



DRAGON CAPITAL (CYPRUS) LTD

PILLAR III DISCLOSURES

YEAR ENDED 31 DECEMBER 2021

July 2022

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

Table of Contents

1	OVERVIEW	4
1.1	Company Incorporation and Principal Activities.....	5
1.2	Scope of disclosures.....	6
1.3	Disclosure Policy.....	7
1.4	Going concern basis	7
1.5	Operating environment of the Company	8
2	CORPORATE GOVERNANCE-BOARD AND COMMITTEES.....	11
2.1	Board of Directors.....	11
2.2	Number of directorships held by members of the Board	12
2.3	Risk Committee.....	13
2.4	Investment Committee.....	13
3	RISK MANAGEMENT OBJECTIVES AND POLICIES	14
3.1	Risk Management Framework.....	14
3.2	Risk Management Function.....	15
3.3	Internal Audit Function.....	16
3.4	Compliance and Anti-Money Laundering Compliance Officer	17
4	INTERNAL CAPITAL AND RISK ASSESSMENT (“ICARA”).....	19
5	PRINCIPAL RISKS.....	20
5.1	Risk to Client.....	20
5.1.1	K-CMH.....	21
5.1.2	K-ASA.....	21
5.1.3	K-COH	21
5.2	Risk to Market	22
5.2.1	K-NPR	22
5.3	Risk to Firm	23
5.3.1	K- TCD.....	23
5.3.2	K-DTF	24
5.4	Other Risks	24
5.4.1	Compliance Risk.....	24
5.4.2	Legal Risk.....	24
5.4.3	Liquidity Risk	25
6	OWN FUNDS	26
7	MINIMUM CAPITAL REQUIREMENT.....	29

- 7.1.1 Capital Requirements 29**
- 7.1.2 Fixed Overheads Requirement ("FOR") 29**
- 7.1.3 Permanent Minimum Capital Requirement ("PMCR") 29**
- 7.1.4 "K-factor" Capital Requirement 29**
- 8 REMUNERATION POLICY 32**
- 9 Appendix Own Funds 35**

1 OVERVIEW

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Requirements Directive 2013/36/EU ("CRDIV") and EU Regulation No. 575/2013 (the "Regulation" or the "CRR"), have been replaced by amended prudential rules.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

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

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

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

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

1.1 Company Incorporation and Principal Activities

Dragon Capital (Cyprus) Limited (the "Company") is domiciled in Cyprus. The Company was incorporated in Cyprus on 2 February 2006 as a private limited liability company under the Cyprus Companies Law, Cap. 113. The Company is authorized and regulated as a Cypriot Investment Firm ("CIF") by the Cyprus Securities and Exchange Commission (CySEC) under License Number 112/10 with LEI code 213800A5US82UYY9H485.

According to its CIF license, the Company is authorized to provide the following investment and ancillary services:

Investment Services

1. Reception and transmission of orders in relation to one or more financial instruments;
2. Execution of orders on behalf of clients;
3. Dealing on own accounts;
4. Provision of investment advice;
5. Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
6. Placing of financial instruments without a firm commitment basis.

Ancillary Services

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

The above services can be offered for the following financial instruments:

Financial Instruments

1. Transferable securities;
2. Money-market instruments;
3. Units in collective investment undertakings;
4. 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;
5. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
6. Options, futures, swaps and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market;
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 above and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for differences;
10. Options, futures, swaps, forward-rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF.

1.2 Scope of disclosures

The Company was controlled by Dragon Capital Holding Limited, incorporated in Cyprus, which owned 99,1% of the Company's shares. The ultimate controlling entity was Conebond Limited.

On 9 July 2020 the 99,1% shareholding of Dragon Capital Holding Limited was transferred to Tomas Fiala through a purchase sale agreement. Tomas Fiala is common UBO for both entities.

The Pillar 3 Disclosures for the year ended 31 December 2021 are prepared on an individual (solo) basis, as it does not fall under the scope of prudential consolidation based on the provisions of Article 7 of the IFR. The Company also prepares its Financial

Statements on an individual (solo) basis, in accordance with the International Financial Reporting Standards ("IFRS").

1.3 Disclosure Policy

The present Pillar III Disclosures have been prepared in compliance with Part Six of the IFR and relate to for the financial year ending on 31st of December 2021.

The Company discloses information in relation to its capital requirements on an annual basis. The disclosures are published on the Company's website <https://www.dcl.com.cy/> in conjunction with the date of publication of the financial statements.

1.4 Going concern basis

Even though the Company has made a profit of US\$4.445.201 during the year ended 31 December 2021, as of that date the Company's current assets exceeded its current liabilities by US\$27.119.235 and the Company was in net asset position of US\$27.253.815, the Russian military operation in Ukraine indicates that a material uncertainty exists on the ability of the Company to continue as going concern due to:

i) Significant price volatility and turmoil for Company's core market. Eurobonds of Ukrainian government and Ukrainian corporates, being major traded financial instruments of the Company, experienced significant price drop. International equities traded by the Company, are fluctuating in line with global market trends. Ukrainian registered equities and debt instruments are currently unavailable to the Company due to Ukrainian market martial law restrictions and had been valued post year end to zero.

ii) The Company has to meet specific loan covenants which are related to financial instruments value and level. Considering the price drop and fluctuations of traded financial instruments, its expected to impact the compliance of the covenants.

iii) There is uncertainty over the impact on capital adequacy ratio.

iv) Financial assets/funds of the client that have direct exposure to Ukrainian registered local securities are currently unavailable to the Company's clients.

