

# Octa Markets Cyprus Ltd

*Regulated by the Cyprus Securities and Exchange Commission License no. 372/18*

## **PUBLIC DISCLOSURES REPORT FOR 2023**

*April 2024*

Octa Markets Cyprus Ltd is licensed and regulated by the Cyprus Securities and Exchange Commission (CySEC), with License Number 372/18  
Registered office: 1, Agias Zonis & Thessalonikis Corner, Nikolaou Pentadromos Center, Block: B, Office:  
201, 3026, Limassol, Cyprus  
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## **DISCLOSURE**

*The Public Disclosures Report for the year 2023 has been prepared by **Octa Markets Cyprus Ltd** as per the requirements of Regulation (EU) No. 2019/2033 and Delegated Regulation (EU) 2021/2153 issued by the European Commission and Law 165 (I) / 2021 (the “Law”) issued by the Cyprus Securities and Exchange Commission (hereinafter, “CySEC”).*

*Octa Markets Cyprus Ltd (hereinafter, the “Company”) states that any information that was not included in this report is either not applicable to the Company’s business and activities or such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine its competitive position.*

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## 1. INTRODUCTION

### 1.1 INVESTMENT FIRM

**Table 1:** Company information

|  |                             |
|--|-----------------------------|
| <b>General Information:</b>  |                             |
| Company name   | Octa Markets Cyprus Limited |
| CIF Authorization date   | 10/12/2018                  |
| CIF License number   | 372/18                      |
| Company Registration Date  | 13/09/2016                  |
| Company Registration Number  | HE 359992                   |
| Legal Entity Identifier code (LEI)   | 2138004G54OD2XQM6182        |
| <b>Investment Service:</b>   |                             |
| 1) Reception and transmission of orders in relation to one or more financial instruments;<br>2) Execution of Orders on Behalf of Clients; and<br>3) Dealing on Own Account.  |                             |
| <b>Ancillary Services:</b>   |                             |
| 1) Safekeeping and administration of Financial Instruments for the account of Clients, including custodianship and related services such as cash/collateral management; and<br>2) Foreign exchange services where these are connected to the provision of investment services.   |                             |
| <b>Financial Instruments:</b>  |                             |
| 1) Transferable securities<br>2) 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; and<br>3) Financial contracts for differences (CFDs). |                             |

### 1.2 PURPOSE

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The present report is prepared by Octa Markets Cyprus Ltd, a Cyprus Investment Firm (hereinafter, “CIF”, “Company” or “Octa”) authorized and regulated by CySEC under the license number 372/18 and operates in harmonization with the Markets in Financial Instruments Directive II (hereinafter, “MiFID II”).

In accordance with Part Six of Regulation (EU) No. 2019/2033 (the “Investment Firms Regulation”, hereinafter “IFR”), the Company is required, as it is categorised as a Class 2 investment firm, to disclose information relating to its risk management objectives and policies, governance, level of own funds and own funds requirements, remuneration policy and practices, investment policy (if applicable) and environmental, social and governance risks (if applicable). The scope of this report is to promote market discipline and to improve transparency of market participants.

The 2023 Public Disclosures Report has been prepared based on the relevant requirements in accordance with Part Six of the IFR and in particular articles 46 to 53, as applicable to the Company.

In order to meet the requirements of the IFR, the Board of Directors (“BoD”) and the Senior Management have the overall responsibility for the internal control systems in the process of the “Capital Adequacy Assessment” and they have established effective processes to ensure that the full spectrum of risks facing the Company is properly identified, measured, monitored and controlled to minimize adverse outcomes.

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

The information contained in the Public Disclosures Report is to be audited by the Company’s external auditors and published on its website (<https://www.octaeu.com/>) on an annual basis. Moreover, the Company is obliged to provide a copy of the external auditor’s verification report to CySEC within 5 months after the end of each financial year.

The disclosure currency is in Euro (€) and the information disclosed in this report is related to the year ended 31<sup>st</sup> December 2023 (based on Audited Financial Statements which have been prepared in accordance with the International Financial Reporting Standards (“IFRS”)). The Company has prepared this report on a solo basis as it is a standalone entity.

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### **1.3 REGULATORY (PRUDENTIAL) FRAMEWORK**

In accordance with the IFR and with EU Directive 2019/2034 (“Investment Firms Directive” or “IFD”), which became applicable on 26 June 2021 and have replaced the Regulation (EU) 575/2013 (the “Capital Requirements Regulation” or “CRR”) and the Directive 2013/36/EU (“Capital Requirements Directive” or “CRD”), the Company is obliged to disclose information regarding its risk management, capital structure, capital adequacy, its risk exposures as well as the most important characteristics of its corporate governance, including its remuneration system. The core aim of the IFR is to introduce more proportionate rules for the majority of the MiFID II investment firms in relation to capital, liquidity and other prudential requirements, while ensuring a level-playing field between large and systemic financial institutions.

Unlike the CRR, which mainly captures credit institutions risks, the IFR aims at considering specific risks that are applicable only to investment firms, depending on their business model and size. The IFR categorizes IFs into three categories depending on their business activities, systemic importance, size, and interconnectedness.

Each IF class is subject to a different set of prudential requirements, with some systematically important and larger firms remaining under the CRR/CRD regime. In particular, under the IFR & IFD, IFs are categorized into the following classes:

- **Class 1 IFs (remain subject to CRR and CRD):** Large IFs that exceed certain criteria and need to be reclassified as credit institutions, plus:
  - **Class 1a:** Not reclassified as credit institutions, but above certain criteria and/or are categorized Systemically important IFs to the country (“O-SIIs”) and subject to CRR.
  - **Class 1b:** Not-Systemic Large IFs, but which elect to be subject to the CRR (if they are part of a group containing a bank that is subject to consolidated supervision under CRR).
- **Class 2 IFs (subject to new IFR/IFD):** IFs exceeding the categorization thresholds for Small and Non-interconnected Investment Firms.
- **Class 3 IFs (subject to new IFR/IFD, BUT with exemptions):** Small and Non-interconnected Investment Firms, in accordance with Article 12 of the IFR.

**Octa falls into the Class 2 category** and is thus subject to the IFR/IFD framework. In accordance with the IFR methodologies for Class 2 IFs, the **minimum regulatory capital requirement** for Octa is determined as the greatest of:

- The **Permanent Minimum Capital Requirement of EUR 750,000;**
- The **Fixed Overhead Requirement which corresponds to the 25% of the Company’s fixed overhead expenses** based on the most recent annual audited financial statements; and

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- The total **K-factors Requirement**, which is based upon nine risk exposure indicators (“K-factors”) which are designed to measure operational risk to customers, counterparty credit risk, market risk, and concentration risk (in the trading book and securities financing type of transactions including REPOs).

Similarly to the CRR, the IFR regulatory framework is comprised of three main pillars:

- (i) **Minimum Own Funds Requirement:** Covers the calculation of the minimum capital needed to be allocated depending on the IF’s class categorization (i.e., calculation of Fixed Overhead Requirement, Permanent Minimum Capital requirement or k-factors requirement) and liquidity requirements.
- (ii) **Internal Capital and Risk Assessment Process (ICARA):** Covers the Supervisory Review and Evaluation Process (“SREP”), which assesses the ICARA and provides for the monitoring and self-assessment of the Company’s capital and liquidity adequacy and internal processes; and
- (iii) **Public Disclosures:** Covers external, public disclosures that are designed to provide transparent information on regulatory capital and liquidity adequacy, own funds requirements, risk management objectives and policies, internal governance arrangements, remuneration policy and practices, investment policy (if applicable) and environment, social and governance risks (if applicable).

#### **1.4 RUSSIAN’S WAR AGAINST UKRAINE: OVERVIEW OF EU & US SANCTIONS**

On 24th February 2022, Russia launched an undeclared war against Ukraine, a country Russia first invaded and partially occupied in 2014.

##### **EU Sanctions:**

As a result, the EU has imposed a series of new sanctions against Russia in response to the military aggression against Ukraine. The sanctions add to existing measures imposed on Russia since 2014 following the annexation of Crimea and the non-implementation of the Minsk agreements. The EU Sanctions include targeted restrictive measures (individual sanctions), economic sanctions and visa measures.

The aim of the economic sanctions is to impose severe consequences on Russia for its actions and to effectively prevent Russian abilities to continue the aggression.

The individual sanctions target people responsible for supporting, financing or implementing actions which undermine the territorial integrity, sovereignty and independence of Ukraine or who benefit from these actions.

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The EU has also adopted sanctions against:

- Belarus, in response to its involvement in the invasion of Ukraine; and
- Iran, in relation to the use of Iranian drones in the Russian aggression against Ukraine.

#### **U.S. Sanctions:**

Prior to 2022, the United States had imposed sanctions on Russia in response to Moscow's 2014 invasion of Ukraine and other malign activities. Beginning in December 2021, the United States and others warned Russia's leadership that a new attack on Ukraine would lead to severe new sanctions (in addition to increased security assistance to Ukraine and an enhanced NATO presence in Central and Eastern Europe).

