



MIFIDPRU 8 DISCLOSURES REPORT
of
MERITKAPITAL UK LIMITED

FOR THE YEAR END 2023

CONTENTS

1. Introduction	4
1.2. Business Overview	4
1.3. Classification	6
1.4. Scope of Application	7
1.5. Regulatory Framework.....	8
1.6. Declaration of the Board.....	8
2. Risk Management Objectives and Policies (MIFIDPRU 8.2.).....	8
2.1. First Line of Defence:	8
2.2. Second Line of Defence:.....	9
2.3. Third Line of Defence:.....	9
3. Risk Management Framework.....	9
3.2. Risk Statement	10
3.3. Risk Strategy.....	10
3.4. Risk Appetite	10
3.5. Risk Culture	12
4. Material Risks.....	13
4.1. Operational Risk.....	13
4.2. Concentration Risk.....	13
4.3. Liquidity Risk	13
4.4. Business Risk	13
4.5. Legal & Compliance Risk	14
4.6. Reputational Risk	14
5. Governance Arrangements (MIFIDPRU 8.3)	14
5.1. Organisational Structure.....	15
5.2. Board of Directors.....	15
5.3. Committees.....	16
5.4. Policy on Recruitment.....	16
5.5. Number of Directorships.....	16
5.6. Policy on Diversity.....	17
6. Own Funds (MIFIDPRU 8.4)	19
6.1. Composition of Regulatory Own Funds	19
6.2. Main Features of Capital Instruments	21
6.3. Balance Sheet Reconciliation	22
7. Own Funds Requirements (MIFIPDRU 8.5.).....	24
7.1. Permanent Minimum Capital Requirement.....	24
7.2. Fixed Overheads Requirement	25
7.3. K-Factors Requirement	25

7.4.	Risk to Client	26
7.5.	Risk to Market.....	28
7.6.	Risk to Firm	30
7.7.	K-Factors Requirement Results.....	34
7.8.	Overall Capital Adequacy Position	35
7.9.	Liquidity Requirements (MIFIDPRU 6)	37
7.10.	Internal Capital Adequacy and Risk Assessment Process	38
8.	Remuneration policy and practices (MIFIDPRU 8.6)	42
8.1.	Principles.....	42
8.2.	Remuneration Committee	43
8.3.	Remuneration Policy Principles	44
8.4.	Performance Based Measurements	46
8.5.	Basic and Variable Remuneration Components	48
8.6.	Guidelines for termination.....	50
8.7.	Clawback	51
8.8.	Remuneration of Material Risk Takers	51
9.	Investment Policy (MIFIDPRU 8.7).....	52

1. INTRODUCTION

As a MIFIDPRU Investment Firm, MeritKapital UK Limited (the 'Company', 'Firm' or 'MKUK') is obliged to publicly disclose qualitative and quantitative information that are appropriate to its size and internal organisation, and to the nature, scope and complexity of its activities.

The provisions for public disclosure are set out in MIFIDPRU 8 and this document has been produced in order to meet the disclosure obligations of MeritKapital UK. The disclosures are produced annually and are available on the Company's website www.meritkapital.co.uk.

1.2. Business Overview

The Company was incorporated in the United Kingdom as a private liability company with registration number 09779913 and it is authorised by the Financial Conduct Authority ('FCA') with licence number 720609 to offer the following regulated activities:

- Advising on investments (except on Pension Transfers and Pension Opt Outs)
- Arranging (bringing about) deals in investments
- Dealing in investments as agent
- Dealing in investments as principal
- Making arrangements with a view to transactions in investments
- Safeguarding and administration of assets (without arranging)
- Agreeing to carry on a regulated activity.

Further to the above, the Company is allowed to offer the above services for the following instruments for professional clients and eligible counterparties:

- Debenture
- Government and public security
- Rights to or interests in investments (Security)
- Share

Business Model

The Firm specialises in fixed income brokerage of securities within the global fixed income marketplace. Although the firm is not restricted to high yield and emerging markets bonds, it prides itself on its niche in this sphere. Relationships with large buy side funds that span from the

western capital markets to the emerging markets are a testament to this specific market expertise. The firm's other institutional relationships utilise its efficient platform for treasury book rebalancing, capital preservation strategies and allocation requests for the primary market amongst other service offerings.

The Company's licence was extended in 2018 in order to also provide the following services:

- Proprietary Trading
- Prime Brokerage
- Fixed Income
- Equity Trading
- Custody & Clearing Services
- Investment Advice

Clients' Assets

MKUK is authorised to hold Client assets. The Company holds the assets using collaborating custodian banks. Client assets cover client money and client financial instruments.

It is the responsibility of the Company to ensure that client assets are accounted for properly and promptly and that client positions or assets are adequately safeguarded. MKUK performs all due skill, care and diligence in the selection and appointment of the third party in order to safeguard client's financial instruments. Additional risk disclosures are provided to the client if the client assets are received or held overseas.

MKUK implements appropriate measures in order to ensure the maximum protection of the financial instruments and funds that MKUK safeguards on behalf of its clients:

- Keep its clients' funds segregated from other funds held by maintaining separate bank accounts denoted as 'clients' accounts.
- Keep such records and accounts as are necessary to enable MKUK at any time and without delay to distinguish assets held for one client from assets held for any other client, and from its own assets.
- Maintain its records and accounts in a way that ensures their accuracy, and in particular their correspondence to the financial instruments and funds held for clients.
- Conduct, daily reconciliations between its internal accounts and records and those of any third parties by whom those assets are held
- Take the necessary steps to ensure that any client financial instruments deposited with a third party, have been identifiable separated from the financial instruments belonging to MKUK and from financial instruments belonging to that third party, by means of differently titled accounts on the books of the third party or other equivalent measures that achieve the same level of protection

- Take the necessary steps to ensure that client funds deposited in a central bank, a credit institution or a bank authorised in a third country are held in an account or accounts identified separately from any accounts used to hold funds belonging to MKUK.
- Apply all necessary measures in order to minimise the risk of loss and reduction of the client’s assets or rights in regard to these assets because of asset misappropriation, fraud or negligence.

1.3. Classification

As per the provisions of MIFIDPRU, all UK Investment Firms are classified either as Small and Non-Interconnected (‘SNI’) and Non-Small and Non-Interconnected (‘Non-SNI’) FCA investment Firms.

To qualify as an SNI, an FCA investment firm:

- must not carry out activities that have the greatest potential to cause harm to its customers or to the markets in which it operates, and
- must not carry out any activities on such a scale that would cause significant harm to customers or to the markets in which it operates.

Further to the above, the table below shows the quantitative thresholds that have been set by the FCA in order to be considered as an SNI:

Table 1: SNI Thresholds

No.	Metric	Thresholds
1.	Assets Under Management	< £1.2 billion
2.	Client orders handled – cash trades	< £100 million per day
3.	Client orders handled – derivative trades	< £1 billion per day
4.	Assets safeguarded and administered	zero
5.	Client money held	zero

6.	On- and off-balance sheet total	< £100 million
7.	Total annual gross revenue from investment services and activities	< £30 million

Further to the above, the Company is categorized as a non-SNI Investment Firm since it does not meet all of the above criteria.

1.4. Scope of Application

This report is prepared on an individual level in accordance with the provisions of MIFIDPRU 8. The Report has as a starting point the financial information used in the Company's Financial Statements which are prepared in accordance with the International Financial Reporting Standards ("IFRS"). As the two documents serve different purposes, the reported figures illustrate differences, which lie on the differences of the fundamental concepts between the IFPR and the IFRS taking into account the below principals as per the provisions of MIFIDPRU 8.1:

- a) The report is easily accessible and free to obtain;
- b) The report is clearly presented and easy to understand;
- c) The report is consistent with the presentation used for previous disclosure periods or otherwise allows a reader of the information to make comparisons easily; and
- d) The report highlights in a summary any significant changes to the information disclosed, when compared with previous disclosure periods.

Furthermore, and as a non-SNI Investment Firm, the Company is obliged to publicly disclose the following:

- MIFIDPRU 8.2 – Risk Management Objectives and Policies
- MIFIDPRU 8.3 – Governance Arrangements
- MIFIDPRU 8.4 – Own Funds
- MIFIDPRU 8.5 – Own Funds Requirements
- MIFIDPRU 8.6 – Remuneration Policy and Practices

Moreover, the Company does not fall within MIFIDPRU 7.1.4R(1) since the value of the firm's on and off-balance sheet items over the preceding 4-year period is a rolling average below £100million. Therefore, the Company is not obliged to disclose information on Investment Policy as per the provisions of MIFIDPRU 8.7.