The Company's financial statements have been prepared on going concern basis as:

i) The Company considers the impact on securities as temporary and that the Company can invest to other markets.

ii) The Company is in discussion with the Bank in order to extend the loan repayment date. On 13 April 2022 an amendment of the loan agreement has been signed, by which it was agreed the Company to pay US\$1.000.000 not later than 27 April 2022 and related companies under common UBO to act as security providers, pledging property and shares in their subsidiaries. The US\$1.000.000 has been paid on 22 April 2022.

iii) As per management's assessment, the Company remains financially stable, strong, and solvent, with sufficient level of own eligible funds and liquid funds that are held at European Union based credit institutions.

iv) The Company continues providing its services in usual manner to clients that did not have exposure to Ukrainian register local securities and did not receive any request for withdrawal of Ukraine based assets/funds from clients having exposure to Ukrainian register local securities.

1.5 Operating environment of the Company

Coronavirus Outbreak

With the recent and rapid development of the Coronavirus disease (COVID-19) pandemic the world economy entered a period of unprecedented health care crisis that has caused considerable global disruption in business activities and everyday life.

Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments have implemented restrictions on travelling as well as strict quarantine measures throughout the year.

Industries such as tourism, hospitality and entertainment have been directly disrupted significantly by these measures. Other industries such as manufacturing and financial services have also been indirectly affected.

In Cyprus, on 15 March 2020, the Council of Ministers in an extraordinary meeting, announced that it considers that Cyprus is entering a state of emergency considering the uncertain situation as it unfolds daily, the growing spread of COVID-19 outbreak and the World Health Organization's data on the situation.

To this end, certain measures have been taken by the Republic of Cyprus since then with a view to safeguarding public health and ensuring the economic survival of working people, businesses, vulnerable groups and the economy at large.

New entry regulations have been applied with regards to protecting the population from a further spread of the disease which tightened the entry of individuals to the Republic of Cyprus within the year. Additionally, a considerable number of private businesses operating in various sectors of the economy had closed for a period of time while a number of lockdown measures, such as the prohibition of unnecessary movements and the suspension of operations of retail companies (subject to certain exemptions), were applied throughout the year. The measures had been continuously revised (lifted or tightened) by the Republic of Cyprus during the year taking into consideration the epidemic status in the country.

The event is reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2021. The Company's management has assessed:

(1) whether any impairment allowances are deemed necessary for the Company's financial assets, nonfinancial assets by considering the economic situation and outlook at the end of the reporting period.

(2) the ability of the Company to continue as a going concern.

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty though, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome. Management's current expectations and estimates could differ from actual results.

Management has considered the unique circumstances and the risk exposures of the Company and has concluded that the main impact in the Company's profitability position has arisen from the reduction in revenue in comparison with previous year. The event did not have an immediate material impact on the business operations.

The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment.

Management will continue to monitor the situation closely and assess/seek additional measures/committed facilities as a fall-back plan in case the period of disruption becomes prolonged.

Ukraine economic environment

The Company's operations are primarily Ukraine focused. The Company actively trades debt (Eurobonds, issued by Ukrainian government and corporations) and equity (of Ukrainian companies and companies with assets in Ukraine) financial instruments.

Ukraine's real GDP rose by 3.4% y-o-y in 2021 following a 3.8% drop in 2020. The post-pandemic economic recovery was driven by domestic consumption and a record high agricultural harvest. Ukraine harvested 106 Mt of grains and oilseeds in 2021, up 27% y-o-y. This boosted agricultural output by 14% y-o-y. Manifesting strength in household consumption, retail turnover was on a stable sequential growth trajectory in 2021, accelerating to 10.9% y-o-y from 7.2% in 2020.

On February 24, 2022, Russian armed forces invaded Ukraine, starting an all-out war and initially securing large swathes of territory in the north and south. The Ukrainian government introduced 30-day martial law on the day of the Russian invasion, subsequently extending it to April 25, 2022. A counteroffensive by the Ukrainian army in late March and early April restored Ukrainian control over the entirety of the Kyiv, Zhytomyr, Chernihiv and Sumy regions in the north. Although a relatively small part of Ukrainian territory was directly affected by fighting as of today, the ongoing hostilities on the ground, being compounded by massive Russian airstrikes on infrastructural and civilian targets across the country, have and will likely continue to inflict significant economic damage. The full scale and consequences of this damage, and its impact on domestic economic activity going forward, are currently very difficult to assess.

2 CORPORATE GOVERNANCE-BOARD AND COMMITTEES

2.1 Board of Directors

The Board of Directors comprises of four members, two (2) which are Executive Directors and two (2) which are Non-Executive (Independent) Directors. The majority of the members of the Board of the Company, including the General Manager, are residents of the Republic of Cyprus. One Executive Director is resident of the Republic of Ukraine, who was approved by CySEC, and provides additional insights and opinions on local Ukrainian financial market developments that help Company align its overall strategy.