Sanctions designations and related actions the Biden Administration and Congress have taken since February 2022 include actions targeting Russian government assets, international trade, broad economic sectors, and specific individuals and entities.

The Management has evaluated the effect of the war on liquidity, currency, interest rate, and credit risks, as well as potential impairment and revenue of the Company. Based on management's assessment, there is no significant impact on the Company's activities.

## **2. CORPORATE GOVERNANCE**

### **2.1 BOARD OF DIRECTORS**

The Board of Directors, as at 31.12.2023, consists of five (5) members. Two (2) Executive Directors, one (1) Non-Executive Director and two (2) Non-Executive and Independent Directors.

The members of the BoD exercise effective control on the Company's affairs and the non-executive members of the BoD exercise control over the business carried out by the executive members of the BoD.

The main responsibilities of the Board of Directors are:

- To establish, implement and maintain decision-making procedures and an organisational structure which clearly and in documented manner specifies reporting lines and allocates functions and responsibilities.
- To ensure that its relevant persons are aware of the procedures that must be followed for the proper discharge of their responsibilities.
- To establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decision and procedures at all levels of the Company.

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- The employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.
- To establish, implement and maintain effective internal reporting and communication information at all relevant levels of the Company.
- To maintain adequate and orderly records of its business and internal organisation.
- To ensure that the performance of multiple functions by its relevant persons does not and is not likely to prevent those persons from discharging any functions soundly, honestly and professionally.

Furthermore, the BoD is responsible for establishing and amending the internal control procedures, where necessary. It also ensures that the Company has sufficient human and technical resources required for the performance of its duties.

At the compliance with the abovementioned requirements, the BoD considers the nature, scale and complexity of the business of the Company, and the nature and range of investment services and activities undertaken in the course of that business.

## **2.2 RECRUITMENT POLICY**

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the BoD and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the BoD. The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. Factors considered in the review of potential candidates include:

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

## **2.3 NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE BOARD OF DIRECTORS**

As at 31<sup>st</sup> December 2023, the Board of Directors consists of five (5) members - two (2) Executive Directors, one (1) Non-Executive Director and two (2) Non-Executive and Independent Directors. The table below provides the number of directorships the members of the Board of the Company hold at the same time in entities other than the Company, as at the time of preparation of this Report. Directorships held within the same group of companies are considered as a single directorship. In addition, directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not considered for the purposes of the below.

**Table 2:** Board of Directors as at 31 December 2023

| <i>Name of Director</i>     | <i>Executive Director/ Independent Non-Executive Director</i> | <i>Number of Executive Directorships in other entities</i> | <i>Number of Non-Executive Directorships in other entities</i> |
|-----------------------------|---|--|--|
| <i>George Pantzis</i>       | Executive Director  | 1  | 0  |
| <i>Nikolas Charalampous</i> | Executive Director  | 0  | 0  |
| <i>George Xydias</i>        | Independent Non-Executive Director                            | 3  | 3  |
| <i>Dimitris Christou</i>    | Independent Non-Executive Director                            | 0  | 1  |
| <i>Pavel Prozorov</i>       | Non-Executive Director  | 7  | 1  |

**Note:** The information in this table is based only on representations made by the Directors or the Company.

## **2.4 DIVERSITY POLICY OF THE BOARD OF DIRECTORS**

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success. The Company recognizes the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practices in the Corporate Governance Code of many EU countries.

The Company recognizes the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences will be considered when determining the optimum composition of the BoD.

## 2.5 TRAINING

During 2023 the employees of the Company attended a number of training seminars covering the following areas: (i) AML Compliance; (ii) MiFID II Compliance; (ii) GDPR; (iv) Leadership and Management; (v) ESG; and (vi) Risk Management. The training seminars were presented by external organisations such as the Chartered Institute for Securities & Investment (CISI), the European Institute of Management and Finance (EIMF), Salvus Funds and MNK Risk Consulting Ltd.

## 2.6 INFORMATION OF FLOW ON RISK TO MANAGEMENT BODY

In line with the requirements set out in the Law and subsequent Directives, the Company has been able to maintain a good information flow on risk to the management body. The following table presents the various reports that are provided to the BoD:

| <b>Report Name</b>  | <b>Owner</b>                             | <b>Recipient</b> | <b>Frequency</b> |
|---|--|------------------|------------------|
| <b>Annual Risk Management Report</b>                              | Risk Manager                             | BoD, CySEC       | Annual           |
| <b>Internal Monthly Capital Adequacy Ratio (“CAR”) monitoring</b> | Risk Manager                             | BoD              | Monthly          |
| <b>Form IFCLASS2_Ind (IFR Report)</b>                             | Risk Manager                             | Board, CySEC     | Quarterly        |
| <b>Public Disclosures Report</b>                                  | Risk Manager                             | BoD, Public      | Annual           |
| <b>Public Disclosures External Auditor’s Verification Report</b>  | External Auditor                         | BoD, CySEC       | Annual           |
| <b>ICARA Report</b>   | Risk Manager                             | BoD              | Annual           |
| <b>Prudential Supervision Information Form (Form 165-03)</b>      | Risk Manager, Finance Department         | BoD, CySEC       | Annual           |
| <b>Recovery Plan &amp; Form 20-01</b>                             | Risk Manager                             | BoD, CySEC       | Every two years  |
| <b>Annual Compliance Report</b>                                   | Compliance Officer                       | BoD, CySEC       | Annual           |
| <b>Annual Internal Audit Report</b>                               | Internal Auditor                         | BoD, CySEC       | Annual           |
| <b>Annual Anti-Money Laundering Report</b>                        | Anti-Money Laundering Compliance Officer | BoD, CySEC       | Annual           |
| <b>Financial Reporting</b>  | External Auditor                         | BoD, CySEC       | Annual           |

### 3. RISK MANAGEMENT

#### **3.1 RISK MANAGEMENT FRAMEWORK**

The Company implements and maintains adequate risk management policies and procedures which identify the risks relating to the Company's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

The key stakeholders to the Company's risk management framework are the:

- Board of Directors;
- Risk Management Committee;
- Risk Manager;
- Internal Auditor;
- Compliance Officer; and
- Anti-Money Laundering Compliance Officer ("AMLCO").

The Company envisages a risk management framework that is founded on the following principles:

- The Company's risk-taking strategy shall ensure that adequate risk management policies and procedures are established, implemented and maintained in such a way that the level of risk undertaken by the Company can be effectively tolerated. The risk tolerance determines the amount of risk in both qualitative and quantitative terms that the Company is willing to accept. The abovementioned policies and procedures shall be documented and subject to periodic review and adjustment in accordance with the Company's risk profile and appetite, as well as internal and external norms and best industry practices.
- Processes and systems necessary for ensuring effective and efficient operations, adequate control of risks, and prudent conduct of business, accurate internal and external disclosures, as well as compliance with internal and external rules shall be in place.
- The Company's risk-taking strategy shall ensure the compliance and monitoring of all transactions in the context of legality, avoidance of conflict of interest, insider dealing and preservation of confidential information. Clearly defined roles and responsibilities shall exist while independence between risk management functions and position/risk taking functions shall be ensured at all cases.

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- The Company's risk-taking strategy shall at all times ensure the determination, evaluation and efficient management of the risks inherent in the provision of the investment services.
- The Company's strategic planning and capital management shall be based on the Company's risk-taking appetite and the shareholder return objectives as well as risk adjusted business line performance.
- The Company's operating model shall aim at the standardization and integration of policies and processes, supporting the improvement of operational competence and the efficient mitigation of operational risks. Adequate, reliable and automated reporting must support the implementation of the operating model. In addition, it shall be ensured that the Company's IT strategy is in line with the operating model at all classes.
- All new investment activities shall be subject to adequate procedures and controls prior to their introduction, allowing for proper and independent identification of all inherent risks in line with the Company's risk criteria and limits.
- The Company's personnel shall be properly trained in order to be aware of the Company's risk-related issues, understand their responsibilities regarding the management of those risks and have the adequate skills for their management.

### **3.2 RISK MANAGEMENT DEPARTMENT**

The Company's Risk Management Framework (including the Risk Management Policy, Capital Management Policy and Internal Risk Limits Policy) was formed with the view to ensure the sufficient identification, measurement and monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general.

It sets out the procedures and mechanisms regarding risks and it describes the roles and responsibilities of the Risk Management Department and the Risk Management Committee. In addition, it identifies the main reporting procedures and outlines the process followed by the Senior Management in order to evaluate the effectiveness of the Company's internal control procedures.

The Risk Management Department shall be responsible for the compliance and monitoring of all transactions in the context of legality, avoidance of conflict of interest, insider dealing, and preservation of confidential information. The Risk Management Department is also responsible for the determination, evaluation, and efficient management of the risks inherent in the provision of the investment services.