1.5. Regulatory Framework

The Report has been prepared in accordance with the regulatory regime for investment firms that the FCA has adopted, the IFPR. The IFPR establishes the prudential requirements in terms of own funds, level of minimum capital, concentration risk, liquidity requirements and level of activity with respect to UK investment firms.

The provisions on disclosure requirements are described in MIFIDPRU 8. In addition, these disclosures must be verified by the external auditors of the Company.

The Company's policy is to publish the disclosures required on an annual basis. The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

1.6. Declaration of the Board

The Board is required to proceed with an annual declaration on the adequacy of the Company's risk management framework and ensure that the risk management arrangements and systems of financial and internal control in place are in line with the Company's risk profile.

The Company's risk management framework is designed to identify, assess, mitigate, and monitor all sources of risk that could have a material impact on the Company's operations. The Board considers that the Company has in place adequate systems and controls with regards to its size, risk profile and strategy and an appropriate array of properly resourced assurance mechanisms, to avoid or minimise loss. Key ratios and figures representing interaction of the risk profile and the stated risk tolerances are deemed to be proprietary information.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES (MIFIDPRU 8.2)

To ensure effective risk management, the Company has adopted the Three Lines of Defence model, with clearly defined roles and responsibilities.

2.1. First Line of Defence:

Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organisational risk appetite and are fully compliant with the Company's policies and where appropriate defined thresholds. The First Line of Defence acts as an early warning mechanism for identifying (or remedying) risks or failures.

2.2. Second Line of Defence:

The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company's risk appetite, devising the suite of policies necessary to control the business including the overarching framework, independently monitoring the Company's risk profile and providing additional assurance where required. The Risk Management Function will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise-wide risks and make recommendations to address them. Integral to the mission of the Second Line of Defence is identifying risk areas, detecting situations/activities in need of monitoring, and developing policies to formalise risk assessment, mitigation and monitoring.

2.3. Third Line of Defence:

The Risk Management Committee is responsible for setting a well-defined and clearly communicated strategy for risk management within the Company. They promote and embed a culture of risk / information security and appropriate risk taking within the Company and assist the Board of Directors in implementing the strategy. The Risk Management Committee also ensure compliance with all required laws and regulations including but not limited to FCA regulations. The Committee also periodically reviews the Risk Management Framework. The Committee also ensure that the risk management function fulfil their responsibilities and obligations concerning the identification, measurement, monitoring and effective management of the company risks.

3. RISK MANAGEMENT FRAMEWORK

Managing risk effectively in a Company operating in a continuously changing risk environment, requires a strong risk management culture. As a result, the Company has established an effective risk oversight structure and the necessary internal organisational controls to ensure that the Company undertakes the following:

- Adequate risk identification and management,
- Establishment of the necessary policies and procedures,
- Setting and monitoring of relevant limits, and
- Compliance with the applicable legislation.

The Board meets on a regular basis and receives updates on risk and regulatory capital matters from management. The Board reviews regularly (at least annually) written reports concerning compliance, risk management and internal audit policies and procedures as well as the Company's risk management policies and procedures as implemented by Management.

As part of its business activities, MKUK faces a variety of risks, the most significant of which are described further below. The Company holds regulatory capital against the three all-encompassing main types of risk: credit risk, market risk and operational risk.

3.2. Risk Statement

The Company's activities expose it to a variety of risks, and in particular to credit risk, market risk, operational risk, compliance risk, regulatory risk, reputational risk, group risk, strategic risk, liquidity risk, conduct risk etc. The Company, through its operations, has a significant exposure to the economies and financial markets.

As regards the management of the risks arising from the current macroeconomic and political uncertainty (heightened inflation, Ukrainian crisis, climate crisis etc.), the Company is following the local government guidelines, enhancing its onboarding procedures and closely monitoring its capital and liquidity positions.

3.3. Risk Strategy

The risk strategy of the Company is the responsibility of the Board, which formulates and is responsible for monitoring its implementation. This is achieved through the development of risk management processes and procedures as well as through an assessment of the risks undertaken and the effectiveness of the risk management framework, given the Company's business model. One important characteristic of the Company's risk strategy is the alignment with the strategic and operational targets that are set by the Board.

The risks that arise from the implementation of the Company's strategic and business plans are regularly analyzed in order to ensure the adequacy of the relevant policies, procedures and systems.

The risk strategy of the Company aims to provide both Senior Management and employees a general risk framework for the management of the different types of risks in line with the overall risk management and risk bearing capacity of the Company. The Company recognizes the importance of risk management to its business' success, and therefore the overall objective is to establish effective risk management policies that are able to mitigate the Company's exposure to various risks.

3.4. Risk Appetite

Risk appetite is the level and type of risk a firm is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders. Risk appetite is generally expressed through both quantitative and qualitative means and should consider

extreme conditions, events and outcomes. In addition, risk appetite should reflect potential impact on earnings, capital and funding/liquidity.

The Company has a low-risk appetite with respect to investing and managing business and operational activities.

According to the Financial Stability Board (FSB), an appropriate risk appetite framework (RAF) should enable the risk target, risk appetite, risk limits and risk profile to be considered for business lines and legal entities as relevant, and within the group’s context.

The Risk appetite framework is defined as the overall approach, including policies, processes, controls, and systems through which the risk appetite is established, communicated, and monitored. Moreover, it includes a risk appetite statement, risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF.

The RAF should consider material risks to the financial institution, as well as to the institution’s reputation vis-à-vis policyholders, depositors, investors and customers. The RAF aligns with the institution's strategy. The Company is assessing its risk appetite with respect to investing and managing business and operational activities while the Company’s Risk Appetite Statement is prepared by the Risk Manager and approved by the Board of Directors.

Table 2: Risk Appetite areas

Indicator	Normal ¹	Warning ²	Limit ³
Minimum Own Fund Requirement	≥£850k	<£850k	£750k
Common Equity Tier 1 Ratio	>100%	<75%	56%
AT1 Capital Ratio	>125%	<100%	75%
Total Capital Ratio	>150%	<125%	100%
Liquid Assets	≥£85k	<£85k	£49k
Return on Assets	≥5.00%	<5.00%	0.00%

Retained Earnings / Total Equity	≥10.00%	<10.00%	5.00%
----------------------------------	---------	---------	-------

Notes:

1. *The level of the indicator is within the acceptable limits as per the Company’s risk appetite.*
2. *The Company should take proactive actions in order to ensure that the level of the indicator will remain above the acceptable limits.*
3. *The level of the indicator falls below the acceptable limits and as such the Company should proceed with the required actions in order to restore the level of the said indicator to the normal predefined levels.*

The Risk Appetite framework has been designed to create links to the strategic long-term plan, capital planning and the Company’s risk management framework.

The Board approves the Company’s corporate strategy, business plans, budget, long term plan and ICARA. The Company employs mitigation techniques defined within the Company’s policies, to ensure risks are managed within its Risk Appetite.

3.5. Risk Culture

Risk culture is a critical element in the Company’s risk management framework and procedures. Management considers risk awareness and risk culture within the Company as an important part of the effective risk management process. Ethical behaviour is a key component of the strong risk culture, and its importance is also continuously emphasised by the management. The Company is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to take accountability for them. The Company embraces a culture whereby each business area is encouraged to take risk-based decisions, while knowing when to escalate or seek for advice.

4. MATERIAL RISKS

In the context of the ICARA process, MKUK has identified the following material risks.

4.1. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. It is inherent in every business organization and covers a wide range of issues. The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

4.2. Concentration Risk

Credit concentration risk represents any single exposure or group of similar exposures (for instance to the same borrower or counterparty, geographical area or industry) with the potential to produce losses which are large enough to threaten the Company's ability to maintain its core operations or result in a material change in the Company's risk profile. The Company implements a clear set of limits by issuer, geography, industry on the holdings of the Company's trading book. Additionally, the Company applies hedging mechanics where necessary to mitigate the concentration risk that may vary from foreign exchange instruments to credit default swaps.

4.3. Liquidity Risk

Funding liquidity risk is the possibility that, over a specific horizon, the Company will be unable to meet its demands/needs for money (i.e. cash) through a probable mismatch of assets and liabilities. Furthermore, liquidity risks can also arise either via extreme market conditions and/or failures of designated counterparties that the Company associates with.

Under the Current Regime the firms should hold at all times liquid assets amounting to 1/3 of Fixed Overhead Requirements.

The firm has established processes and controls for day-to-day liquidity and cash flow management, which are adequate to the nature of the company's activity. The Firm monitors its liquidity risk daily producing various reports, including the Liquidity Metrics report, which analyse daily movements which are sent to Senior Manager.

4.4. Business Risk

Business Risk arise due to probable losses that might be incurred by the Company during unfavourable market conditions, thus having a current and/or future possible impact on earnings

or capital from adverse business decisions and/or lack of responses to industry changes by the Company.