The major duties of the Board of Directors are to:

- Formulate the Company's strategy in terms of development of existing and new services;
- Govern the organization by broad/specific policies, procedures and objectives;
- Ensure that the Company maintains and implements adequate internal control mechanism;
- Ensure that the Company complies with its legal obligations to CySEC;
- Assess and review on regular basis the effectiveness of Company's policies, procedures and arrangements in place and their compliance with the relevant Laws and Directives issued by EU governing bodies and the Commission;
- Monitor the performance of the Investment Committee;
- Ensure that sufficient and experienced personnel and resources are available to the Company to carry out its operations;
- Ensure that the Compliance /AMLRO function has necessary authority, expertise, sufficient resources and direct access to all relevant information in order to be able to monitor the activities performed by the employees and assess its knowledge and competence;
- Implement and monitor Internal Capital Adequacy Assessment Process in order to appropriately identify and measure any risks, to set appropriate level of internal capital in relation to Company's risk profile and to apply and further develop a suitable risk-management and internal control systems;
- Ensure that the Board of Directors receives on a regular (at least annual basis) written reports from the Compliance/AML officer, Risk Management Officer and Internal Audit Function, follows up any issues raised as well as ensure that remedial measures have been taken in the event of any deficiencies;
- Approve and oversee the remuneration policy of the Company;
- Appoint and replace Head of Compliance /AML Officer.

Head of Compliance/AML Department, Head of Risk Management Department, Internal Audit service provider are responsible for the provision of periodic (at least annual) reports to the Board of Directors.

The Board of Directors meets on a regular basis. During these meetings, the general strategy of the Company and business-related issues are included in the agenda. All meetings are recorded and filed, both in hard copy and electronic copy. The Company is against of setting specific dates for meeting, as it considered that this would imply only the minimum requirement as imposed by the Cyprus Securities and Exchange Commission and does not support a strong and healthy input from the Board of Directors.

During 2021, the Board met nine (9) times. All meetings of the Board of Directors took place in Cyprus at the Company's premises. The minutes of the Board of Directors signed after each meeting. Furthermore, four (4) resolutions regarding operational matters of the Company were adopted in 2021. All original hard copies of the minutes and resolutions are kept in the Company's premises.

The Board of Directors oversees the Risk Management Function. The Risk Management Function reports directly to the Board. In addition, the members of the Board receive quarterly risk management reports in order to have a general overview of the major types of risks that the Company faces and to keep members up to date. The risk management reports have stopped during 2021 due to report formatting and adopting to the new regulation requirements.

2.2 Number of directorships held by members of the Board

The table below provides information on the number of directorships each member of the management body of the Company holds at the same time in other entities (including the directorship held in Dragon Capital (Cyprus) Limited). Directorships in organisations which do not pursue predominantly commercial objectives, such as non-profit or charitable organizations, are not taken into account for the purposes of the below. Furthermore, executive or non-executive directorships held within the same group, are considered as a single directorship.

Name of Director	Executive Directorships	Non-Executive Directorships
Mr. Oleksandr Fedorov	1	-
Mr. Ivo Suchy ¹	4	1
Mr. Apollon Athanasiades	1	1
Mr. Soteris Eliophotou	-	1

*Note: The information in this table is based only on representations made by the directors of Company.
 Note¹: Mr. Ivo Suchy held three (3) directorships which are under Dragon Capital Group and which consider as one directorship. The remaining two (2) are outside the Dragon Capital Group.*

2.3 Risk Committee

Having assessed the complexity and scale of the Company's trading activity, its size and scale of business, the Company did not set up a Risk Committee. Risk issues are covered by the Risk Management Department of the Company with direct reporting to the management body. The Company trades non-complex instruments only-Eurobonds and bonds, equities with relatively small amount of derivative trades. Clients of the Company have access to Eurobonds, bonds and equities only. No derivatives are provided to clients.

2.4 Investment Committee

The purpose of the Investment Committee is to contribute towards the formation of Company's trading policy by examining investment opportunities and analysing their potential.

The Investment Committee's main responsibilities are:

- To meet at least annually;
- To provide a framework on which investment decisions for investment of own funds are based;
- To develop own funds trading policies and procedures;
- To set the Company's trading policy;
- To predetermine the markets and the financial instruments in which the Company operates;
- To deal with any other matters relating to Company's investment activity;
- To be in close cooperation with Risk Management Function, which is responsible for the ICAAP practical process and implementation, in order to develop recommendations for trading limits;
- To communicate the above decisions to the Board of Directors.

Provision of a framework on which investment decisions are based:

- Decisions are taken with a majority vote;
- In case of an unusual event occurring in the markets, the Investment Committee will reassess its position with an extraordinary meeting;
- Meetings are called with 48-hours notice to members.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 Risk Management Framework

The Company's risk management framework aims to establish, implement and maintain adequate policies and procedures designed to manage any type of risk related to the Company's activities, processes and systems. The current risk management framework is designed to identify potential events that may affect Company's operations. Risk Management framework manages risks, so they are within Company's risk appetite and provides reasonable assurance regarding the achievement of its mission and its objectives. Communication of information at all relevant levels of the Company is defined by the organisational structure which clearly specifies reporting lines and allocates functions and responsibilities. The Company maintains internal reporting at various risk types, frequency, and depth of reports.