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In accordance with the Company's Organisational Structure, the Risk Management Department of the Company comprises of:

- 1. Head of the Risk Management Department;**
- 2. Risk Management Support:** provided by an external professional service provider;
- 3. Risk Management Committee**
  - a. Mr. George Pantzis, Executive Director, Risk Manager, part of "Four Eyes", Secretary of the Risk Management Committee, based in Cyprus;
  - b. Mr. George Xydias, Independent, Non-Executive Director, based in Cyprus; and
  - c. Mr. Dimitris Christou, Independent, Non-Executive Director, based in Cyprus.

### **3.3 INTERNAL AUDIT**

The Internal Audit function is separate and independent from the other functions and activities of the Company. The Internal Audit function is outsourced to Royal Pine & Associates Ltd, which is reporting directly to the BoD.

The Internal Audit function has the following responsibilities:

- Establish, implement, and maintain an internal audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements.
- Issue recommendations based on the result of work carried out in accordance with the previous point.
- Verify compliance with the recommendations of the previous point.
- Report in relation to internal audit matters to Senior Management and the Board of Directors, at least annually; and
- Provide an annual written report to the Senior Management and the BoD incorporating the Internal Auditor's performance (i.e., whether remedial measures have been taken in the event of any deficiencies), to be submitted to CySEC by the end of April each year.

Additional information, duties and responsibilities of the Internal Auditor can be found in the Company's IOM.

### **3.4 COMPLIANCE**

The Compliance function is performed independently. The Company employs, on a full-time basis, a Compliance Officer. The Compliance function reports only to the BoD, which ensures that the Compliance Officer and other compliance staff act independently when performing their tasks. The Compliance Officer is appointed and replaced by the BoD. The role of the Compliance Officer is to ensure compliance with the current and any new laws, regulations and directives issued by CySEC.

The duties and responsibilities of the Compliance Officer are summarized below:

- Ensure that the Company maintains at all times full compliance with the legal framework (national and international laws) applicable for CIFs;
- Ensure the implementation of the procedures as described in the Company's IOM;
- Monitor and assess those policies and procedures, to detect any risk of failure by the Company to comply with its obligations under the Law, as well as any associated risks;
- Continuously improve the existing control procedures;
- Communicate with the employees of any updated copies of the IOM, internal regulations and of any further instructions and rules, that relate to their role and responsibilities in the Company;
- Ensure that the Company's personnel attends training sessions on compliance with applicable laws, rules, and regulations;
- Provide advice and guidance to the Company's employees;
- Ensure that the Company complies with its continuous obligations to CySEC;
- Communicate with the regulatory bodies;
- Assist the regulatory bodies in performing inspections of the Company's activities;
- Recommend, in case of detection of any weakness or failure by the Company to comply with its obligations under the Law, specific remedial measures; and
- Provide an annual written report to the Senior Management and the BoD incorporating the Compliance Officer's performance (i.e., whether remedial measures have been taken in the event of any deficiencies), to be submitted to CySEC by the end of April each year.

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### **3.5 ANTI-MONEY LAUNDERING**

Money Laundering is defined as the process by which criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activities, whereas terrorist financing refers to activities that provides financing or financial support to individual terrorists or terrorist groups.

The role of the Anti-Money Laundering Compliance Officer (“AMLCO”) is to ensure the Company’s compliance with the laws and directives issued by CySEC regarding money laundering and terrorist financing issues. Note that the Company employs a full-time employee for the position of the AMLCO.

The duties and responsibilities of the AMLCO are summarized below:

- Ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities;
- Ensure the implementation of the “Know Your Client” procedures of the Company;
- Design the internal practices, measures, procedures and controls relevant to the prevention of money laundering and terrorist financing, and describe and explicitly allocate the appropriateness and the limits of responsibility of each department that is involved in the abovementioned;
- Develop and establish the Customer Acceptance Policy and submit it to the BoD for consideration and approval;
- Submit, where deemed necessary, an “Internal Evaluation Report on Suspicious Transactions”, to the Anti-Money Laundering Unit (“MOKAS”) via the GoAML portal;
- Prepare the Company’s risk management and procedures manual regarding the prevention of money laundering and terrorist financing;
- Ensure that the Company prepares and maintains lists of customers classified on a risk-based approach, as defined in the CySEC Directive, which should contain, among other, data, the names of customers, their account number, and the date of the commencement of business relationship;
- Provide advice and guidance to other employees of the Company on the correct implementation of procedures and controls against money laundering and terrorist financing;
- Prepare and apply an annual staff training program. Additionally, the AMLCO shall maintain full records of the seminars and other training offered to the Company’s employees and assesses the adequacy of the training and education provided;
- Correctly prepare and timely submit to the CySEC the monthly prevention statement and provide the necessary explanation to the appropriate employees of the Company for its completion; and
- Provide an annual written report to the Senior Management and the BoD incorporating the AMLCO’s performance (i.e., whether remedial measures have been taken in the event of any deficiencies), to be submitted to CySEC by the end of March each year.

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### **3.6 RISK MANAGEMENT COMMITTEE**

The Risk Management Committee (hereafter, the “RMC”) will aim at ensuring the efficient risk management which is considered essential for the provision of investment services to Clients, as well as the risks underlying the operation of the investment firm. The RMC also bears the responsibility to monitor the adequacy and effectiveness of the risk management policies and procedures that are in place.

Members of the risk committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Company.

The Risk Management Committee meets at least semi-annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager. During the year of 2023, the Risk Management Committee has met 4 times.

The duties and responsibilities of the Risk Management Committee include:

- Scrutinize, and decide on various risks associated with the Company’s operation, with the scope of: i) increasing awareness; (ii) formulating internal policies; (iii) measuring the performance of the said policies, and (iv) dealing with such risks;
- Develop and integrate an internal risk management framework in line with the Company’s decision-making process;
- Quality and financial analysis of the Company’s Clients when opening a new Client account and classification of Clients according to the Company’s risk criteria and limits. Maintaining relevant record. Monitoring, period review and updating of Credit assessment;
- Reviewing the capital adequacy and the exposures of the Company;
- Assessment of the risk involved in potential new investment services and/or Financial Instruments, and preparation of a report to be reviewed and approved by the Risk Management Committee and the BoD.

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### 3.7 RISK APPETITE STATEMENT

Risk appetite is the level of risk that the Company is willing to take in order to achieve its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, business, reputational, legal and compliance and data security/IT risk.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company, while giving the BoD and management confidence to avoid risks that are not in line with the strategic objectives.

**The BoD has approved the following Risk Appetite Statement decided by the Management:**

The Company's risk appetite is determined by its BoD, following the recommendations of the Risk Manager and considering the Company's risk bearing capacity. Risk appetite determines the maximum risk that the Company is willing to assume in order to meet its business targets.

In order to ensure coherence between the Company's strategic considerations as regards risk taking and the day-to-day decisions, Management reviews and when deemed necessary updates the Company's risk appetite statement.

The following are the main risk appetite statements as determined by the amended Capital Management Policy, which are applicable across all of the Company's activities:

- *The Common Equity Tier 1 ("CET1") Capital of the Company and capital ratios shall always exceed the following **internal limits** described in the Company's Capital Management Policy and as tabulated below:*

**Table 3: Regulatory and Internal Limits included in Capital Management Policy and Risk Appetite Statement**

| A                                | B   | C  | D                                 |
|----------------------------------|---|--|-----------------------------------|
| Regulatory Capital Ratios        | Regulatory % of Own Funds Requirement (OFR) | Regulatory Limits  | Internal Limits                   |
| Min. Initial Capital Requirement | EUR 750k                                    | CET1 must at all times be higher than (i) EUR 750k and (ii) ratios shown in column B | EUR 850k                          |
| Fixed Overhead Requirement       | 25% of total FOH of previous year           |  | 25% of total FOH of previous year |

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|               |      |  |      |
|---------------|------|--|------|
| <b>CET1</b>   | 56%  |  | 61%  |
| <b>Tier 1</b> | 75%  |  | 80%  |
| <b>Total</b>  | 100% |  | 105% |

- *In case, the CET1 Capital or capital ratios fall below the internal limits tabulated in Column D above, the Company should follow the escalation procedures as described in its Capital Management Policy and immediately inform the Management of the Company.*
- *In case, the CET1 Capital or capital ratios fall below the regulatory limits tabulated in Column B above, the Company should follow the escalation procedures as described in its Capital Management Policy and immediately notify CySEC.*
- *The Company has zero tolerance in regard to regulatory non-compliance, including regulatory client leverage limits. Therefore, all departments are required to operate at all times in compliance with respective regulatory requirements, relevant laws and regulations.*
- *The Company has limited tolerance towards operational risks/losses, such as internal fraud, unauthorized trading limit excesses, data security and GDPR. Operational risks inherited in the business operations of the Company are managed proactively.*

The Company's Risk Appetite Statement is reviewed at least annually and is updated when deemed necessary.