Additionally, for the provision of investment and ancillary services and/or performance of investment activities in a third country, business risk may arise from the probability of inadequate profits or losses, due to changes in a third country's government policy or the increased competition in the third country.

Furthermore, the business risk may arise from the probability of inadequate profits or losses due to unavailability of the Liquidity Providers to execute transactions.

4.5. Legal & Compliance Risk

Legal & Compliance risks arise from violations of, or non-conformance with, the FCA's handbook and applicable MIFIDPRU rules issued thereof, regulations, prescribed practices, internal policies, and procedures, or ethical standards. This risk exposes the Company mainly to financial losses due to imposed fines from the Regulators. Compliance incidents may also lead to diminished reputation, reduced Company value, limited business opportunities, reduced expansion potential, and possible inability to enforce contracts.

4.6. Reputational Risk

Reputational Risk could materialise after an incident urges the Company's clients, counterparties, investors or regulators to adopt an adverse perception about the Company and its image. It may also occur as an effect of poor customer service or from potential fines/sanctions imposed by FCA, due to the loss of a key director, the loss of large Clients, fraud or theft, Client claims, legal actions against the Company and from negative publicity relating to the overall Company's operations whether such fact is true or false.

5. GOVERNANCE ARRANGEMENTS (MIFIDPRU 8.3)

The Company's systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness. The risk management and internal control systems are embedded in the operations of the Company and are capable of responding quickly to evolving business risks, whether they arise from factors within the Company or from changes in the business environment.

5.1. Organisational Structure

Through the organisational structure, the Company incorporates a strict Internal Governance framework. Furthermore, the Organisational Structure incorporates the various organisational and functional reporting lines, as well as the different roles and responsibilities therein, while it also facilitates the compliance of the Company with the principle of segregation of duties and helps in the avoidance and control of possible conflict of interest situations within the Company.

5.2. Board of Directors

The Company's Board of Directors comprises of two executive directors.

The Board has the ultimate and overall responsibility for the investment firm and defines, oversees and is accountable for the implementation of the governance arrangements. The Board is responsible for ensuring that the Company complies at all times with its obligations under the Law. In doing so, the Board approves and periodically reviews the effectiveness of the policies, arrangements and procedures in place, whilst if needed, takes appropriate measures to address any deficiencies.

In particular, the Board ensures for the:

- definition of the corporate objectives and the Company's risk strategies,
- definition of the Company's risk profile, and establishment of the corresponding procedures and processes, including the documentation of those in the Company's IOM,
- definition of strategies and procedures for adherence to capital requirements (establishment of a limit system) and for the risk-based capital allocation for basic and other Risks,
- dissemination of information on these strategies and procedures to the employees concerned,
- application of its experience and expertise in order to suggest the Company's means and manners of the stress testing methodology (sensitivity analyses, scenario analyses, by means of quantitative methods and/or qualitative expert estimates),
- application of its experience and expertise to identify and suggest possible stress testing scenarios that could have adverse consequences to the Company and suggest possible routes of application and testing of those,
- establishment of a suitable internal control system that implements an effective ICARA and provides for the establishment of an appropriate Risk environment within the Company,

- functional and organizational segregation of duties and responsibilities at a physical level as well as electronically, and management of conflicts of interest risks,
- Company's employees having the necessary qualifications to exercise their duties,
- regular (at least annual) review of systems, procedures and processes, and imposing of relevant adaptations, as necessary,
- reviewing, understanding and approving the ICARA of the Company,

5.3. Committees

Establishing committees helps management bodies in their supervisory functions. Committees draw on the specific knowledge and areas of expertise of individual management body members. While committees should prepare decisions and make recommendations to the management body in its supervisory function, the management body has the overall responsibility. Moreover, the Company does not fall within the scope of MIFIDPRU 7.1.4R(1) since the value of the firm's on and off-balance sheet items over the preceding 4-year period is a rolling average below £100million. Therefore, the Company is not obliged to establish any committee. However, the Company has established a Risk Management and Remuneration Committee in order to ensure the effectiveness of the overall policies and practices applied relating to Risk and Remuneration.

5.4. Policy on Recruitment

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework. Members of the Board possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board reflects an adequately broad range of experiences to be able to understand the Company's activities, including the main risks to ensure the sound and prudent management of the Company as well as sufficient knowledge, of the legal framework governing the operations of the Firm.

5.5. Number of Directorships

The table below discloses the number of directorships held by members of the management body of the Company, including the Firm and any other companies belonging to the same group, as at 31 December 2023. Directorships in organisations which do not pursue predominantly commercial objectives such as non-profit or charitable organisations, are not taken into account for the purposes of the below.

Table 3: Number of Directorships of the members of the Board of Directors^o

Name of Director	Position	Number of Executive Directorships	Number of Non-Executive Directorships
Mrs. Persella Ioannides	Executive Director	2	2
Mrs Ekaterina Rtishcheva	Executive Director	1	-

**The information in this table is based only on representations made by the directors of the Company.*

For the purpose of the above, Executive held within the same group shall count as a single directorship.

5.6. Policy on Diversity

The Company is committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organisation.

For this purpose, the Company takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age and cultural and educational background for the Board appointments. Having a board with diverse skills, experience, backgrounds, and perspectives means:

- a) competitive advantage;
- b) robust understanding of opportunities, issues and risks;
- c) inclusion of different concepts, ideas, and relationships;
- d) enhanced decision-making and dialogue;
- e) and heightened capacity for oversight of the organization and its governance.

For purposes of Board composition, diversity includes, but is not limited to, business and industry skills and experience, gender, and ethnicity. The Board will make good use of these differences and distinctions among individuals in determining the optimum composition of the Board. All Board appointments must collectively reflect the diverse nature of the business environment in

which the organisation operates and be made on merit, in the context of the skills, experience, independence and knowledge which the Board requires to be effective.

MKUK believes that diversified Board members are more likely to possess different personal characteristics which will lead to unique thinking, leadership, risk preferences and behaviors, in turn these differences foster creativity in delivering solutions to problems and provide a more comprehensive oversight to the internal operations of the Company and sensitivity to a wider range of possible risks such as reputational and compliance risks.

Board Diversity Principles

MKUK has adopted the following principles to guide the way in which the Company will deliver diversity within the Board:

Diversity is enhanced through intentional effort. MKUK will be intentional in ensuring diversity. It is important to note, though diversity is a factor to consider, the board members' merits, skills and experience will be taken into consideration.

Credibility is enhanced through the board and leadership diversity. There is a significant relationship between board and leadership gender diversity and corporate performance. MKUK will pursue a well-rounded, diverse, and credible approach to ensuring board and leadership diversity.

Legitimacy is enhanced through respected, experienced, senior leaders. To ensure the diversity strategy of MKUK is viewed as a legitimate process, all appointments will be made on merit. Visibility is enhanced through the promotion of broad and common goals.

Visibility enhances reputation. Gender diversity and inclusion imperatives are prominent on today's public stage and across industries. Going public with a board diversity strategy is a helpful step in holding ourselves accountable, setting an example, and providing thought leadership in the industry.

Accessibility is enhanced through a powerful collective voice. MKUK will balance the intent of this policy with its need to be a powerful voice for diversity in all of its forms.

Process

MKUK is committed to a merit-based system for Board composition within a diverse and inclusive culture which solicits multiple perspectives and views. It is free of conscious or unconscious bias and discrimination. When assessing Board composition, identifying suitable candidates for

appointment or re-election to the Board, the Company will consider candidates on merit against objective criteria having due regard to the benefits of diversity and the needs of the Board.

The Company believes promotion of diversity is best served through careful consideration of all of the knowledge, experience, skills and backgrounds of each individual candidate for director in light of the needs of the Board without focusing on a single diversity characteristic and, accordingly, has not adopted targets regarding gender diversity on the Board.

6. OWN FUNDS (MIFIDPRU 8.4)

Own Funds (also referred to as capital resources) are the type and level of regulatory capital that must be held to enable the Company to absorb losses. During the year, the primary objective of the Company with respect to capital management was to ensure that it complied with the imposed capital requirements with respect to its own funds and that the Company maintained healthy capital ratios in order to support its business. Further to the above, the Company, as a non-SNI Investment Firm, shall at all times have own funds at least the highest of the following:

- Permanent Minimum Capital Requirement,
- Fixed Overheads Requirements, and
- K-Factors Requirement.

MKUK throughout the year under review, managed its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

6.1. Composition of Regulatory Own Funds

The following information provides a full reconciliation of the Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) instruments and Tier 2 (T2) instruments issued by the Company. The Company's regulatory capital comprises fully of CET1 capital while it has not issued any AT1 or T2 capital.