The Risk Management Framework of the Company consists of three (3) major elements:

1. Risk Management Policy
2. ICARA
3. Trading Book Policy

All elements of the framework are interconnected and aim to address various types of risks from different perspectives. Risk Management Policy covers all major risks faced by the Company in its daily operations and ways to control and mitigate them. ICARA covers risks not fully covered by Risk Management Policy and set standards for overall risk tolerance and acceptance. The updated ICARA pays more attention to the business model of the company – Risk management function carefully identifies and monitors potential harms from both the market and the client. Trading Book Policy provides additional guidelines for mitigation techniques and controls of risk, covered in Risk Management Policy and additionally integrates risk tolerance levels set by the ICARA in daily operations.

Risk Management Framework (including Risk Management Policy, ICARA process (including ICARA Report), Trading Book Policy) are reviewed on regular basis, at least annually, by Head of Risk Department and further reviewed and approved by the Board of Directors. Review is performed in order to identify any deficiencies and promptly react to those, securing the adequacy and effectiveness of the framework.

3.2 Risk Management Function

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify.

The Head of the Risk Department is responsible for:

- Establishing, implementing and maintaining adequate risk management policies and procedures which identify the risks relating to Company's activities, processes and systems;
- Setting Dragon's risk tolerance;
- Developing internal control mechanisms, effective procedures for risk assessment, effective control and safeguard arrangements for information processing systems;
- Adopting effective arrangements, processes and mechanisms to manage the risks relating to the Company's activities, processes and systems in light of the set risk tolerance;
- Analyzing for the Investment Committee the potential hazards associated with the recommended framework on which the investment decisions/advice are based;
- Credit assessment (quality and financial analysis of client) to which a credit of loan is granted according to Dragon's risk criteria and limits;
- Monitoring of investment risk undertaken by Dragon for each client, counterparty and as a whole;
- Monitoring of brokerage and own account transactions as regards to adherence to established risk limits;
- Monitoring of day-to-day operational risks;
- Building and promoting a risk awareness culture within the Company, including ICAAP, and providing the relevant training;
- Ensuring that the Company complies with its continuous prudential supervision obligations to CySEC such as the submission of Capital Adequacy Ratio, contribution to Investors Compensation Fund, etc.;
- Monitoring the adequacy and effectiveness of its risk management policies and procedures;
- Monitoring the level of compliance by Dragon and its employees with the arrangements, processes and mechanisms adopted;

- Monitoring the adequacy and effectiveness of measures taken to address any deficiencies in the risk management policies, arrangements and procedures;
- Reporting to Senior Management/Board of Directors at least annually on risk management issues (submission of annual Risk Management Report), indicating in particular whether appropriate remedial measures have been taken.

Risk limit monitoring

All trading activities are counted without delay towards the corresponding limits of Trading Book Limits System and every trader should be informed promptly of the limits relevant to them and of their current level of utilization.

All individual positions are aggregated into the overall risk position at least once a day at the close of trading.

3.3 Internal Audit Function

The Internal Audit function ensures that there is adequate planning, control and recording of all audit and review work performed, that there is timely reporting of findings, conclusions and recommendations to the Board of Directors, and that matters or risks highlighted in the relevant reports are followed up and resolved satisfactorily.

The Internal Audit function is outsourced and has the following responsibilities:

- To establish, implement and maintain an audit plan and to examine and evaluate the adequacy and effectiveness of IT systems, internal control mechanisms and arrangements;
- To issue recommendations based on the result of the audit;
- To verify compliance with the recommendations;
- To report in relation to internal audit matters to the Senior Management, the Board of Directors and to the regulators.

The Senior Management and the Board of Directors assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the regulatory obligations and to take appropriate measures to address deficiencies. The internal auditor issues the written reports to the Senior Management/Board on an annual basis, containing information on regulatory compliance, risk management/compliance and other internal audit findings indicating in particular whether the appropriate remedial measures have been taken into consideration with regards to any deficiencies. These reports on the same matters are presented and discussed during the meetings of the Board of Directors. In cases of serious irregularities

such as money embezzlement, money laundering, market manipulation, etc., the Board of Directors is immediately informed in order for immediate actions to be taken.

3.4 Compliance and Anti-Money Laundering Compliance Officer

During 2021, the Compliance and AMLCO Function were performed by the same person. The Compliance and Anti-Money Laundering Compliance Officer is independent of all operational and business functions and reports directly to the Board of Directors. More specifically this officer is responsible for the following:

- To design and build upon the general principles of Dragon, the internal policies, procedures and controls relevant to the prevention and suppression of money laundering and terrorist financing;
- To communicate with employees on information is known to be related with money laundering or terrorist financing activities or might be related with such activities and to evaluate such information;
- To develop and establish the Client Acceptance Policy, which require submission to the Board of Directors for approval;
- To review and update the AML Manual as may be required from time to time, and for such updates to be communicated to the Board for their approval;
- To implement the guidelines and broad instructions issued by the member of the Board of Directors responsible for AML, and create efficient and transparent processes to be followed across the Company, based on the said broad instructions and guidelines;
- To receive information from the Company's employees which is considered to be knowledge or suspicion of money laundering or terrorist financing activities or might be related with such activities. The information is received in a written report form ("Internal Suspicion Report");
- To evaluate and examine the information received in a written report form and to take appropriate actions;
- To ensure the preparation, maintenance and update of the lists of Clients categorised following a risk-based approach;
- To detect, record and evaluate, at least on an annual basis, all risks arising from existing and new Clients, new financial instruments and services, and amend and update the systems and procedures applied by the Company for the effective management of the aforementioned risks;
- To identify the third person, which the Company relies and/or shall rely for applying customer due diligence and identification procedures of the Clients, by providing his written consent for the relevant reliance. The written consent must be kept in the personal records of the third person;