### **3.8 RISK CULTURE**

The BoD has a crucial role in strengthening risk governance, including setting the 'tone at the top', reviewing strategy, and approving the Risk Appetite Statement. It is the BoD that is ultimately responsible and accountable for risk governance.

The role of the Risk Manager is to promote a risk management culture across the Company, develop policies and supporting methodologies for identifying, assessing, and where possible mitigating the Company's risk exposures.

The Company has focused primarily on the implementation of a firm-wide effective and pervasive risk culture. This will be achieved through the following:

- Embedding the risk culture at all levels of the Company with clear ownership and accountability of tasks;
- Conducting firm-wide risk assessments;
- Implementing formal risk education presentations;

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- Effecting, as necessary, changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions;
- Changes in key personnel; and
- Training.

### **3.9 REGULATORY LIMITS**

Under the IFR/IFD, the Company shall at all times satisfy the following regulatory own funds requirements:

1. A **CET1 ratio of at least 56%**, where CET1 ratio is the Company's CET1 capital expressed as a % of its total Own Funds Requirement\*;
2. A **Tier 1 (CET1+Additional Tier 1 ("AT1")) ratio of at least 75%**, where Tier 1 ratio is the Company's Tier 1 capital expressed as a % of its Own Funds Requirement\*;
3. A **Total ratio (Tier 1 and Tier 2) ratio of 100%**, where total capital ratio is the Company's own funds expressed as a % of its total Own Funds Requirement\*.

\* **Note:** For Octa, the Own Funds Requirement is given as the greatest of: (i) the Permanent Minimum Capital Requirement of EUR 750,000; (ii) the Fixed Overheads Requirement; and (iii) the total K-Factors Requirement.

In addition to the capital requirements, under the new IFR, the Company is obliged to hold liquid assets equal to or greater than its Liquidity Requirement.

The **Liquidity Requirement is equal to one third of the Company's Fixed Overheads Requirement** (so a twelfth of the Company's fixed overheads expenses based on the most recent audited financial statements).

### **3.10 ICARA AND STRESS TESTING**

The scope of the stress testing, in the context of the Annual ICARA Process, is to evaluate the impact of the incurred risks on the Company's current and future profitability and capital and liquidity adequacy, using forward looking stress testing scenarios.

The ICARA process helps the Company to determine the additional, to the IFR Own Funds and Liquidity Requirement, capital and liquidity needed to cover all risks and to maintain an adequate surplus in respect to the minimum capital and liquidity requirements under the IFR.

The ICARA is conducted in accordance with the CySEC's guidelines and the results communicated to the BoD and the General Management, as well as to CySEC upon the latter's request.

**Stress tests consider the following:**

- Understanding the risk profile of the Company.
- Evaluating of the Company's capital adequacy in absorbing potential losses under stressed conditions from risks not covered or not adequately covered under the minimum regulatory capital and liquidity requirements. This takes place in the context of the Company's ICARA.
- Evaluating the Company's strategy: Senior Management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows Senior Management to determine whether the Company's exposures correspond to its risk appetite.
- Establishing or revisioning of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

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

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

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## 4. OWN FUNDS COMPOSITION

The following information provides a reconciliation between the Balance Sheet presented in the unaudited management accounts and the Balance Sheet prepared for prudential purposes.

In accordance with the provisions of Article 49 (1) of the IFR, the Company shall disclose the composition of its Own Funds using the templates of Annex VI of the European Commission Regulation (EU) 2021/2284 and in accordance with the relevant instructions set out in Annex VII of that Regulation.

The composition of the Company's Own Funds as at 31 December 2023, in accordance with the abovementioned Regulation is tabulated in the following tables:

**Table 4:** Composition of regulatory Own Funds of Octa based on Template EU IF CC1.01

| Ref | Common Equity Tier 1 (CET1) capital: instruments and reserves | 31 Dec 2023<br>EUR '000s | Source based on reference numbers/letters of the balance sheet in the Audited Financial Statements (Cross reference to EU IF CC2) |
|-----|---|--------------------------|---|
| 1   | <b>OWN FUNDS</b>  | <b>929</b>               |   |
| 2   | <b>TIER 1 CAPITAL</b>   | <b>929</b>               |   |
| 3   | <b>COMMON EQUITY TIER 1 CAPITAL</b>                           | <b>929</b>               |   |
| 4   | Fully paid-up capital instruments                             | 8,010                    | Ref. 1 (Shareholder's equity)   |
| 6   | Retained earnings   | (7,040)                  | Ref. 2 (Shareholder's equity)   |
| 12  | <b>(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1</b>          | <b>(42)</b>              |   |
| 17  | (-) Losses for the current financial year                     | 0                        |   |
| 26  | (-) Other deductions  | 0                        |   |
| 27  | CET1: Other capital elements, deductions and adjustments      | (42)                     | Ref. 2 & Ref. 6 (Assets)  |
| 28  | <b>ADDITIONAL TIER 1 CAPITAL</b>                              | <b>0</b>                 |   |
| 40  | <b>TIER 2 CAPITAL</b>   | <b>0</b>                 |   |

**Table 5: Own funds: Reconciliation of regulatory Own Funds to Balance Sheet in the audited Financial Statements based on Template EU IFCC2**

| Ref.   |  | 31 Dec 2023<br>EUR '000s | Cross reference to EU IF CC1 |
|--|--|--------------------------|------------------------------|
| <b>Assets - Breakdown by asset classes according to the balance sheet in the audited Financial Statements</b>          |  |                          |                              |
| 1  | Property, plant and equipment (Non-current assets)         | 22                       |                              |
| 2  | Trade and other receivables (Non-current assets)           | 41                       | Ref.27                       |
| 3  | Right-of-use assets  | 33                       |                              |
| 4  | Trade and other receivables (Current assets)               | 482                      |                              |
| 5  | Cash and cash equivalents                                  | 1,405                    |                              |
| 6  | Additional Cash Buffer                                     | 1                        | Ref.27                       |
| <b>Total Assets</b>  |  | <b>1,984</b>             |                              |
| <b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited Financial Statements</b> |  |                          |                              |
| 1  | Trade and other payables (Current liabilities)             | 111                      |                              |
| 2  | Lease Liabilities (Current liabilities)                    | 34                       |                              |
| 3  | Financial Liabilities at fair value through profit or loss | 869                      |                              |
| <b>Total Liabilities</b>   |  | <b>1,014</b>             |                              |
| <b>Shareholders' Equity</b>  |  |                          |                              |
| 1  | Share Capital  | 8,010                    | Ref. 4                       |
| 2  | Reserves   | (7,040)                  | Ref. 6                       |
| <b>Total Shareholders' equity</b>  |  | <b>970</b>               |                              |



## 5. OWN FUNDS REQUIREMENTS

The primary objective of the Company with respect to its capital management is to ensure that it complies with the own funds requirements imposed by the IFR and Law 165 (I) / 2021 of CySEC.

Under this framework, the Company needs to monitor the level of its Own Funds and own funds requirements and maintain a strong Capital Adequacy ratio in order to be able to promote itself as a fully compliant and healthy Company, to support its business and maximize shareholders' value. In this respect, the own funds requirements should not be seen as a restriction of business, but rather as proactive risk management imposed to help both the Company and its client base.

The total Own Funds Requirement of the Company is determined in accordance with Article 11 of the IFR and is defined as the highest of the following:

1. The **Permanent Minimum Capital Requirement** – *calculated in accordance with Article 14 of the IFR*
2. The **Fixed Overheads Requirement** – *calculated in accordance with Article 13 of the IFR*
3. A **K-Factor Requirement** – *calculated in accordance with Article 15 of the IFR*

The BoD, as well as the Risk Manager, monitor the reporting requirements and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company.

The Company manages the level of its Own Funds and own funds requirements and makes adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

### 5.1 **PERMANENT MINIMUM CAPITAL REQUIREMENT**

Given that Octa is licensed to offer the 'Dealing on Own Account' investment service, its Permanent Minimum Capital Requirement in accordance with Article 14 of the IFR, is EUR 750,000.

The Company monitors its Own Funds on a continuous basis and ensures that they remain above the Permanent Minimum Capital Requirement of EUR 750,000 and internally set level of EUR 850,000, as per its Risk Appetite Statement described in Section 3.7 above.

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## 5.2 FIXED OVERHEADS REQUIREMENT

In accordance with Article 13 of the IFR, the Fixed Overheads Requirement is calculated as the 25% of the Company's fixed overhead expenses on the most recent Audited Financial Statements.