Table 4: Composition of Regulatory Own Funds

No.	Item	Amount \$'000	Source based on reference number of Table 6

1.	OWN FUNDS	3,943	
2.	TIER 1 CAPITAL	3,943	
3.	COMMON EQUITY TIER 1 CAPITAL	3,943	
4.	Fully paid-up capital instruments	2,500	Shareholders' Equity 1
5.	Share premium	-	N/A
6.	Retained earnings	1,616	Shareholders' Equity 2
7.	Accumulated other comprehensive income	-	N/A
8.	Other reserves	(173)	Shareholders' Equity 3
9.	Adjustments to CET1 due to prudential filters	-	N/A
10.	Other funds	-	N/A
11.	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	N/A
19.	CET1: Other capital elements, deductions and adjustments	-	N/A
20.	ADDITIONAL TIER 1 CAPITAL	-	
21.	Fully paid up, directly issued capital instruments	-	N/A

22.	Share premium	-	N/A
23.	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	N/A
24.	Additional Tier 1: Other capital elements, deductions and adjustments	-	N/A
25.	TIER 2 CAPITAL	-	
26.	Fully paid up, directly issued capital instruments	-	N/A
27.	Share premium	-	N/A
28.	(-) TOTAL DEDUCTIONS FROM TIER 2	-	N/A
29.	Tier 2: Other capital elements, deductions and adjustments	-	N/A

6.2. Main Features of Capital Instruments

The Company is obliged to disclose information on the main features of the CET 1 instruments, Additional Tier 1 instruments and Tier 2 instruments. Therefore, the Company's capital instruments' main features are outlined below:

Table 5: Own funds: main features of own instruments issued by the firm

Capital Instruments Main Feature	CET1
Issuer	MeritKapital UK Limited
Regulatory Treatment	

Eligible at Solo/(sub-)consolidated/solo	Solo
Instrument type	Common Equity
Amount recognized in regulatory capital*	\$2,500,000
Nominal amount of instrument	\$2,500,000
Issue Price	\$1
Accounting classification	Shareholders' Equity
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	N/A
Coupons / dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	N/A

6.3. Balance Sheet Reconciliation

The Company shall disclose the balance sheet included in its audited financial statements for the year-end disclosures. As at 31 December 2023, the reconciliation of Company's assets and liabilities and regulatory Own Funds are shown in the following table:

Table 6: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial:

		Balance sheet as in published/ audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		\$	\$	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1.	Property, plant and equipment	3,371	-	N/A
2.	Trade and other receivables	325,809	-	N/A
3.	Financial assets measured at fair value through profit or loss	221,508	-	N/A
4.	Cash and cash equivalents	4,227,804	-	N/A
Total Assets		4,778,492	-	
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1.	Trade and other liabilities	834,860	-	N/A
2.	Deferred tax liability	403	-	N/A
Total Liabilities		835,263	-	

Shareholders' Equity				
1.	Called up share capital	2,500,000	-	Ref. 4
2.	Retained earnings	1,616,342	-	Ref. 6
3.	Other Reserves	(173,113)		Ref. 8
Total Shareholders' equity		3,943,229	-	

7. OWN FUNDS REQUIREMENTS (MIFIDPRU 8.5)

The Company as a non-SNI Investment Firm shall at all times have own funds at least the highest of the following:

- a) Permanent Minimum Capital Requirement,
- b) Fixed Overhead Requirements, and
- c) K-Factors Requirement.

7.1. Permanent Minimum Capital Requirement

As per the provisions of MIFIDPRU 4.4, where a MIFIDPRU Investment Firm has the permission to carry on any of the following investment activities, it is required to maintain a Permanent Minimum Capital Requirement of £750,000:

- a) dealing on own account;
- b) underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis; or
- c) operating an organised trading facility, if the firm is not subject to a limitation that prevents it from carrying on the activities otherwise permitted by MAR 5A.3.5R.

Therefore, since the Company is authorised to provide the investment service of dealing on own account, its initial capital is £750k.

7.2. Fixed Overheads Requirement

The fixed overheads requirement (FOR) applies to all MIFIDPRU Investment Firms. The FOR is intended to calculate the minimum amount of capital that a MIFIDPRU Investment Firm would need available to absorb losses if it has cause to wind-down or exit the market.

It is calculated as one quarter of the fixed overheads of the preceding year (or business plan where the audited financial statements are not available) in accordance with the provisions of MIFIDPRU 4.5. When calculating its fixed overheads requirement, a firm must use the figures resulting from the accounting framework applied by the firm in accordance with MIFIDPRU 4.5.2R.

Further to the above, the Company's fixed overheads requirement based on the latest audited financial statements is \$187k as per the table below:

Table 7: Fixed Overheads Requirement

Item	\$'000
Total expenses of the previous year after distribution of profits	1,189
Total deductions	442
Annual Fixed Overheads	747
Fixed Overheads requirement	187

7.3. K-Factors Requirement

The K-factor capital requirements are essentially a mixture of activity- and exposure-based requirements. K-factor application to an individual FCA investment firm will depend on the MiFID investment services and activities the Firm undertakes.

Capital requirement from applying K-factors formula is the sum of Risk to Client ('RtC'), Risk to Market ('RtM') and Risk to Firm ('RtF') as described in the table below:

Table 8: K-Factors Proxies

Risk to Client (RtC)	Risk to Market (RtM)	Risk to Firm (RtF)
<ul style="list-style-type: none"> • K-AUM: Assets Under Management • K-ASA: Client Assets Safeguarded and Administered • K-CMH: Client Money Held, and • K-COH: Client Orders Handled 	<ul style="list-style-type: none"> • K-NPR: Net Position Risk (calculated in accordance to CRR); or • K-CMG: Clearing Member Guarantee 	<p>Sum of:</p> <ul style="list-style-type: none"> • K-TCD: Trading Counterparty Default • K-CON: Concentration risk based on large exposures, and • K-DTF: Operational risks from Daily Trading Flow

Further to the above and since the Company is authorized to provide the investment service of Dealing on Own Account, all RtC, RtM and RtF proxies are applicable for the Company. Specifically, given that the Company is not authorised to provide the investment service of Portfolio Management or Investment Advice the risk relating to the K-AUM factor does not apply to the Company.

7.4. Risk to Client

The risk to Client proxy captures the risk that may be inflicted 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).

The Company is required to calculate the following K-Factors requirements as part of the RtC:

7.4.1. K-AUM: Assets Under Management

K-AUM captures the risk of harm to clients from an incorrect discretionary management of client portfolios or poor execution and provides reassurance and client benefits in terms of the continuity of service of ongoing portfolio management and investment advice.

AUM is the value of assets an IF manages for its clients under both discretionary portfolio management and non-discretionary arrangements constituting investment advice of an ongoing nature.

Calculation

AUM shall be the rolling average of the value of the total monthly assets under management, measured on the last business day of each of the previous 15 months, excluding the 3 most recent monthly values.

K-AUM shall be the arithmetic mean of the remaining 12 monthly values multiplied by the relevant coefficient of 0.02%.

As at 31 December 2023, the Company was not exposed to the risk relating to K-AUM since it is not authorised to provide the investment service of Portfolio Management or Investment Advice.

7.4.2. K-CMH: Clients Money Held

K-CMH captures the risk of potential for harm where an investment firm holds the money of its clients, taking into account whether they are on its own balance sheet or in third-party accounts and arrangements under applicable national law, provided that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm.

CMH is the amount of client money that an investment firm holds or controls. It excludes client money that is deposited on a (custodian) bank account in the name of the client itself, where the investment firm has access to these client funds via a third-party mandate (on a segregated or nonsegregated basis).

Calculation

CMH shall be the rolling average of the value of total daily client money held, measured at the end of each business day for the previous 9 months, excluding the 3 most recent months.

K-CMH shall be the arithmetic mean of the daily values from the remaining 6 months multiplied by the relevant coefficient (0.4% and for segregated accounts and 0.5% for non-segregated accounts).

As at 31 December 2023, the Company's CMH was \$4,204k and the respective K-CMH was \$17k.

7.4.3. K-ASA: Assets Safeguarded and Administered

K-ASA captures the risk of safeguarding and administering client assets, and ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on its own balance sheet or in third-party accounts.

ASA means the value of assets that an investment firm safeguards and administers for clients – ensuring that investment firms hold capital in proportion to such balances, regardless of whether they are on its own balance sheet or in third-party accounts.

Calculation

It is calculated as the rolling average of the daily total value of assets under safekeeping and administration, measured at the end of each business day for the previous 9 months, excluding the 3 most recent months.

K-ASA shall be the arithmetic mean of the daily values from the remaining 6 months multiplied by the relevant coefficient of 0.04%.

As at 31 December 2023, the Company's ASA was \$42,212k and the respective K-ASA was \$17k.