- To ensure that the branches and subsidiaries of the Company, if any, that operate in countries outside the EEA, have taken all necessary measures for achieving full compliance with the provisions of the Manual, in relation to Client identification, due diligence and record keeping procedures;
- To provide advice and guidance to the employees of the Company on subjects related to money laundering and terrorist financing;
- To acquire the knowledge and skills required for the improvement of the appropriate procedures for recognising, preventing and obstructing any transactions and activities that are suspected to be associated with money laundering or terrorist financing;
- Provision of training as required;
- Timely submission of the Monthly Prevention statement to CySEC;
- The preparation of the Annual Report;
- To respond to all requests and queries from the Unit and CySEC, and to provide all requested information and fully cooperate with the Unit and CySEC;

The Compliance and Anti-Money Laundering Compliance Officer has access to the documents and information required for performing her duties and responsibilities.

4 INTERNAL CAPITAL AND RISK ASSESSMENT ("ICARA")

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

The ICARA Report is prepared on an annual basis by the Senior Management and the Board of Directors of the Company. Through the ICARA, the Company assesses its Pillar II capital requirements, by reflecting the risks to which the firm is exposed and the amount of risk it poses to clients and to markets, applying a forward-looking approach to consider how these risks could evolve throughout the economic cycle; determine the appropriate level of financial resources required to cover these risks beyond what is covered under 'Pillar 1', consider business model viability and the strategy's sustainability, including through reverse stress testing, to determine vulnerabilities in the business mode and consider necessary financial resources and planning to allow for a credible wind-down of the firm if it closes.

5 PRINCIPAL RISKS

The Company aims to follow a continuous, active, and systematic Risk Management process of well-defined steps in order to understand, manage and communicate risks from a firm-wide perspective. This is achieved through the effective identification, assessment, treatment and reporting of internal and external risks.

5.1 Risk to Client

Risk to Client ("RtC") captures the risk that may be imposed onto the clients. RtC exists in the activities/services of the firm which are related to the client and are measured as a percentage of Clients Money Held (CMH), Assets Under Management (AUM), Assets Safeguarded & Administered (ASA) and Clients' Orders Handled (COH) that are explained below:

K-AUM (Assets Under Management) – This looks at the risks associated with discretionary portfolio management and non-discretionary arrangements constituting investment advice of an ongoing nature. Even though the Company is authorized to provide Investment Advice service, this is not offered to clients in connection with trading activity / transactions execution. Investment Advice authorization is used in connection with activities of Corporate Finance, Underwriting and Investment Advice Department. Therefore, the Company was not subject to the risk relating to this K-factor.

K-CMH (Client Money Held) – Captures the risk of an investment firm causing potential harm to clients where it holds their money. Based on the reference year, as part of its business, the Company receives from its customers, cash deposits to enable them to perform transactions in financial instruments and to this end, it is subject to the risk captured by this K-factor.

K-ASA (Assets Safeguarded and Administered) – The risk of harm associated with the safeguarding and administering of a client's financial instruments. During the year under review, the Company offered safeguarding services in relation to debt, equity securities and derivative financial instruments. Therefore, the Company was subject to the risk relating to this K-factor.

K-COH (Client Orders Handled) – Captures the potential risk to clients of an investment firm which executes orders (in the name of the client, and not in the name of the investment firm itself), for example as part of execution-only services to clients or when an investment firm is part of a chain for client orders. The Company executes clients'

orders by acting as an agent to their trades, therefore the risk reflected by this K-factor was applied for the year ending 31st of December 2021.

5.1.1 K-CMH

The company makes adequate arrangements to safeguard the ownership rights of its clients, especially in the event of the Company's insolvency, and prevents the use of client's funds for its own account. Firstly, upon receiving customer funds DCC will place them immediately in segregated accounts.

The Company exercises all due skill, care and diligence in the selection, appointment, and periodic review of the third party and of arrangements for the holding and safekeeping of client's funds.

Also, the Company considers the need for diversification of accounts used for clients' funds/financial instruments with several reputable banking/custodian institutions. If the Company decides to deposit client funds with a credit institution, bank, or money market fund of the same group as the Company, the Company will limit the funds that it deposits with any such group entity or combination of any such group entities so that funds do not exceed 20 % of all such funds.

In addition, Customer assets are deposited in reputable authorized banks in either EU or third countries and DCC performs periodic reviews (at least annually) of the banks and of their arrangements for the safekeeping of the funds and makes decision whether it will continue to keep accounts with the current provider.