The following table presents the total Fixed Overhead Requirement for the Company over as at 31 December 2023:

**Table 6:** Calculation of Fixed Overheads Requirement as at 31 December 2023

| <b>Fixed Overheads Requirement Calculation</b>  | <b>31 Dec 2023</b> |
|---|--------------------|
|   | <b>EUR '000s</b>   |
| <b>Fixed Overhead Requirement</b>   | <b>352</b>         |
| <b>Annual Fixed Overheads of the previous year after distribution of profits</b>      | <b>1,407</b>       |
| <b>Total expenses of the previous year after distribution of profits<sup>1</sup></b>  | <b>2,264</b>       |
| of which: Fixed expenses incurred on behalf of the investment firm by third parties   | 0                  |
| <b>(-) Total Deductions</b>   | <b>(856)</b>       |
| (-) Staff bonuses and other remuneration  | 0                  |
| (-) Employees', directors' and partners' shares in net profits                        | 0                  |
| (-) Other discretionary payments of profits and variable remuneration                 | 0                  |
| (-) Shared commission and fees payable  | 0                  |
| (-) Fees, brokerage and other charges paid to CCPs that are charged to customers      | 0                  |
| (-) Fees to tied agents   | 0                  |
| (-) Interest paid to customers on client money where this is at the firm's discretion | 0                  |
| (-) Non-recurring expenses from non-ordinary activities                               | 0                  |
| (-) Expenditure from taxes  | 0                  |
| (-) Losses from trading on own account in financial instruments                       | (856)              |
| (-) Contract based profit and loss transfer agreements                                | 0                  |
| (-) Expenditure on raw materials  | 0                  |
| (-) Payments into a fund for general banking risk                                     | 0                  |
| (-) Expenses related to items that have already been deducted from own funds          | 0                  |
| <b>Projected fixed overheads of the current year<sup>2</sup></b>                      | <b>2,418</b>       |
| <b>Variation of fixed overheads (%)</b>   | <b>71.85%</b>      |

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<sup>1</sup> Total Expenses represent the total expenses of the Company based on the Audited Financial Statements for the year ended 31 December 2023.

<sup>2</sup> Projected fixed overheads (for the year ended 31 December 2024) are based on the Company's capital planning.

### 5.3 K-FACTOR REQUIREMENT

The k-factor requirement under the IFR/IFD framework is based upon the risk exposure indicators ("K-factors"), capturing not only the Balance Sheet risks but P&L risks as well.

The **K-Factor Requirement** for the Company shall amount to, at least, the sum of the following:

1. **Risk-to-Client ("RtC") K-Factors**, which capture client assets under management and ongoing advice (K-AUM), client money held (K-CMH), assets safeguarded and administered (K-ASA), and client orders handled (K-COH).

**K-AUM** captures the risk of harm to clients from mismanagement of client portfolios or poor execution and provides reassurance to clients in terms of the continuity of service of portfolio management and ongoing investment advice. The Company is not subject to the K-AUM capital requirement, since it does not offer the services of (i) portfolio management and/or (ii) investment advice.

**K-CMH** captures the risk of harm to client money taking into account the legal arrangements in relation to asset segregation (i.e. risk of clients to lose money safeguarded by the Company in the event of bankruptcy, insolvency, or entry into resolution or administration of the Company). Based on the activities of the Company, as at 31 December 2023, Octa was subject to this risk, even though the K-factor result was immaterial. K-CMH is calculated and reported on a quarterly basis

**K-ASA** captures the risk of harm to client financial instruments/assets safeguarded by the Company and ensures that the Company holds capital in proportion to such balances, regardless of whether they are on its own balance or in third party accounts. As at 31 December 2023, the Company was not subject to this K-factor.

**K-COH** captures the risk to clients of an IF which execute orders (in the name of the client, and not in the name of the IF itself), for example as part of execution-only services to clients or when an investment firm is part of a chain for client orders. As at 31 December 2023, the Company was not subject to this K-factor.

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2. **Risk-to-Market (“RtM”) K-Factors** captures Net Position Risk (K-NPR) in accordance with the market risk provisions of the CRR or, where permitted by the competent authority, based on the total margins required by an investment firm’s clearing member (K-CMG). ***The Company uses the K-NPR method to calculate market risk capital requirement.***

**K-NPR** is measured based on the Market Risk methodologies that are set out in the CRR. The Company as at 31 December 2023 was mainly exposed to Foreign Exchange (FX) risk through FX CFDs that were held in the Company’s Trading Book and to a lesser extent to Equity risk (through CFDs in stock indices) and Commodity risk (through commodity CFDs).

During 2023, the Company was mainly exposed to the fluctuation of the United States Dollar (USD), Japanese Yen (JPY), the Great British Pounds (GBP), New Zealand Dollar (NZD), Swiss Franc (CHF), Australian Dollar (AUD) and Gold (XAUUSD) versus the Euro arising from derivative positions (FX CFDs) opened as at 31.12.2023. FX risk capital requirements are calculated in accordance with the Net Position Risk k-factor (k-NPR) as stipulated in the IFR, using the CRR’s Standardized Approach, provided that the aggregate net open FX position exceeds the 2% of own funds.

**K-CMG** is alternative to K-NPR and aims to provide Market Risk for trades that are subject to clearing, as set out in Article 23 of the IFR. This is not applicable to the Company since the execution and settlement of the Company’s transactions is being carried out Over-the-Counter (“OTC”) and is not under the responsibility of any clearing member or qualifying central counterparty.

3. **Risk-to-Firm (“RtF”) K-Factors** capture an investment firm’s exposure to the default of their trading counterparties (K-TCD), concentration risk in an investment firm’s exposure to clients, counterparties and issuers of instruments held by an investment firm in the Trading Book (K-CON), and operational risks from an investment firm’s daily trading flow (K-DTF).

**K-TCD** is simplified version of counterparty credit risk, as set out in the IFR. It includes a simple Credit Valuation Adjustment (“CVA”) risk factor. K-TCD is the total exposure to financial instruments and transactions (derivatives and securities financing transactions) giving rise to (trading) counterparty default risk.

**K-DTF** captures the Trading Book risk when the Company executes orders on its own name or on behalf of clients, as part of the dealing on own account investment service. During the year 2023, all transactions executed through Dealing on Own Account (“DoA”) related to OTC derivative transactions. No cash trades were executed through DoA and therefore was no need to calculate the K-DTF for cash trades.

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**K-CON** capital requirements aims to protect the Company from exposures to single client or group of connected clients which is large in proportion to the size of the investment firm, and which therefore presents and increased risk to the investment firm. The K-CON capital requirement serves the same purpose as the large exposure requirements under the CRR except that under the IFR it targets only the Trading Book exposures. During the year of 2023, the Company recorded a breach of the concentration limits during Q3 and Q4 2023, as a result of a client's large trading book positions in FX CFDs, mainly USDJPY. This concentration resulted in the Company assigning a concentration capital requirement of EUR 213K in Q4 2023 as depicted in the below table.

The table below provides information on total K-factor requirement for the Company and the applicable K-factors that form it, in accordance with its licensed investment services:

*Table 7: Total k-factor requirement as at 31 December 2023*

| K-factor category                          | K-factor Requirement<br>31 Dec 2023<br>EUR '000s |
|--|--|
| <b>Risk to client</b>                      | <b>1</b>   |
| Assets under management                    | 0  |
| Client money held - Segregated             | 1  |
| Client money held - non-segregated         | 0  |
| Assets safeguarded and administered        | 0  |
| Client orders handled - Cash trades        | 0  |
| Client orders handled - Derivatives Trades | 0  |
| <b>Risk to market</b>                      | <b>3,474</b>                                     |
| K-Net positions risk requirement           | 3,474  |
| Clearing margin given                      | 0  |
| <b>Risk to firm</b>                        | <b>455</b>                                       |
| Trading counterparty default               | 235  |
| Daily trading flow - Cash trades           | 0  |
| Daily trading flow - Derivative trades     | 0  |
| K-Concentration risk requirement           | 220  |
| <b>TOTAL K-FACTOR REQUIREMENT</b>          | <b>3,929</b>                                     |

## 5.4 TOTAL OWN FUNDS REQUIREMENT AND CAPITAL RATIOS

The total Own Funds Requirement and Capital Ratios of the Company as at 31<sup>st</sup> December 2023 is presented in the below table. It is reminded that the total own funds requirement for Octa should be the highest of the following:

1. The **Permanent Minimum Capital Requirement** (see Section 5.1 above)
2. The **Fixed Overheads Requirement** (see Section 5.2 above)
3. The **K-Factor Requirement** (see Sections 5.3 above)

**Table 8:** Total Own Funds Requirement, capital ratios and capital levels based on IFR

| Description of Metric   | 31.12.2023 <sup>1</sup><br>EUR '000s | 31.03.2024<br>EUR '000s |
|---|--------------------------------------|-------------------------|
| <b>Available Eligible Own Funds<sup>2</sup></b>                   | <b>929</b>                           | <b>2,104</b>            |
| <b>Own Funds Requirement, higher of:</b>                          | <b>3,929</b>                         | <b>3,226</b>            |
| 1. Permanent Minimum Capital Requirement                          | 750                                  | 750                     |
| 2. Fixed Overhead Requirement                                     | 352                                  | 352                     |
| 3. Total K-factor Requirement                                     | 3,929                                | 3,226                   |
| <b>CET-1 Ratio</b> (min. regulatory is 56% based on new IFR)      | 23.6%                                | 65.2%                   |
| Surplus/(Deficit) over CET1 Ratio                                 | -1,272                               | 297                     |
| <b>Tier 1 Ratio</b> (min. regulatory is 75% based on new IFR)     | 23.6%                                | 65.2%                   |
| Surplus/(Deficit) over CET1 Ratio                                 | -2,018                               | -316                    |
| <b>Own Funds Ratio</b> (min. regulatory is 100% based on new IFR) | 23.6%                                | 65.2%                   |
| Surplus/(Deficit) over CET1 Ratio                                 | -3,001                               | -1,122                  |

**Notes:**

<sup>1</sup>Based on audited Financial Statements as at 31 December 2023.