7.4.4. K-COH: Client Orders Handled

K-COH 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.

COH captures the potential risk to clients of an investment firm which executes its orders (in the name of the client). This is the value of orders that an investment firm handles for clients, through the reception and transmission of client orders and execution of orders on behalf of clients.

Calculation

COH shall be the rolling average of the value of the total client orders handled, measured throughout each business day for the previous 6 months.

K-COH shall be the arithmetic mean of the daily values from the remaining 3 months multiplied by the relevant coefficient (0.1% and for cash trades and 0.01% for derivative trades).

As at 31 December 2023, the Company did not execute any clients' orders and as such the K-COH was zero.

7.5. Risk to Market

The Risk to market proxy captures the risk a MIFIDPRU Investment Firm can pose to market access. The K-factor for RtM is based on the rules for market risk, for positions in financial instruments in foreign exchange and in commodities in accordance with the UK CRR.

7.5.1 K-NPR: Net Position Risk

As a non-SNI Investment Firm authorized to offer the dealing on own accounts investment service, it is required to calculate its K-NPR requirement by reference to trading book positions and positions other than trading book positions where the positions give rise to foreign exchange risk or commodity risk. The K-NPR requirement is calculated in accordance with Title IV of Part Three of the CRR.

Based on its trading activities, the Company is exposed to market risk resulting from exposure to:

- FX Risk;
- Commodity Risk;
- Equity Risk; and
- TDI Risk.

As at 31 December 2023, the K-NPR capital requirement amounted to \$38k, as shown in the table below:

Table 9:K-NPR capital requirement

K-NPR	\$'000
Foreign Exchange Risk	7
Commodities Risk	-
Position Risk due to equities	30
TDI Risk	1
K-NPR	38

Foreign Exchange Risk

Foreign exchange risk is the effect that unanticipated exchange rate changes may have on the Company. In the ordinary course of business, the Company is exposed to foreign exchange risk, which is monitored through various control mechanisms.

The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of a maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis. The Company's foreign exchange risk capital requirement is \$88k emanating from a net foreign exchange exposure of \$7k based on the latest relevant calculations of the Company's capital requirements as at 31 December 2023.

The Company continues to regularly monitor the impact of exchange rate risks and if deemed necessary, corrective actions will be taken to minimize the effect.

7.6. Risk to Firm

The Risk to Firm captures the risk that could be inflicted on the Company. The K-factors under RtF capture an investment firm's exposure to their trading counterparties, the concentration risk in an investment firm's large exposures and the operational risk from an investment firm's daily trading flow: K-factors for K-TCD and K-CON under RtF constitute a simplified application of the rules laid down in the CRR on counterparty credit risk and large exposure risk, respectively.

The Company is required to calculate the following K-Factors requirements as part of the RtF:

7.6.1. K-TCD: Trading Counterparty Default

K-TCD captures the risk to an investment firm by counterparties to over-the-counter (OTC) derivatives, repurchase transactions, securities and commodities lending or borrowing transactions, long settlement transactions, margin lending transactions, or any other securities financing transactions, as well as by recipients of loans granted by the investment firm on an ancillary basis as part of an investment service that fails to fulfil their obligations, by multiplying the value of the exposures, based on replacement cost and an add-on for potential future exposure, accounting for the mitigating effects of effective netting and the exchange of collateral.

Calculation

Calculation based on CRR counterparty credit risk refers to exposure value, credit valuation, replacement cost, potential future exposure and collateral. The following formulae describe the calculation of the capital requirement for K-TCD:

$$K-TCD = a \times EV \times Rf \times CVA$$

Where:

- $a=1.2$
- *Exposure value (EV) = max(0, RC + PFE - collateral)*
- *Risk Factor (Rf) is defined per counterparty type (1.6% for banks, central governments, central banks and investment firms, 8% other counterparties)*
- *Credit Valuation Adjustment (CVA) = 1.5 for Banks and Investment Firms and 1 for others*

Further to the above, the Company's K-TCD as at 31 December 2023 was zero since it was not exposed to any instrument generating TCD.

7.6.2 K-CON: Concentration Risk on Large Exposures

K-CON captures concentration risk in relation to individual or highly connected private sector counterparties with whom firms have exposures above 25% of their own funds, or specific alternative thresholds in relation to credit institutions or other investment firms, by imposing a capital add-on in line with CRR for excess exposures above those limits.

All Investment Firms should monitor and control their concentration risk. However, only Investment Firms which are subject to a minimum own funds requirement under the K-Factors should report the concentration risk.

Limits

Where the client is a credit institution or an investment firm, the limit to concentration will be the higher between 25% of the investment firm's capital or \$150m. If the amount of \$150m is higher than 25% of the firm's own funds, the limit to concentration should not exceed 100% of the firm's capital.

Where the client is not a bank or an investment firm, the limit to concentration risk remains at 25% of the investment firm's own funds.

Calculation

Where a firm exceeds these limits, it will be required to hold an additional own fund requirement based on the excess over the limit multiplied by a factor between 200% and 900%, depending on the size of the excess as prescribed in Table 1 of MIFIDPRU 5.7.4.

Further to the above, the Own Funds requirement of the excess shall be calculated in accordance with the following formula:

$$OFRE = \frac{OFR}{EV} * EVE$$

Where:

- *OFRE = own funds requirement for the excess;*
- *OFR = own funds requirement of exposures to an individual client or groups of connected clients, calculated by adding together the own funds requirements of the exposures to the individual clients within the group, which shall be treated as a single exposure;*
- *EV = exposure value calculated in TCD and NPR K-factors;*
- *EVE = exposure value excess calculated as Exposure Value minus Limit*

The K-CON own funds requirement shall be the aggregate amount of the own fund requirement calculated for each client or group of connected clients.

The Company calculates and keeps aside additional capital requirement for any amount that exceeds the applicable K-CON limit. Additionally, the Company reports to the FCA, on a quarterly basis, via MIF005, the value of exposures exceeding the limits set in of MIFIDPRU 5.7.1 and the name of the relevant counterparty.

As at 31 December 2023, the Company had no exposure above the limits and as such the K-CON was zero.

7.6.3. K-DTF: Daily Trading Flow

K-DTF captures the operational risks to an investment firm in large volumes of trades concluded for its own account or for clients in its own name in one day which could result from inadequate or failed internal processes, people and systems or from external events, based on the notional value of daily trades, adjusted for the time to maturity of interest rate derivatives in order to limit increases in own funds requirements, in particular for short-term contracts where perceived operational risks are lower.

DTF means the daily value of transactions that an investment firm enters through dealing on own account or the execution of orders on behalf of clients in its own name, excluding the value of orders that an investment firm handles for clients which are already taken into account within the scope of client orders handled.

Calculation

DTF shall be the rolling average of the value of the total daily trading flow, measured throughout each business day for the previous 9 months, excluding 3 recent months.

DTF= sum of [ABS(Buys) + Abs (Sells)] for both cash trades and derivatives

K-DTF shall be the arithmetic mean of the daily values from the remaining 6 months multiplied by the relevant coefficient (0.1% and for cash trades and 0.01% for derivative trades).

As at 31 December 2023, the Company's DTF was \$14,795k and the respective K-DTF was \$15k.

7.7. K-Factors Requirement Results

As at 31 December 2023, the Company's K-Factors Requirement was \$86k as shown in the table below:

Table 10: K-Factors Results

Item	Factor Amount \$'000	K-Factor Requirement \$'000
TOTAL K-FACTOR REQUIREMENT		86
Risk To clients		34
<i>K-AUM</i>	-	-
<i>K-CMH (Segregated)</i>	4,204	17
<i>K-CMH (non-Segregated)</i>	-	-
<i>K-ASA</i>	42,212	17
<i>K-COH (Cash Trades)</i>	-	-
<i>K-COH (Derivative Trades)</i>	-	-
Risk to Market		38
<i>K-NPR</i>		-

<i>K-CMG</i>		
Risk to Firm		15
<i>K-TCD</i>		-
<i>K-DTF (Cash Trades)</i>	14,795	15
<i>K-DTF (Derivative Trades)</i>	-	-
<i>K-CON</i>		-

7.8. Overall Capital Adequacy Position

According to MIFIPDRU 3.2.2, Investment firms shall have own funds consisting of the sum of their Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, and shall meet all the following conditions at all times:

$$\frac{\text{Common Equity Tier 1 Capital}}{D} \geq 56\%$$

$$\frac{\text{Common Equity Tier 1 Capital} + \text{Additional Tier 1 Capital}}{D} \geq 75\%$$

$$\frac{\text{Common Equity Tier 1 Capital} + \text{Additional Tier 1 Capital} + \text{Tier 2 Capital}}{D} \geq 100\%$$

where D is the Company's own funds requirement calculated in with MIFIDPRU 4.3.