5.1.2 K-ASA

DCC deposits financial instruments held on behalf of its clients into an account or accounts opened with a third party, provided that DCC exercises all due skill, care and diligence in the selection, appointment and periodic review of the third party and of arrangements for the holding and safekeeping of those financial instruments. The Company's assessment of thirds parties is based among others on scoring system for the evaluation of the risks (for example, creditworthiness) associated with third party. Also, the company ensures that controls are in place to reduce the risk of customers assets being misused or lost because of inadequate record-keeping or negligence.

5.1.3 K-COH

The Company has a process in place by which it assesses the execution venues on which it relies upon to execute the orders of its clients, and that it monitors the credit standing and overall position of this party to ensure that the risk of losses arising for the client because of the failure of such a party to execute a transaction, is minimized to the greatest extent possible.

5.2 Risk to Market

Risk to Market ("RtM") is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, foreign exchange rates and commodity prices. Market risk arises from the Company's exposures to financial instruments and to changes in the market prices of these financial instruments. Market risk of the Company comprises of equity risk, foreign exchange risk and commodity risk. There are two K-factors that capture the principal risks under RtM:

K-NPR (Net Position Risk) –This k-factor is based on the rules for Market Risk for positions in equities, interest rate financial instruments, foreign exchange and commodities in accordance with CRR. Therefore, K-NPR captures the Market Risk, which is defined as the risk that the Company's income or the value of its holdings of financial instruments will change due to the change in market risk factors (market prices, non-trading book interest rates, non-trading book foreign exchange rates). Exposure to market risk at any point in time depends primarily on short term market conditions and the levels of client activity. Based on the reference year, this K-factor is applicable to the Company.

K-CMG (Clearing Margin Given) means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. This is an alternative to K-NPR to provide for market risk for trades that are subject to clearing or on a portfolio basis, where the whole portfolio is subject to clearing or margining as set out in Article 23 of IFR. K-CMG means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. Based on the reference year, this K-factor was not applicable to the Company due to the nature of its operations.

5.2.1 K-NPR

The company's exposures to Market risk arise from the trading of Ukrainian Eurobonds traded OTC and Ukrainian equity and bonds traded on the Ukrainian Stock Exchange.

Dragon Capital (Cyprus) Limited manages, controls, and mitigates its exposure to Market Risk using the methodology of "mark to market" and trading limits system. Overall operational environment for market risk control is back/middle office system 1C with built in Risk Management Module. Automatic price upload allows automatic control

of current valuation of positions taken and their correspondence to set trading limits and stop loss limits.

This system is developed to limit possible market risk exposure through individual limitation of exposures in instruments traded by Dealing on Own Account Department. Set limits do not allow to take more risks than Company care bare under set risk profile. Along with that limit system defines individual stop-loss levels taking into consideration market volatility of different products. This approach allows better position management and capital-under-risk control through decrease of market risk accepted.

5.3 Risk to Firm

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

K-TCD (Trading Counterparty Default) – K-TCD captures the Counterparty Credit Risk arising from an investment firm's exposure to the default of its trading counterparties. In particular, it looks at the risk of losses arising from the default of a counterparty with which a company maintains open Trading Book positions in derivatives and other specified transactions and includes positions with both clients and liquidity providers. The Company, throughout the year under review, was exposed to TCD due to its over-the-counter ("OTC") derivative transactions (i.e. Currency Swaps).

K-DTF (Daily Trading Flow) – K-DTF captures the Operational Risk related to the value of trading activity that an investment firm conducts. It reflects the risk of transactions that an investment firm enters through dealing on own account or executing orders on behalf of clients in its own name. The Company is exposed to DTF due to the fact that it executes trades on a principal basis (i.e. dealing on own account).

K-CON (Concentration Risk) – K-CON seeks to apply additional own funds to manage concentration to a single counterparty / issuer of financial instruments or a group of connected counterparties / issuers to which a company incurs Trading Book exposures. This k-factor was not applicable.

5.3.1 K- TCD

Dragon Capital implemented and utilized several risk mitigation techniques for non-centrally cleared derivatives (FX swaps for settlement process). Among the techniques utilized in 2021 the following can be observed: timely confirmations, portfolio reconciliations, mark-to-market valuation (in connection with trading book limit system), dispute resolution and collateral allocation.

5.3.2 K-DTF

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored using “four-eye” principal. The Company has three layers in organization structure: front office, middle office, and back office. A minimum of two parts take part in each workflow. Front office does trade, back office settles this trades and risk management controls correctness of this deal regarding limits. “Four-eye” principal implements in all processes thus errors can be detected in any steps.

5.4 Other Risks

5.4.1 Compliance Risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from noncompliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

5.4.2 Legal Risk

The trading and investment activities of the Company could lead to significant legal risk. Such risk may include, but it is not limited to:

- Failure to correctly document transactions resulting in disputes over terms of agreements;
- Lack of authority of the counterparty to enter the transaction;
- Terms of agreement not in accordance with the Law;
- Transactions may be challenged on the ground that they are not suitable for the counterparty customer given their financial sophistication, financial conditions or lack of disclosure.