<sup>2</sup>Own Funds consist of CET1 instruments only (i.e. no AT1 instruments, no Tier 2 instruments)

The Company recorded a capital shortfall in December 2023 with its Own Funds Ratio being below the 100% regulatory limit. This shortfall mainly resulted due to significant trading book exposure in CFD positions on XAUUSD (gold) and the USDJPY currency pair. The Company communicated a capital action plan with CySEC, in order to restore regulatory compliance by the end of September 2024. The Company already injected a capital injection of EUR 500K in early January 2024. By the end of September 2024, the Company will inject an additional CET1 share capital of EUR 1.4mio in order to cover the EUR 1.1mio deficit in March 2024, as depicted in table 8 above.

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### **5.5 CONCENTRATION RISK REQUIREMENT**

Limits to large exposures are calculated as specified in the IFR/IFD, where a simplified application of the corresponding CRR requirements is used and apply to large exposures in the trading book only.

In general, the Company shall comply with the Large Exposure limits laid down below:

- An investment firm's limit with regard to the concentration risk of an exposure value, after taking into account the effect of the credit risk mitigation, with regard to an individual client or group of connected clients shall be 25 % of its Own Funds.
- Where the aforementioned client or counterparty is an institution, or where a group of companies of connected clients or counterparties includes one or more institutions, the limit shall be the higher of 25% of the Company's Own Funds or EUR 150m, provided that the total exposure to non-institutional counterparties of such group remains within the 25% limit mentioned in the previous point above.
- Where the amount of EUR 150m exceeds the 25% of the Company's Own Funds, the limit shall not be higher than 100% of the Company's Own Funds.

According to the IFR, where the limits are exceeded, the Company shall notify the authorities and meet the own funds requirement for the amount of excess of these limits (K-CON). The exposure value with regard to an individual client or group of connected clients shall not exceed:

- 500% of the investment firm's Own Funds, where 10 days or less have elapsed since the excess occurred;
- in aggregate, 600% of the investment firm's Own Funds, for any excesses that have persisted for more than 10 days.

*The Company recorded a breach of the abovementioned concentration limits during Q3 and Q4 2023, as a result of a client's large trading book positions in FX CFDs, mainly USDJPY. This concentration resulted in the Company assigning a concentration capital requirement of EUR 70K in Q3 2023 and EUR 220K in Q4 2023.*

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## 5.6 LIQUIDITY REQUIREMENT

Liquidity risk is the possibility that, over a specific horizon, the Company will be unable to raise cash and meet its financial obligations.

The Company has procedures with the object of minimizing the liquidity risk such as maintaining sufficient cash and also the shareholder of the Company is willing to perform liquidity injections were necessary.

Under the IFR/IFD regulatory framework, Class 2 CIFs (like Octa), which obliged to hold liquid assets that are equal to at least **one third of the Company's fixed overheads capital requirement** (so a twelfth of their fixed overhead expenses based on their most recent annual audited financial statements).

The total Liquidity Requirement and level of liquid assets for the Company as at 31<sup>st</sup> December 2023 is presented in the below table.

**Table 9: Liquidity Requirement and level of Liquid Assets as at 31 December 2023**

| Liquid Assets vs Liquidity Requirement  | 31 December 2023<br>EUR'000s |
|---|------------------------------|
| <b>Liquidity Requirement <sup>1</sup></b>   | <b>117</b>                   |
| <b>Client Guarantees<sup>2</sup></b>  | <b>0</b>                     |
| <b>Total Liquid Assets</b>  | <b>254</b>                   |
| <b>Unencumbered short-term deposits</b>   | <b>252</b>                   |
| <b>Total eligible receivables due within 30 days</b>                                  | <b>0</b>                     |
| <b>Level 1 assets</b>   | <b>2</b>                     |
| Coins and banknotes   | 2                            |
| Withdrawable central bank reserves  | 0                            |
| Central bank assets   | 0                            |
| Central government assets   | 0                            |
| Regional government/local authorities' assets   | 0                            |
| Public Sector Entity assets   | 0                            |
| Recognisable domestic and foreign currency central government and central bank assets | 0                            |
| Credit institution (protected by Member State government, promotional lender) assets  | 0                            |
| Multilateral development bank and international organisations assets                  | 0                            |
| Extremely high-quality covered bonds  | 0                            |
| <b>Level 2A assets</b>  | <b>0</b>                     |

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|   |          |
|---|----------|
| Regional government/local authorities or Public Sector Entities assets (Member State, RW20 %)                             | 0        |
| Central bank or central/regional government or local authorities or Public Sector Entities assets (Third Country, RW20 %) | 0        |
| High quality covered bonds (CQS2)   | 0        |
| High quality covered bonds (Third Country, CQS1)  | 0        |
| Corporate debt securities (CQS1)  | 0        |
| <b>Level 2B assets</b>  | <b>0</b> |
| Asset-backed securities   | 0        |
| Corporate debt securities   | 0        |
| Shares (major stock index)  | 0        |
| Restricted-use central bank committed liquidity facilities  | 0        |
| High quality covered bonds (RW35 %)   | 0        |
| <b>Qualifying CIU shares/units</b>  | <b>0</b> |
| <b>Total other eligible financial instruments</b>   | <b>0</b> |

**Notes:**

<sup>1</sup> Liquidity Requirement is calculated as the 1/3 of the Fixed Overheads requirement during the year of 2023.

<sup>2</sup> No client guarantees were given by the Company during 2023.

## 5.7 OTHER RISKS

### Other Concentration Risks

In addition to the K-CON capital requirement, Octa also monitors other concentration risks on a quarterly basis in accordance with Article 54 of the IFR. Such concentration risks do not give rise to capital requirements for the Company but are being monitored and reported to CySEC only for information purposes.

In accordance with Article 54 of the IFR, the Company also monitors on a quarterly basis, the following levels of risk:

- the level of concentration risk with respect to the **credit institutions, investment firms and other entities where client money is held;**
- the level of concentration risk with respect to the **credit institutions, investment firms and other entities where client securities are deposited;**
- the level of concentration risk with respect to the **credit institutions where the investment firm's own cash is deposited;**
- the level of concentration risk from **earnings;**

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- e) the level of concentration risk as described in points (a) to (e) calculated taking into account **assets and off-balance-sheet items not recorded in the trading book** in addition to exposures arising from trading book positions.

### **Business Risk**

Business risk is a distinct type of risk that is not captured in the course of the minimum regulatory capital requirement under IFR/IFD and is defined as the possibility of economic loss arising from adverse strategic and business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment, including technological progress. The Company manages strategic risk through its normal conduct of business, while business risk is further examined in the course of the annual ICARA.

### **Reputational Risk**

Reputational risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company by clients, counterparties, shareholders, investors or regulators. Reputation 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 client service, fraud or theft, client claims, legal action, regulatory fines and from negative publicity relating to the Company's operations, whether such fact is true or false.

The Company has policies and procedures in place when dealing with possible client complaints, in order to provide the best possible assistance and service under such circumstances. The risk of having unhappy clients is considered as remote, due to the fact the Company considers that it will do its best to provide high quality services to its clients. In addition, the Company's BoD members and Senior Management is comprised of experienced professionals who are recognized in the industry for their integrity and ethos, and, as such, add value to the Company.

### **Regulatory risk**

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputational and strategic risk. The Company has in place documented procedures and policies based on the requirements of relevant Laws and Directives issued by CySEC. Compliance with these procedures and policies is further assessed and reviewed by the Company's Internal Auditor and suggestions for improvement are implemented by management. The Internal Auditor evaluates and tests the effectiveness of the Company's control framework at least annually. Therefore, the risk of non-compliance is considered as low.

### **Compliance Money Laundering Terrorist Financing Risk**

Compliance risk is the current and prospective risk of economic loss arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards.

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Money laundering and Terrorist Financing Risk mainly refers to the risk where the Company may be used as a vehicle to launder money and/or assist/involved in financing terrorism.