The Company's own funds, own funds requirement and capital ratio reported as at 31 December 2023, were as follows:

Table 11: Capital Adequacy Analysis

OWN FUNDS COMPOSITION	\$'000
-----------------------	--------

Total Own Funds	3,943
OWN FUNDS REQUIREMENTS	\$'000
<i>Permanent Minimum Capital Requirement (MIFIDPRU 4.4)</i>	<i>956 (£750)</i>
<i>Fixed Overheads Requirement (MIFIDPRU 4.5)</i>	<i>187</i>
<i>K-Factors Requirement (MIFIDPRU 4.6)</i>	<i>86</i>
Total Own funds Requirement	956 (750)
CAPITAL RATIOS	
Common Equity Tier 1 Capital Ratio (min. 56%)	412.46%
Surplus/(Deficit) of Common Equity Tier 1 Capital Ratio	3,408
Tier 1 Capital Ratio (min. 75%)	412.46%
Surplus/(Deficit) of Tier 1 Capital Ratio	3,226
Total Capital Ratio (min. 100%)	412.46%
Surplus/(Deficit) of Total Capital Ratio	2,987

As per the above results, MKUK as at 31 December 2023 maintains adequate own funds to cover its capital requirements. However, the Company will continue to monitor the above ratios in order to ensure compliance with the capital adequacy requirements at all times.

7.9. Liquidity Requirements (MIFIDPRU 6)

The basic liquid assets requirement is based on a proportion of an FCA investment firm’s fixed overheads requirement and any guarantees provided to clients. The purpose is to ensure that the investment firms have an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets in cash to meet their liquidity needs. The Company is required to maintain an amount of liquid assets that is at least equal to the sum of the following:

- one third of the amount of its fixed overheads requirement, and
- 1.6% of the total amount of any guarantees provided to clients.

The MIFIDPRU handbook defines core liquid assets as any of the following items denominated in pound sterling:

- coins and banknotes;
- short-term deposits at a UK-authorized credit institution;
- assets representing claims on or guaranteed by the UK government or the Bank of England;
- units or shares in a short-term MMF;
- units or shares in a third country fund that is comparable to a short-term MMF; and
- trade receivables, if the conditions in MIFIDPRU 6.3.3R are met.

In this respect, MKUK’s core liquid assets as at 31 December 2023 were well above the 1/3 of the total fixed overheads requirement as indicated in the table below:

Table 12: Liquidity Requirements

Item	\$'000
Coins and banknotes;	4,020
Short-term deposits at a UK-authorized credit institution;	-
Assets representing claims on or guaranteed by the UK government or the Bank of England;	-

Units or shares in a short-term MMF;	-
Units or shares in a third country fund that is comparable to a short-term MMF; and	-
Trade receivables if the conditions in MIFIDPRU 6.3.3R are met.	-
Total Core Liquid Assets	4,020
Basic Requirement (1/3 of Fixed Overheads Requirement)	49
Surplus/(Deficit)	3,971

Further to the above, the Company maintains adequate liquid assets to cover the one third fixed overheads requirement. However, the Company should monitor the above in order to ensure compliance at all times.

7.10. Internal Capital Adequacy and Risk Assessment Process

The purpose of capital is to provide sufficient resources to absorb unexpected losses over and above the ones that are expected in the normal course of business. The Company aims to maintain a minimum risk asset ratio which will ensure there is sufficient capital to support the Company under normal and during stressed conditions.

The Company should establish sound, effective and comprehensive arrangements, strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital and liquid assets that they consider adequate to cover the nature and level of risks which they may pose to others and to which the investment firms themselves are or might be exposed to. These arrangements, strategies and processes shall be appropriate and proportionate to the nature, scale and complexity of the activities of the Company and they shall be subject to regular internal review.

In light of the above, the ICARA report will present the main business background aspects and developments of the Company, a summary of the Company's business economic environment, the Company's financial summary for the previous and upcoming years, the business and strategic goals, organisational structure and the risk management framework, the overall assessment of the

material risks as well as a forward-looking capital and liquidity planning assessment. The Overall Financial Adequacy Rule (OFAR) establishes the standard to determine if an FCA investment firm has adequate financial resources.

OFAR will require the firm, at all times, to hold adequate own funds and liquid assets to:

- to ensure it can remain viable throughout the economic cycle, with the ability to address any potential harm from its ongoing activities; and,
- to allow its business to wind-down in an orderly way.

According to MIFIDPRU 4 own funds requirements are built around the PMR, the FOR, and, for non-SNIs, the KFR. These requirements serve different purposes. The FOR is a proxy for the amount of own funds the firm needs to hold to allow them to begin wind-down in an orderly way while the KFR is the amount of own funds required to cover the risk of harm from the ongoing operation of the firm's business. Finally, the PMR is a flat minimum required to underpin the FOR and the KFR. Unlike the FOR and KFR, the PMR does not scale with harm.

The PMR and FOR are standard requirements that apply to all FCA investment firms. The KFR is a standard requirement that applies to non-SNI firms. Meeting these alone may not be enough to mean that they are meeting threshold conditions. This will depend on the size, business model and complexity of the firm's activities. The firm will need to estimate the financial impact of any harm that is not covered by its PMR, FOR or KFR.

The above process will help the firm determine its 'own funds threshold requirement' that needs to be met with the appropriate resources at all times. Specifically, the firm will set its own funds threshold requirement at the higher of the:

1. PMR,
2. own funds necessary to cover harms from ongoing operations, or
3. own funds as necessary for wind-down.

As a non-SNI Investment Firm, the Company is required to calculate the K-Factors requirement. Moreover, and as regards the liquidity threshold, the basic liquid assets requirement is based on the firm having a minimum amount of core liquid assets that will allow them to begin wind-down in an orderly manner. The Company sets its liquid assets threshold requirement as the sum of the basic liquid assets requirement and the higher of:

1. the additional liquid assets necessary at any given point in time to fund ongoing operations, taking into account potential periods of financial stress during the economic cycle,

2. the additional liquid assets required to begin its orderly wind-down, taking into account inflows of liquid assets that can be reasonably expected to occur during the wind-down period.

The Company recognises the importance of the ICARA and appreciates that it enables the firm to justify its business strategy and risk assessments in such a way as to be more diligent in the inclusion of risk factors in the business design process and also to hold adequate capital against the gross risks to which it is exposed to. It is also acknowledged that the ICARA Report is a reasonably intense process, requiring information from many different departments and committees of the company and it requires senior management time at the design phase, during the risk and financial data collection phase and for the sign-off phase. Therefore, the Board is committed to continuously update the ICARA at least annually to reflect the latest strategic plans and updates. During the year 2023, the Company replaced its existing ICAAP with the new ICARA by establishing new assessments with respect to the liquidity adequacy of the Company, designing new financial projections and stress tests to reflect the K-Factors requirement and drafting a new report which reflects all provisions under the new regulation. The methodologies of K-Factors and Liquidity Stress tests are incorporated into the ICARA process, as well as the updated risk register which focuses on a harm-pose approach identifying different potential risk events that may affect the Company’s overall capital adequacy position.

The ICARA Report and capital planning for the year 2022 has been prepared and approved by the Board on 03 October 2023. The report is being reviewed and updated annually, while it is submitted to FCA upon request. The table below shows the outcomes of the Basic and Additional capital and liquidity requirements as at the reference date of the report.

Table 13: ICARA Process Outcomes

Item	\$
Basis of Completion of the ICARA Process	
Scope of the Report	Individual
Reference Date of the ICARA process	31 December 2022
Assessing and Monitoring the Adequacy of Own Funds	

Common Equity Tier 1 Capital	2,073
Additional Tier 1 Capital	-
Tier 2 Capital	-
Total Own Funds	2,073
Own funds threshold requirement	1,163
- <i>Own funds to address risks from ongoing activities</i>	<i>92</i>
- <i>Own funds necessary for orderly wind-down</i>	<i>1,054</i>
Surplus/(Deficit)	909
Assessing and Monitoring the Adequacy of Liquid Assets Held	
Total Core liquid assets	1,140
Total Non-core liquid assets	-
Total liquid assets	1,140
Liquid assets threshold requirement	<i>1,091</i>
- <i>Basic liquid assets requirement</i>	<i>36</i>

- <i>Additional liquid assets required to fund ongoing business operations</i>	155
- <i>Additional liquid assets required to start wind-down</i>	1,054
Surplus/(Deficit)	49

Further to the above results, during the year-ended 2022 the Firm’s capital and liquid assets were above the respective thresholds calculated. The Company monitors these requirements to ensure compliance at all times.

