findings from Penetration Testing exercises, carried out on a Group level, by appropriately qualified experts, that are ranked as "Critical" are not tolerated and shall trigger immediate rectification actions. b) Any serious security attacks on the perimeter of the network, such as DDOS, shall immediately trigger appropriate security incident response mechanisms. c) Any successful phishing attack on customers of the Company that is reported or identified by the BOC Information Security Department shall immediately trigger appropriate security incident response and fraud incident response processes. d) No malware shall be present on information systems. To achieve the above BOC on behalf of CISCO must: • Be in the position to detect and prevent incidents and threats against its information and internal information systems. • Have in place strong internal control processes and robust protective technology solutions. • Securely configure all its information systems in accordance with international best practices, and up to date (with a tolerance of a six-month window).
Employment Practices and Workplace Safety	a) Risk tolerance per single incident: No tolerance. b) Risk tolerance for aggregate gross losses per annum: No tolerance. c) No tolerance for unfair and discriminatory employment practices. CISCO does not tolerate practices or behaviors that lead to staff being harmed or feel unsafe while at work. d) No tolerance for shortfalls in minimum standards and practices relating to occupational Health and Safety. e) No tolerance for lack of physical security measures to protect employees and customers.
Clients, Products & Business Practices	CISCO has limited appetite for losses in relation to clients, products & business practices. a) Risk tolerance per single incident: €20.000 gross loss. b) Risk tolerance for aggregate gross losses per Quarter: €100.000.
Conduct Risk	CISCO has very low tolerance in terms of shortfalls in the Company's collective competencies, knowledge and skills, as well as to shortfalls in the behavior of management, staff or other persons identified with the Company that directly or indirectly impact the customer. a) The Company does not include any unfair term clauses on contracts with customers. b) Practices or behaviors that lead to potential misselling of products/services to customers are not tolerated. c) No tolerance for personnel who are found to be engaged in illegal activities or have a criminal record. d) No tolerance for engaging in business with vendors/third parties who are found to be involved in illegal activities.
Customer Complaints	a) CISCO takes all reasonable steps to control and deal with customer complaints and will not tolerate having legitimate complaints unresolved for a period exceeding the legislative time framework e.g., currently three months. b) CISCO strives to offer a superior customer experience both online and in service centers and will not tolerate low customer satisfaction.
Legal Risk	Legal risk is defined as the possibility of the operations and conditions of CISCO to be disrupted or adversely affected given lawsuits, adverse judgments or unenforceable contracts. a) The number of cases with potential of losing greater than 50% (as assessed by internal and/or external legal advisors) should not exceed 5% of total legal cases filed against the Company. b) No single legal case against the Company with the potential of losing greater than 50% for an estimated loss equal or greater to the loss limit of this category, is tolerated. In the case that the Company finds itself in violation of the above risk appetite, responsible executive management will need to engage to immediate rectification and reporting of actions taken for executive management and BoD.
Money Laundering	CISCO maintains zero tolerance for Money Laundering (ML)/ Terrorist Financing (TF) risk. CISCO is obliged to transact its business so as to ensure it minimizes the risk of its systems and processes, and those of its affiliates, being used for ML or TF purposes. a) Percentage of High-risk active customers not reviewed should not exceed 15% at any given time. b) Percentage of High-risk active customers to overall customers should not exceed 10%. c) No tolerance for deviations with regards to the AML sanctions policy in terms of new business relationships or existing relationships that subsequently become subject to specific, general or sectoral sanctions imposed by the UN, the EU or the US Department of Treasury's Office of Foreign Assets Control (OFAC). In case of such deviations, immediate rectification and investigation actions shall be enacted. d) No tolerance for deviations with regards to the opening of accounts in US Dollars for persons connected with countries subject to strict sanctions imposed by the US Department of Treasury's Office of Foreign Assets Control (OFAC).