It is responsibility of the management of the Company to ensure that there is always adequate legal protection for all deals entered into the counterparties. Trades are concluded on the basis of clear and correctly documented agreements, unless this has already been ensured by corresponding Stock Exchange terms and conditions. Trading documentation standards are simple to apply and not represent substantial departure differentiation from market practice. At the same time, a trade is transacted, the terms are clear and completely agreed and documented. Prior to the conclusion of agreements in connection with trading, brokerage, customer service and underwriting activities, it

should be checked whether, and, if so, to what extent they are legally enforceable. Any legal risk is disclosed to Heads of departments, the General Manager and the Compliance/Anti-Money Laundering Compliance Officer.

5.4.3 Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The risk management department performs the following tasks regarding liquidity risk:

- Provides the framework for liquidity risk measurement
- Monitor liquidity risk
- Manage liquidity position (short and long term)
- Evaluate and manage liquidity related contingencies

This particular attention is paid when setting limits to risk, in the case of insufficient market liquidity of individual products, of not being able to conclude contracts or not being able to conclude them on the expected terms for the purpose of managing positions and that payment obligations can be met on settlement dates or in respect of margin calls.

Also, the Company follows the Liquidity requirement set by the new IFR/IFD framework. As at 31st of December 2021 the Company satisfied the Liquidity Requirement.

6 OWN FUNDS

The new prudential framework for investment firms set out in the IFR and the IFD is designed to reflect better the nature, size, and complexity of investment firms' activities compared to the CRR/CRD framework. One key aspect of the new framework is that it provides for simpler and more bespoke capital requirements for investment firms.

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

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

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

As at 31st of December 2021, the Company's Own Funds comprised of Common Equity Tier 1 capital and Tier 2 capital. As shown below, the Company's Own Funds as at 31st of December 2021 amounted to \$27.082K.

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

		(a)	(b)
Ref.		Amounts (\$'000)	Source based on reference numbers/letters of the balance sheet in the audited financial statements (Cross Reference to EU IF CC2)
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	OWN FUNDS	27.082	
2	TIER 1 CAPITAL	27.082	
3	COMMON EQUITY TIER 1 CAPITAL	27.082	
4	Fully paid-up capital instruments	10	Ref. 1 (Shareholder's Equity)
5	Share premium	22.678	Ref. 2 (Shareholder's Equity)
6	Retained earnings	4.566	Ref. 3 (Shareholder's Equity)
10	Adjustments to CET1 due to prudential filters	(35)	
19	(-) Other intangible assets	(43)	Ref. 1 (Assets)
27	CET1: Other capital elements, deductions and adjustments	(94)	Ref. 2 & Ref. 7 (Assets)
28	ADDITIONAL TIER 1 CAPITAL	-	
40	TIER 2 CAPITAL	-	

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

		a	c
		Balance sheet as in published/audited financial statements	Cross reference to EU IF CC1
		As at 31 Dec 2021 (\$'000)	
Ref.	Assets - Breakdown by asset classes according to the balance sheet in the published/audited financial statements		
1	Intangible assets	43	Ref. 19
2	Contribution to Investor Compensation Fund	92	Ref. 27
3	Trade and other receivables	340	
4	Financial assets at fair value through profit or loss-trading	32.957	
5	Refundable tax	65	
6	Cash and cash equivalents	1.998	
7	Additional cash buffer (part of the Cash and cash equivalents)	2	Ref. 27
	Total Assets	35.497	
Ref.	Liabilities - Breakdown by liability classes according to the balance sheet in the published/audited financial statements		
1	Bank overdrafts	228	
2	Short term loans	5.000	
3	Financial liabilities at fair value through profit or loss	1.701	
4	Trade and other payables	1.314	
	Total Liabilities	8.243	
Ref.	Shareholders' Equity		
1	Share capital	10	Ref.4
2	Share premium	22.678	Ref.5
3	Reserves	4.566	Ref.6
	Total equity	27.254	

7 MINIMUM CAPITAL REQUIREMENT

7.1.1 Capital Requirements

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

7.1.2 Fixed Overheads Requirement ("FOR")

The Company's policy is to monitor its FOR at least on a quarterly basis. The Company calculates its FOR by taking the one quarter of the fixed overhead expenses of the preceding year in accordance with the provisions of Article 13 of the IFR. The Fixed Overheads Requirement as at 31st of December 2021 amounted to \$406k.

7.1.3 Permanent Minimum Capital Requirement ("PMCR")

The Company monitors its Own Funds on a continuous basis and ensures that they remain above the Permanent Minimum Capital Requirement of €750K, which translates to \$849k, which corresponds to the initial capital that applies to the Company in accordance with Article 9 of the IFD.

7.1.4 "K-factor" Capital Requirement

The Company calculates its overall "K-factor" capital requirement on a continuous basis which is the sum of "K-factor requirements" grouped in three categories: Risk-to-Client (RtC), Risk-to-Market (RtM), Risk-to-Firm (RtF), in accordance with Articles 16 through to 33 of the IFR (and as described in further detail in Section 3). The total K-Factors as at 31st December 2021 amounted to \$2.628K.

Table 4 breaks down the Pillar I minimum capital requirement that the Company was required to hold as of 31st of December 2021.