The Company has in place and is updating as applicable, certain policies, procedures and controls in order to mitigate the Compliance/Money Laundering and Terrorist Financing Risks. Among others, the Company has established or is in the process of establishing the below policies, procedures and controls:

- a. Adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing Risks faced by the Company;
- b. Adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing Risk, prior and after the establishment of a business relationship with a client;
- c. Setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g., documents collected from independent and reliable sources);
- d. Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction;
- e. Monitoring and reviewing the business relationship or an occasional transaction with Clients and potential Clients of high-risk countries;
- f. Develop and establish a Customers' Acceptance Policy ("CAP") which has also been included in the AML Manual and reflects the actual policies and procedures followed by the Company;
- g. A number of policies (i.e., Conflicts of Interest Policy, Client Complaints Policy, Investor Compensation Fund Policy, MIFID Client Categorization, etc.) have been uploaded in the Company's website, aiming at providing its Clients with all necessary information prior to the establishment of a business relationship;
- h. The Company's Compliance Officer, in liaison with the BoD and the Heads of the Front-line Departments, designed effective organizational and administrative arrangements, which are expected to be implemented going forward, with a view to taking all reasonable steps to prevent conflicts of interest from adversely affecting the interests of the Company's Clients;
- i. Established mechanisms that allow the Company to submit the EMIR and MIFIR reporting on a daily basis according to the provisions of the relevant Laws and Directives;
- j. Electronically submit to CySEC the Risk Based Supervision Framework ('RBS-F');
- k. The Company is in the process of setting in place the Common Reporting Standard (CRS) reporting;
- l. Registered with the goAML system implemented by Unit for Combating Money Laundering (MOKAS);

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- m. The Company's Compliance Officer and Senior Management shall ensure on an ongoing basis that, the Product Governance Requirements under MiFiD II will be met; and
- n. Ensure that the Company's personnel receive the appropriate training and assistance.

The Company has reviewed its policies, procedures and controls with respect to money laundering and terrorist financing in order to ensure compliance with the applicable legislation and incorporated, as applicable, any new information issued/available in this respect.

#### **IT Risk**

IT risk could occur as a result of inadequate information technology and processing or arise from an inadequate IT strategy and policy or from the inadequate use of the Company's information technology. Policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, internet use, data protection procedures, and disaster recovery, as applicable. The Company is regularly, at least annually, conducting Business Continuity Plan (BCP) stress tests to ensure the proper functioning of its systems and back-up procedures but also to minimise the possibility of such type of risk to materialise.

## **6. REMUNERATION POLICY AND PRACTICES**

The Company's Remuneration Policy (the "Policy") forms an integral part of its corporate governance and is developed in accordance with its operational model and strategy. The Policy has been drafted in line with ESMA's "Guidelines on Remuneration Policies and Practices (MiFID)", the EBA's "Guidelines on sound remuneration policies under Directive (EU) 2019/2034" and the relevant provisions set out in Law 165(I)/2021 for the Prudential Supervision of Investments Firms.

In accordance with Title IV, Chapter 2, Part B of the Law, Octa is obliged to establish and apply a remuneration policy for categories of staff, including senior management, risk takers, staff engaged in control functions and any employees receiving overall remuneration equal to at least the lowest remuneration received by senior management or risk takers, whose professional activities have a material impact on the risk profile of the Company or of the assets that it manages.

The remuneration policy shall comply with the following principles:

- Be clearly documented and proportionate to the size, internal organisation and nature, as well as to the scope and complexity of the activities of the CIF;
- Be gender-neutral;
- Be consistent with and promote sound and effective risk management;

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- Be in line with the business strategy and objectives of the CIF, and also take into account long term effects of the investment decisions taken;
- Contain measures to avoid conflicts of interest, encourage responsible business conduct and promote risk awareness and prudent risk taking;
- The CIF's board of directors in its supervisory function shall adopt and periodically review the remuneration policy and have overall responsibility for overseeing its implementation;
- The implementation of the remuneration policy shall be subject to a central and independent internal review by control functions at least annually;
- Staff engaged in control functions shall be independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, regardless of the performance of the business areas they control;
- The remuneration of senior officers in the risk management and compliance functions must be directly overseen by the remuneration committee or, where such a committee has not been established, by the board of directors in its supervisory function;
- The remuneration policy, taking into account the rules in force in the Republic of Cyprus on wage setting, should make a clear distinction between the criteria applied to determine the following:
  - Basic fixed remuneration, which should primarily reflect relevant professional experience and organisational responsibility as set out in an employee's job description as part of his or her terms of employment;
  - Variable remuneration, which shall reflect a sustainable and risk adjusted performance of the employee, as well as performance in excess of the employee's job description;
- The fixed component shall represent a sufficiently high proportion of the total remuneration so as to enable the operation of a fully flexible policy on variable remuneration components, including the possibility of paying no variable remuneration component.

In accordance with Article 51 of the IFR, the Company shall disclose the following information regarding its remuneration policy:

**i. Most important design characteristics**

The Company's remuneration policy aims to ensure that:

- The remuneration of employees is based on their overall performance within the Company, particularly emphasising on evaluating the employees on the basis of Qualitative Criteria, which aim on the employees' efficiency in the workplace and the overall service experience rendered to the Company's Clients;
- The Company is able to attract, develop and retain high-performing and motivated employees in a competitive, international market;
- Employees are offered a competitive remuneration package;

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- Employees feel encouraged to create sustainable results;
- A link shall exist between shareholder and employee interests;
- Corporate values and culture are supported;
- Leadership, accountability, teamwork and innovation are reinforced;
- The contribution and performance of the businesses, teams and individuals are aligned.

The Company's remuneration policy is set by the BoD and focuses on ensuring sound and effective risk management through:

- Setting goals and communicating these goals to employees;
- Including non-financial goals in performance and result assessments;
- Making fixed salaries the only remuneration component.

The BoD has the overall responsibility for providing recommendations on employee remuneration.

The Policy is reviewed by the BoD on a regular basis, at least once a year, while a performance review of all employees is conducted once a year. The design of remuneration policies and practices is approved by the people who effectively direct the business of the Company, after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance.

The people who effectively direct the business are responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks that remuneration policy and practices can create.

***The Company does not offer any variable remuneration or bonus to any individual employee.***

**ii. Ratios between fixed and variable remuneration**

*As stated in the previous section, Octa does **not offer any variable remuneration or bonus to any individual employee.***

**iii. Aggregated quantitative information on remuneration:**

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 10:** Aggregate Annual Remuneration as at 31 December 2023

| Position<br>31 December 2023       | No. of<br>beneficiaries | Annual Remuneration<br>(EUR '000s) |          |            |
|------------------------------------|-------------------------|------------------------------------|----------|------------|
|                                    |                         | Fixed                              | Variable | TOTAL      |
| Senior Management                  | 5                       | 209                                | 0        | 209        |
| Heads of Departments & other staff | 8                       | 308                                | 0        | 308        |
| <b>Total</b>                       | <b>13</b>               | <b>517</b>                         | <b>0</b> | <b>517</b> |

**Notes:**

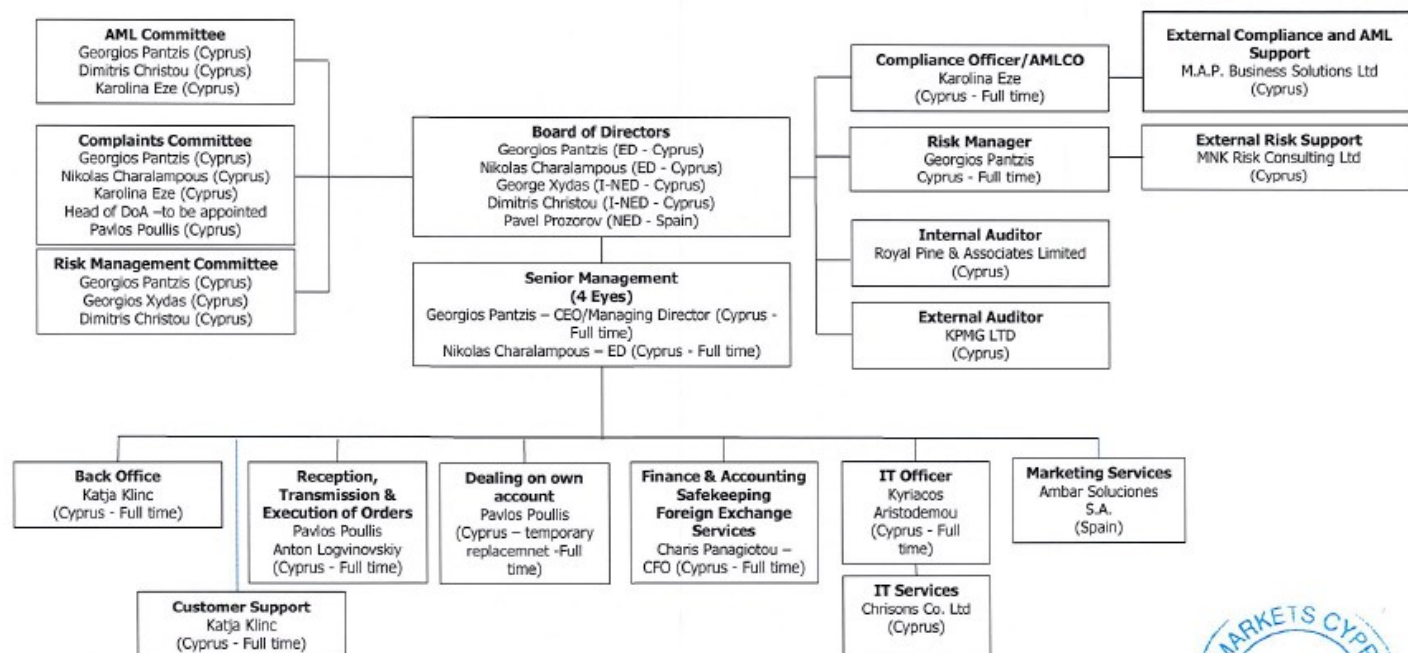
1. Senior Management personnel includes the Board of Directors. One of the Non-Executive Directors is not compensated by the Company.
2. Other Staff includes Heads of Departments and other Senior Officers whose actions have a material impact on the risk profile of the Company.