8. REMUNERATION POLICY AND PRACTICES (MIFIDPRU 8.6)

The Company has in place a remuneration policy in line with the requirements set by FCA. The policy is prepared as an ad-hoc document which reflects the current organisational structure and is proportionate to the size and activities of the Company. The employees are remunerated based on their performance within a multi-year framework, irrespective of the gender and/or ethnicity of each employee. The remuneration benefits are always in line with the business strategy and objectives of the Company, which ensures the promotion of effective risk management.

8.1. Principles

The following principles form the basis of MKUK’s Remuneration Policy:

- Arrangements focusing on encouraging the right culture and behaviours in the sales and trading department, whilst actively discouraging poor practices;
- Competitive compensation to attract, retain, motivate and reward employees that deliver positive long-term performance;
- Establishment of sound and effective risk management tools;
- Alignment with effective conflict of interest management duties and avoidance of conflict of interests created by the Policy;
- Ensuring a culture of acting in the best interests of clients is developed and maintained, inclusive provision of suitable and appropriate advice and recommendations to the clients;
- Implementation of reward program, which is transparent, easy for understanding, simple to administer and affordable to the Company.

Furthermore, the senior management with the assistance of the Compliance Function and the remuneration committee, will periodically review the Policy, as and when applicable, and thus adjust it should the need arise to do so. The updated Remuneration Policy shall be presented to the Board of Directors for their review and approval.

Where potential or actual client detriment might arise as a result of specific features in remuneration policies and practices, the Company should take appropriate steps to manage potential conduct of business and conflict of interest risks by reviewing and/or amending these specific features and setting up appropriate controls and reporting mechanisms for taking appropriate action to mitigate potential conduct of business and conflict of interest risks.

Furthermore, MKUK shall ensure that it has appropriate and transparent reporting lines in place across the firm or group to assist in escalating issues involving risks of non-compliance with the Law, conflicts of interest and conduct of business requirements under the Law.

As a non-SNI firm, the Company is required to disclose as part of the market discipline requirement under MIFIDPRU rules the basic and standard information about the total number of staff, amount of total fixed and variable remuneration that have been awarded in the relevant year split between material risk takers (MRTs) and non-MRTs, and also provide information on the ex-post adjustments made to variable remuneration.

8.2. Remuneration Committee

Membership of the Remuneration Committee is formed by:

- a) Executive Director
- b) Risk Manager
- c) Compliance Officer.

The focus is to advise the Board of Directors on remuneration matters. This advice shapes itself through policies and procedures designed to motivate and retain high-calibre executive managers, senior management, and employees.

The functions of the remuneration committee shall be the following:

- the preparation of decisions on remuneration to be taken by the supervisory function, in particular regarding the remuneration of the members of the management body in its management function as well as of other identified staff.
- providing support and advice to the supervisory function on the design of the institution's remuneration policy;

- assessing the mechanisms and systems adopted to ensure overall remuneration policy is consistent with and promotes sound and effective risk management and is in line with the business strategy, objectives, corporate culture, values and the long-term interest of the institution;
- assessing the achievement of performance targets and the need for ex post risk adjustment, including the application of malus and clawback arrangements;
- reviewing a number of possible scenarios to test how the remuneration policies and practices react to external and internal events, and back-test the criteria used for determining the award and the ex-ante risk adjustment based on the actual risk outcomes.

8.3. Remuneration Policy Principles

Gender neutrality

The Company's approach is to facilitate competitiveness by paying market-informed, competitive compensation levels for comparable roles and experience, subject to performance. MKUK promotes meritocracy by recognizing individual performance, with particular emphasis on contribution, risk management, ethics and control.

MKUK ensures that the remuneration package for senior employees is suitable to attract the quality and experienced staff. MKUK provides equal compensation opportunity and does not tolerate any discrimination based on ethnicity, nationality, gender, sexual orientation, gender identity, religion, age, marital or family, status, pregnancy, disability – or any other status that is protected by the law.

Risk management policies and practices promoting effective risk management.

The Remuneration Committee will assess the risk appetite of the business annually. Risk appetite is the amount of risk an individual or the Company can absorb. The risk management framework sets out the risk appetite for MKUK.

The idea is to align the risk management framework with the Remuneration. If the action of an employee leads to a breach of risk limits, this might impact their Remuneration. Employees are advised to take risk management principles seriously. A sound risk culture will reflect on the overall risk taking and risk management of the Company. The risk management framework policy is available to all employees.

MKUK will ensure the following:

- a) Targets and Key Measures are included in an employees' appraisal and reviewed on interim quarterly basis (for some roles) and on an annual basis for all employees of the Company;
- b) Clear risk objectives and the ongoing monitoring and supervision of performance for every employee;
- c) Non-compliance or actions contrary to the stated risk appetite will not be rewarded;
- d) Internal Capital Adequacy Assessment Process (ICAAP) sets out the company's key risks and how it will manage those risk. The keys risks and proposed models within the ICAAP will be used to determine the variable remuneration per annum. ICAAP provides the capital requirement for the present and for the next three years. It will be approved annually by MKUK's Board of Directors. The most important factor in all circumstances is to consider the best interest of the client. The Company will not implement high variable remuneration if this leads to short terms gains for the firm and at the expense of client.

The variable remuneration will be discretionary and include the possibility to pay no variable remuneration at all. Below are some instances in which this discretion will be applied:

- a) the Company may not have performed sufficiently well to pay remuneration;
- b) the client may not be satisfied with transactions; or
- c) the behaviour of the employee does not align with the performance or professional ethics criteria as set out in Code of Ethics Policy.

The compliance function will be involved in the design of the remuneration policies and procedures and ensure that there are transparent reporting lines across the firm to assist in escalating issues involving risk of non-compliance.

To ensure that employees are providing suitable advice and quality service to client, compliance department may monitor sales telephone calls, correspondence (incl. Bloomberg chats), sampling trades and behaviours over client portfolios. Business monitoring will support a risk-based approach to sales monitoring, with particular focus on high performing relevant persons. Top and high performers are recognised as higher risks and additional scrutiny is given to them.

Avoiding conflicts of interest

MKUK ensures that the Policy includes measures to avoid conflicts of interests. To demonstrate this, the variable compensation is not fully correlated to business performance. Instead, the function's variable compensation is determined by the overall performance of the individual and the function against objectives set for each individual and department.

The Remuneration Committee as outlined above in Section 6 is responsible for advising the Board on the level of compensation to be allocated to every business area. To avoid any potential conflicts arising, the Board ultimately decides the level of compensation to be awarded and to whom.

The Company has an operational organisation structure in place among policies and procedures designed to prevent conflict of interests which would affect the interests of the client. Any general nature or sources of conflicts of interest will be disclosed to the client before undertaking business on its behalf. The steps are not limited to preventing conflict of interest between the Company and clients. In terms of remuneration, parties potentially involved in the conflict of interest include managers, all employees, outsourcers and other high performers of the Company. Please refer to the Conflicts of Interest Policy for further details.

Please note that the following Remuneration patterns that are not being taken into account are business and conduct ethics that appear to create conflicts of interests. These are solely based on:

- a) meeting a total number of transactions;
- b) turnover of transactions;
- c) revenue generated;
- d) retention of clients with high commissions comparing the market;
- e) fixed remuneration based on the number of new clients attracted.

The incentive is not to lead employees to act only in the favour of their own or the Company's interest.

8.4. Performance Based Measurements

The performance criteria include but is not limited to (dependent on role):

- Individual performance against objectives;
- Client satisfaction and interest to keep the business with the Company, inclusive recurring transactions of clients;
- Level of transparency with clients as well as speed of provision of services;
- Teamwork in terms of servicing the clients' needs;
- Efficiency in performed duties;
- Contribution towards automation of the Company processes;
- Behavioural performance; and
- Significant contribution to the growth of the Company.
- Front Office desk should ensure that they are:

- treating clients fairly, for example providing advice or recommendations best suited to meeting the needs of the client;
- recommending the product that carries a reasonable commission/incentive for the Company rather than a more expensive option that equally meets the needs of the client;
- managing to properly explain the nature of the service being provided to the client, be it at the account opening stage or in subsequent recommendations made to the client;

The criteria will assess the performance and measure the quality of the relevant persons work and behaviour. Performance of the Front Office, for instance, cannot be assessed from just a number of transactions made by the Company. Quality of the provided services is an essential part of the measurement of the performance of the trading desk and hence will be factored in for the Variable Remuneration payment. By focusing on volume rather than quality, the best outcome for clients per transaction may not be achieved. All assessment must consider the performance of an individual's role as well business unit as a whole.