Compliance Risk	a) CISCO ensures that it adopts all regulatory, legal and compliance requirements in a proportionate way that satisfies the requirements of the regimes in a pragmatic, cost-effective manner. b) CISCO maintains a zero tolerance for regulatory fines. Consequently, non-compliance to regulatory requirements shall immediately trigger mitigation/rectification actions. c) CISCO strives to avoid and/or duly disclose potential conflicts of interest: • CISCO has no tolerance for participation in the decision making or voting on matters by persons that have a conflict of interest. • No personal transactions in securities are tolerated for persons classified as 'Relevant persons', except in cases where permission is granted under the existing personal account transactions rules.

	• CISCO has no tolerance for selection of outsourcing service providers, where the fact that they are connected with any member of the Group's senior management or management body, the Company's external auditors or legal advisors, has not been duly disclosed.
Damage to Physical Assets	The Company has very low tolerance for losses incurred by damages caused to physical assets due to natural disasters or other events like terrorism and vandalism and it takes all necessary security measures to prevent such events to the maximum possible extent. a) Risk tolerance per single incident: €2.000 gross loss. b) Risk tolerance for aggregate gross losses per annum: €20.000.
Business Disruption & System Failures	a) Risk tolerance per single incident: €20.000 gross loss. b) Risk tolerance for aggregate gross losses per Quarter: €100.000. c) Risk tolerance for aggregate gross losses per Year: €500.000.
Business Continuity	CISCO has no appetite for material losses (direct or indirect) caused by failure to implement appropriate Business Continuity Management Programs. A proper and updated Business Continuity Plan (BCP) shall be in place at all times, providing for the recovery of all its critical operations, should a disaster event occur, thereby enabling the Company to meet its regulatory requirements and have confidence in its ability to recover its business.
Disaster Recovery	CISCO has low tolerance for critical business outages as a result of system failures. To this end, a Disaster Recovery Plan shall be in place with recovery sites to become operational in the event of a disaster occurring to the Company's on-going operating servers, which house the Company's application systems.
Systems Availability	Systems identified as Critical based on (i) their Recovery Time Objective (RTO) and (ii) whether they directly affect customer service (i.e., XRHMA, Multiclient, CISCO-online, etc.): Maximum tolerable period of disruption is 1 hour.
Execution, Delivery and Process Management	CISCO has a low risk tolerance for operational risk events that stem from errors in data entry, miscommunication, deadline misses, accounting errors, incomplete documents, inaccurate reports, incorrect client records, negligent loss of client assets and vendor disputes. a) Risk tolerance per single incident: €20.000 gross loss. b) Risk tolerance for aggregate gross losses per Quarter: €100.000. c) Risk tolerance for aggregate gross losses per Year: €500.000.
Reputational Risk	a) CISCO has zero tolerance in respect to internal practices by Management and employees that could lead to material reputational impact; i.e., it will not tolerate headline risk associated with unacceptable business practices, privacy and other regulatory breaches and internal fraud. b) In situations beyond the Company's control the impact on earnings could be material and difficult to quantify. CISCO makes sure that it takes all reasonable steps to minimize the likelihood of adverse reputational impact arising from adverse media exposure. c) CISCO has a very low appetite for the number of negative articles or publicity assessed as baring important reputational impact that are hitting authoritative media and have not been adequately responded to/managed within 24 hours following their publication.
Information Security Risks	a) CISCO has no appetite for the deliberate misuse of its information. CISCO is committed to ensuring that its information is appropriately classified, accessed and managed in accordance with legislative and business requirements. b) CISCO accepts low tolerance on not adopting recommendations as derived from Information Security Risk Assessments, Security Maturity Assessments and Penetration Tests performed by BOC. Any findings from these assessments shall trigger rational rectification of mitigation actions. c) CISCO has zero tolerance on the availability of its information. To this end proper backup processes must exist, systems needs to be resilient, and an efficient disaster recovery plan must exist.
Business Position	CISCO must: a) Develop ways to monitor business volumes and is able to assess its stability under severe market conditions. b) Establish criteria to measure revenue stability. c) Avoid overreliance to specific products and markets. d) Maintains governance standards that are above average of the industry.