During 2023, the Company did not pay or award any sign-on or severance payments, nor any guaranteed variable remuneration. There were also no severance payments that were awarded in previous periods, and which have been paid out during 2023. In addition, the Company did not award or pay any deferred remuneration during 2023 or in previous performance period that was due to vest in 2023 or in subsequent years.



## 7. ANNEX I – ORGANISATIONAL STRUCTURE

### OCTA MARKETS CYPRUS LTD Organizational Structure 01 March 2024



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## 8. ANNEX II – Main Features of Own Funds

| Template EU IF CCA |  | Common Equity Tier 1 instruments |
|--------------------|--|----------------------------------|
| 1                  | Issuer   | Octa Markets Cyprus Ltd          |
| 2                  | Unique identifier (Legal Entity Identifier code)                               | 2138004G540D2XQM6182             |
| 3                  | Public or private placement  | Private                          |
| 4                  | Governing law(s) of the instrument   | Cyprus Company Law (Chapter 13)  |
| 5                  | Instrument type (types to be specified by each jurisdiction)                   | Ordinary Shares                  |
| 6                  | Amount recognised in regulatory capital (EUR)                                  | 8,010,231                        |
| 7                  | Nominal amount of instrument (EUR)   | 8,010,231                        |
| 8                  | Issue price (EUR)  | 1                                |
| 9                  | Redemption price   | N/A                              |
| 10                 | Accounting classification  | Shareholders' equity             |
| 11                 | Original date of issuance  | 2018-2023**                      |
| 12                 | Perpetual or dated   | Perpetual                        |
| 13                 | Original maturity date   | No maturity                      |
| 14                 | Issuer call subject to prior supervisory approval                              | No                               |
| 15                 | Optional call date, contingent call dates and redemption amount                | N/A                              |
| 16                 | Subsequent call dates, if applicable   | N/A                              |
|                    | <i>Coupons / dividends</i>   | N/A                              |
| 17                 | Fixed or floating dividend/coupon  | Floating                         |
| 18                 | Coupon rate and any related index  | N/A                              |
| 19                 | Existence of a dividend stopper  | No                               |
| 20                 | Fully discretionary, partially discretionary or mandatory (in 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-convertible                  |
| 25                 | If convertible, conversion trigger(s)  | N/A                              |
| 26                 | If convertible, fully or partially   | N/A                              |
| 27                 | If convertible, conversion rate  | N/A                              |
| 28                 | If convertible, mandatory or optional conversion                               | N/A                              |

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

\* 'N/A' indicates that the particular field is not applicable

\*\* The Company's revenues are still not sufficient to cover its operational expenses. Therefore, during 2023 the Company's shareholder injected capital on a monthly basis (i.e., 12 share capital issuances overall, at the end of each month), so that the Company would be able to cover its total expenses, while maintaining the minimum capital required as per the applicable regulatory framework.

## 9. ANNEX III – SPECIFIC REFERENCES TO THE IFR

| IFR Reference<br>(Article)                     | High Level Summary   | Compliance<br>Reference |
|--|--|-------------------------|
| <b>Scope of Disclosure Requirements</b>        |  |                         |
| 46 (1)   | Requirement to publish disclosures for Class 2 IFs   | 1.2                     |
| 46 (2)   | Requirement to publish disclosures for Class 3 IFs, issuing AT1 instruments  | N/A                     |
| 46 (3)   | Requirement to publish disclosures when a Class 3 IFs no longer meets the criteria to be considered a small and non-interconnected IF  | N/A                     |
| 46 (4)   | Determination of the appropriate medium and location to publish the disclosures  | 1.2                     |
| <b>Risk management objectives and policies</b> |  |                         |
| 47   | Investment firms shall disclose their risk management objectives and policies for each separate category of risk, including a summary of the strategies and processes to manage those risks and a concise risk statement approved by the investment firm's management body succinctly describing the investment firm's overall risk profile associated with the business strategy. | 3                       |
| <b>Governance</b>                              |  |                         |
| 48 (a)   | Number of directorships  | 2.3                     |
| 48 (b)   | Diversity Policy   | 2.4                     |
| 48 (c)   | Risk Committee and number of times the risk committee has met annually   | 3.6                     |
| <b>Own Funds Composition</b>                   |  |                         |
| 49 (1) (a) to (c)                              | Requirements regarding disclosure of own funds   | 4                       |
| 49 (2)   | Requirements regarding disclosure of own funds based on EBA Templates (Regulation (EU) 2021/2284)  | 4                       |
| <b>Own Funds Requirements</b>                  |  |                         |
| 50 (a)   | Summary of the investment firm's approach to assessing the adequacy of its internal capital to support current and future activities   | 3.10                    |

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|--|---|---|
| 50 (b)                                   | Upon a request from CySEC, the result of the investment firm's internal capital adequacy assessment process, including the composition of the additional own funds based on the supervisory review process as referred to in point (a) of Article 39(2) of Directive (EU) 2019/2034 ("IFD")   | N/A   |
| 50 (c)                                   | The K-factor requirements   | 5.3   |
| 50 (d)                                   | The fixed overheads requirement   | 5.2   |
| <b>Remuneration policy and practises</b> |   |   |
| 51 (a)                                   | Most important design characteristics of the remuneration system, including the level of variable remuneration and criteria for awarding variable remuneration, pay out in instruments policy, deferral policy and vesting criteria   | 6 (i)   |
| 51 (b)                                   | Ratios between fixed and variable remuneration  | 6 (ii)  |
| 51 (c)                                   | Aggregated 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 investment firm  | 6 (iii)   |
| 51 (d)                                   | Information on whether the investment firm benefits from a derogation laid down in Article 32(4) of Directive (EU) 2019/2034 ("IFD")  | N/A   |
| <b>Investment Policy</b>                 |   |   |
| 52 (1)                                   | <p>Investment firms which <b>do not meet</b> the criteria referred to in point (a) of Article 32 (4) of Directive (EU) 2019/2034 ("IFD") disclose the following in accordance with Article 46 of this Regulation:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(b) a complete description of voting behaviour in the general meetings of companies the shares of which are held in accordance with Article 52 (2) of the IFR, 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;</li> <li>(c) an explanation of the use of proxy advisor firms;</li> </ul> | <p>N/A – Octa meets the criterion of point (a) of Article 32 (4) of Directive (EU) 2019/2034</p> <p>(i.e., its total on and off-balance sheet assets are <b>less than EUR 100mio</b> over the last four-year period</p> |

|   |  |   |
|---|--|---|
|   | (d) the voting guidelines regarding the companies the shares of which are held in accordance with article 52 (2) of the IFR  |   |
| 52 (2)  | The investment firm referred to in Article 52 (1) of the IFR shall comply with that paragraph only in respect of each company whose shares are admitted to trading on a regulated market and only in respect of those shares to which voting rights are attached, where the proportion of voting rights that the investment firm directly or indirectly holds exceeds the threshold of 5% of all voting rights attached to the shares issued by the company. Voting rights shall be calculated on the basis of all shares to which voting rights are attached, even if the exercise of those voting rights is suspended. | N/A – as per comment in point 52 (1) above)   |
| 52 (3)  | EBA, in consultation with ESMA, shall develop draft regulatory technical standards to specify templates for disclosure under Article 52 (1) of the IFR.  | N/A – as per comment in point 52 (1) above)   |
| <b>Environmental, social and governance risks</b> |  |   |
| 53  | From 26 December 2022, investment firms which do not meet the criteria referred to in Article 32(4) of Directive (EU) 2019/2034 shall disclose information on environmental, social and governance risks, including physical risks and transition risks, as defined in the report referred to in Article 35 of Directive (EU) 2019/2034.   | N/A – Octa meets the criterion of point (a) of Article 32 (4) of Directive (EU) 2019/2034<br><br>(i.e., its total on and off-balance sheet assets are <b><u>less than EUR 100mio</u></b> over the last four-year period |