Material Risk Takers (MRTs) are those individuals whose professional activities have a material impact on the risk profile of the firm or the assets it manages. The employees that should be regarded as material risk takers are the following:

- Are members of the management body (in its management or supervisory
 - function) or of the senior management,
- Have managerial responsibilities for the activities of a control function or for the Prevention of money laundering and terrorist financing,
- Have managerial responsibility for a business unit that is carrying on within at least one of the following regulated activities:
 - arranging (bringing about) deals in investments
 - dealing in investments as agent
 - dealing in investments as principal
 - managing investments
 - making investments with a view to transactions in investments
 - advising on investments, except P2P agreements
 - operating an organised trading facility
- Work for a firm with permission to carry on any of the regulated activities mentioned in the above point, and are responsible for managing any of the following:
 - information technology
 - information security
 - the outsourcing arrangements of critical or important functions
- Are responsible for managing a material risk or risk management policies,

- Have authority to take decisions approving or vetoing the introduction of new
 - Products.

8.5. Basic and Variable Remuneration Components

All Company employees and the members of the Board of Directors are eligible for the annual (one-off) variable remuneration, which is determined based on their annual performance appraisal.

Fixed Remuneration

Basic (Fixed) salary remuneration is generally based upon the employee's professional experience and organisational responsibility as set out by their job description and terms of employment. The Company ensures that the salaries are matching the role and the location of the market, i.e. United Kingdom. All salary bandings are recommended by an outsourced Human Resources department and the final approval for salary levels for all roles is confirmed by the Committee.

Variable remuneration

In addition to the Basic salary pay, employees are entitled to Variable Remuneration subject to the terms of the Policy.

This compensation will be based on the overall performance of the roles included in the Company's Remuneration Policy.

Variable remuneration shall be based on:

- a) Incentive Compensation are subject to the Key Measures outlined. Where the Key Measures are not satisfied or partly satisfied, or cause 13 complaints from a client, the formula may be altered upon decision of the Sub-Remuneration Committee during their meeting.
- b) Discretionary Variable Compensation based on decision of the Management and the Remuneration Committee.

The level of Variable Remuneration granted is entirely at the discretion of the Company, and may be zero in cases of misconduct, performance below the usual standard or otherwise in the sole discretion of the Company.

Variable Remuneration will only be made where there is no harm to MKUK's overall financial health. On an annual basis the Board of Directors shall approve the budget for variable

remuneration payments. In case of financial difficulties, the Company reserves the right to distribute Bonuses fully on discretionary basis and/or not to distribute at all.

The Variable Remuneration will not exceed 100% of the annual Basic Salary of the total remuneration of each individual, this is to ensure that no individual is dependent on variable remuneration to an extent likely to encourage to take risks outside the risk appetite of the firm. However, as an exception, the Board of Directors of the Company may approve a higher level, provided that it does not exceed 200% of the annual Basic Salary.

MKUK must give reasonable notice to all its shareholders or owners or members of its intention to seek approval of the proposed higher level of the variable component of total remuneration;

MKUK must make a detailed recommendation to all its shareholders or owners or members that includes:

- a. the reasons for, and the scope of, the approval sought;
- b. the number of staff affected and their functions; and
- c. the expected impact on the requirement to maintain a sound capital base;

MKUK must:

- a. without delay, inform the FCA of the recommendation to its shareholders or owners or members, including the proposed higher ratio and the reasons therefore;
- b. demonstrate to the FCA that the proposed higher ratio does not conflict with its obligations under the UK legislation that implemented the CRD and the UK CRR, having particular regard to the firm's own funds obligations;

MKUK must ensure that employees who have an interest in the proposed higher ratio are not allowed to exercise, directly or indirectly, any voting rights they may have as shareholders or owners or members of the firm in respect of the approval sought; and the higher ratio is approved by a majority of:

- at least 66% of the shares or equivalent ownership rights represented, if at least 50% of the shares or equivalent ownership rights in the firm are represented; or
- at least 75% of the shares or equivalent ownership rights represented, if less than 50% of the shares or equivalent ownership rights in the firm are represented.

MKUK will not be awarding any variable remuneration that consist of shares or equivalent ownership interests at this time as the Board have determined that the size and scale of MKUK

does not currently allow for such a strategy. As MKUK grows, should it become appropriate to do so then such a scheme will be applied.

Variable Remuneration shall not be paid by means of instruments or methods that facilitate non-compliance with the rules of management and discipline.

Remuneration and capital

MKUK has implemented remuneration arrangements that are sufficiently flexible to allow for necessary resources being directed towards strengthening the capital base if required.

Balance of fixed and variable components of total remuneration

Relevant Persons are prohibited to be remunerated only with variable components. The Relevant Persons' total Remuneration consists of a fixed component and may include a variable component. Some employees, except the members of the Board of Directors, are also eligible for the annual variable Remuneration.

MKUK shall ensure that the variable component does not exceed 100% of the fixed component of the total Remuneration for each individual.

8.6. Guidelines for termination

MKUK has reviewed all existing contracts to ensure that any early termination payments are subject to approval from the Remuneration Committee. Payments relating to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct.

Variable Remuneration and/or the pay-out of any deferred or retained Bonus of previous performance periods are possible after the end of their employment with the Company, subject to approval by the Remuneration Committee, for:

- a) Employees who retire from employment;
- b) Employees who are made redundant by the Company or in mutual agreement between the Company and the employee.

No Variable Remuneration (neither upfront, nor deferred) has to be paid to the following categories of employees after the termination of the employment with the Company:

- a) Employees who ceased employment voluntary or have unilaterally terminated the employment;

- b) Employees dismissed for if applicable legislation provides for a dismissal for fault;
- c) Employees dismissed by way of dismissal without notice period;
- d) Any other reason at the discretion of the Remuneration Committee.

8.7. Clawback

All Incentive Compensation granted, earned or vested, wholly or partly will be subject to a Clawback for a period of at least 7 years from the date on which it was awarded, and it may be extended to 10 years from employees under the Senior Manager Regime in the event of on-going internal/regulatory investigation. The employee will only be subject to a Clawback if they participated in or were held responsible for poor conduct which resulted in significant losses for MKUK.

Discretionary Bonuses based on non-financial measures and Base Salary will not be subject to Clawback triggers include:

- a) Material restatement of the Company's financial results;
- b) Fraud committed by the employee during performance period;
- c) Misleading information provided by the employee, if such information had or could reasonably have had an impact on the performance assessment;
- d) Employee engaged in breach of business and ethics conduct that causes material, financial or reputational harm to the Company;
- e) If the Incentive Compensation award was based on material misrepresentation by the employee;
- f) If an employee is terminated for misconduct cause;
- g) If an employee improperly or with gross negligence failed to identify or raise in a timely manner issues with respect to risks material to the Company;
- h) If the Incentive Compensation award was based on materially inaccurate performance metrics;
- i) If for one calendar year during the vesting period, pre-tax net income is negative, as reported by the Company.

8.8. Remuneration of Material Risk Takers

The remuneration policy of the Company is intended to ensure that the Company will attract and retain the most qualified Senior Management Personnel and Directors. As stated above, the criteria used for determining the remuneration of the Company's directors are segregated into quantitative and qualitative criteria. The quantitative remuneration criteria mostly rely on numeric and financial data such as the Company's performance and the individual performance

evaluation and ratings of each member of staff whose professional activities affects the risk profile of the firm. In addition to the quantitative criteria, the Company has put in place qualitative criteria which include compliance with regulatory requirements and internal procedures, fair treatment of clients and client satisfaction.

Moreover, the remuneration of the Company’s non-executive directors is fixed, and it is set at a level that is market aligned and reflects the qualification and competencies required based on the Company’s size and complexity, the responsibilities and the time that the non-executive directors are expected to consume in order to serve the Company.

The table below provides information on the remuneration of Executive Directors, Senior Management and other staff whose activities have a material impact on the risk profile of the Company, broken down by fixed and variable remuneration.

Table 14: Remuneration split of staff whose activities have a material impact on the risk profile of the Company.

Annual Remuneration as at 31 December 2023				
Position	No. of Beneficiaries	Fixed Remuneration \$	Variable Remuneration \$	Aggregated Remuneration \$
Senior Management	2	121,148	198,030	319,178
Other staff	1	35,334	2,330	37,664
Total	3	156,482	200,360	356,842

The variable to fixed remuneration ratio as at **31 December 2023** was 1,28%.

9. INVESTMENT POLICY (MIFIDPRU 8.7)

Any MIFIDPRU Investment Firm not meeting the conditions in MIFIDPRU 7.1.4R must disclose information on its Investment Policy.

The Company meets the conditions of MIFIDPRU 7.1.4R(1) since the value of the Firm's on and off-balance sheet items over the preceding 4-year period is a rolling average below £100million. Therefore, the Company is not obliged to disclose information on Investment Policy as per the provisions of MIFIDPRU 8.7.