Table 4: Minimum Capital Requirements

Minimum Capital Requirements		
K-Factor Requirement		31 December 2021 (\$'000)
Risk-to-Client (RtC)	k-AUM	-
	k-CMH	21
	k-ASA	7
	k-COH	-
Risk-to-Market (RtM)	k-NPR	2.214
	k-CMG	-
Risk-to-Firm (RtF)	k-TCD	385
	k-DTF	1
	k-CON	-
Total K-Factor Requirement		2.628
Fixed Overhead Requirement – FOR		406
Permanent Minimum Capital Requirement – PMCR		849

With the new IFR & IFD requirements, the Company's Own Funds Requirement as at 31st December 2021 should have been at least the Total K-Factor Requirement of \$2.628k.

As indicated in Table 5 below, as at 31 December the Capital Adequacy Ratio of the Company as at 31 December 2021 amounted to 1030% which far exceeded the minimum required threshold of 100%, and a capital surplus of \$24.454k.

Table 5: Capital Excess/Ratio

(USD)	31 Dec 2021	Reference
	(\$'000)	
Capital		
Common Equity Tier 1	27.082	
Additional Tier 1	-	
Tier 2	-	
Total Own Funds	27.082	<i>a</i>
Own Funds Requirement		
K-factor Requirement	2.628	<i>b</i>
Fixed Overhead Requirement	406	<i>c</i>
Permanent Minimum Capital Requirement	849	<i>d</i>
Minimum Own Funds Requirement	2.628	<i>e = (higher of b, c, d)</i>
Capital Excess/Ratio		
Capital Excess	24.454	<i>a-e</i>
Capital Ratio	1030%	<i>a/e</i>

8 REMUNERATION POLICY

The Company's Board of Directors is responsible for adopting and maintaining the remuneration policy and overseeing its implementation to ensure it is fully operating as intended. Furthermore, the Company's Board approves any subsequent material exemptions made for individual staff member and changes the remuneration policy and carefully consider and monitor their effects. In addition, the Board ensures that the Company's remuneration policies and practices are appropriately implemented and aligned with the Company's overall corporate governance framework, corporate culture, risk appetite and the related governance processes. Also, the Board of Directors provides effective input in accordance with their roles into the setting of bonus pools, performance criteria and remuneration awards where those functions have concerns regarding the impact on staff behaviour and the riskiness undertaken.

The Company's remuneration system is based on the following principles:

- Long-term value creation;
- Remunerate achievement of results on the basis of prudent, responsible risk taking;
- Attract and retain the best professionals;
- Reward the level of responsibility and professional path;
- Ensure fairness and competitiveness
- Benchmark performance against the market;
- Ensure transparency in its remuneration policy.

Remuneration characteristics

The Company's remuneration policy is structured taking into account the environment in which it operates and the results it achieves. It includes the following elements:

- **Fixed remuneration** based on the level of responsibility and the professional path of the employee within the Company, which constitutes a relevant part of total pay; and
- **Variable remuneration** linked to the achievement of previously established targets (multi-year period assessment), based on the assessment of the individual, of the business unit, overall results and prudent risk management.

Variable Remuneration

The variable remuneration within the Company is performance-based. Decisions for senior management, risk takers, staff engaged in control functions and any employee

receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers. Separate objectives are set for risk takers and non-risk takers building a firm ground for independent control and limiting the risk appetite. Performance measures are both quantitative and qualitative. Variable remuneration is paid in cash.

The Company's Board of Directors is ultimately responsible for the maintenance and adoption of the remuneration policy as well as for overseeing its implementation.

The Risk Manager in collaboration with the Compliance/AML Officer of the Company are responsible to regularly check if the remuneration policy needs to be updated and draft the according changes to the policy. Furthermore, they prepare decisions regarding the remuneration of the staff.

The remuneration policy of the Company is based upon the performance of key management and employees and the profitability of the Company in general. For the year 2021, the Company paid only fixed remuneration to its key management and employees.

An analysis of the remuneration paid to Senior Management and other staff whose actions have a material impact on the risk profile of the Company, as at 31 December 2021, is provided in the table below:

Table 17: Fixed and Variable Remuneration by Senior Management and Other Staff

Business Area	No. of beneficiaries	Fixed Remuneration \$'000	Variable Remuneration \$'000	Total Remuneration \$'000
Senior Management (incl. Executive & Non-Executive Directors)	9	369	-	369
Other staff	-	-	-	-
Total	9	369	-	369

The fees of non-executive directors cover the period that they serve as members of the Board.

Other Staff includes members of staff whose actions have a material impact on the risk profile of the Company and are not included in the other positions of the tables.

9 Appendix Own Funds

Template EU IF CCA: Own funds: main features of own instruments issued by the firm

		a
		<i>Common Equity Tier 1 Capital</i>
1	Issuer	Dragon Capital (Cyprus) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	213800A5US82UYY9H485
3	Public or private placement	Private Placement
4	Governing law(s) of the instrument	Cyprus Law
5	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	22.687.764 USD
7	Nominal amount of instrument	10.107 USD
8	Issue price	1 USD
9	Redemption price	N/A
10	Accounting classification	Shareholder's equity
11	Original date of issuance	02/02/2006
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)	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
22	Existence of step up or other incentive to redeem	N/A
23	Noncumulative or cumulative	N/A
24	Convertible or non-convertible	Non-convertible
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A

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

(1) Insert 'N/A' if the question is not applicable