

Deriv Investments (Europe) Limited

Financial Disclosures Annual Report 2022

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1. Introduction

The Investment Firms Regulation (EU) 2019/2033 (“IFR”) and the Investment Firms Directive (EU) 2019/2034 (“IFD”) of the European Parliament and of the Council of 27 November 2019, lay down financial disclosure requirements applicable to investment firms.

Deriv Investments (Europe) Limited (C 70156) (the “Company”) is registered in Malta, licensed and regulated by the Malta Financial Services Authority (“MFSA”) as an Investment Services provider, under the Investment Services Act (Cap. 370, Laws of Malta).

This document is prepared in accordance with the above-mentioned Directive and Regulation and published on the [Company’s website](#).

2. Scope of application

The Company is required to publicly disclose on an annual basis information on the following topics:

- Risk management objectives and policies
- Governance
- Own funds
- Own funds requirements
- Remuneration policies and practices

The criteria for disclosing such information are based on the Company's business activities and the impact of these activities on the firm, market, and its clients. According to the IFR and IFD package, the Company is considered as a class 2 firm.

The Company has no subsidiary and does not form part of a consolidated group and is, therefore, making these financial disclosures on an individual basis. This document is only applicable to clients contracted directly with Deriv Investments (Europe) Ltd. It does not apply to clients contracted with any of the other subsidiaries belonging to the Deriv Group of companies.

3. Risk management objectives and policies

3.1. Risk management strategy

The development and implementation of the Company's strategic objectives depend on the Company's capability and risk management strategy. As such, risk management forms one of the core foundations of the Company's strategic objectives.

The primary elements of the Company's risk management strategy are its:

- Risk management policy
- Risk management processes and objectives
- Own funds requirement
- General conduct of business
- Risk statement
- Overall risk tolerance limits
- Governance arrangement

3.2. Risk management policy

Risk management is an integral part of the management of the Company's operations and is carried out internally using policies defined by the Board of Directors ("the Board"). Such policies define the categories of risk and specify the procedures and operating limits for each type of transaction and/or instrument and the choice of markets to enter. In accordance with these policies, the Company uses a prudent approach to offering its services.

The policy is reviewed regularly and annually to reflect changes in market conditions and the Company's activities and objectives. The Head of Risk oversees the adequacy and functioning of the entire system of risk management and internal control with the Boards' oversight.

3.3. Risk management processes and objectives

The Company has in place a risk management process coordinated by the Head of Risk to identify the risks to which the Company is or could be exposed, and to manage those risks.

The Company is exposed to various risks which depend on the specific objectives being performed while fulfilling the Company's business. The Company's objective is to identify the risks and determine if they may be avoided, reduced, spread, transferred or prevented. Having recognised the need and the responsibility to preserve the Company's resources, the following guidelines are followed in managing the risks the Company may encounter:

- Achieve and maintain a reduced cost of risk without placing the Company in a position of risk exposure that could have a significant impact on its financial security.
- Evaluate and assess all risks of loss from the services it provides.
- Reduce or eliminate identifiable conditions and practices which may cause loss whenever possible.
- Maintain a risk register which includes a description of each risk, risk categorisation, and risk mitigation factors.

3.4. General conduct of business

The Company conducts its operations in a manner that avoids unnecessary excessive risks and that assumes an acceptable level of risk which is integral to the day-to-day running of the business.

The Company's Board and senior management team act in a prudent and diligent manner to safeguard

its reputation. Risks that arise due to the nature of the Company's business operations are minimised through prudent and diligent conduct of business and in accordance with its risk appetite and risk profile.

Risks are minimised through adherence to the Company's own internal control systems and procedures. Adherence to applicable laws, regulations, directives, and guidelines issued by MFSA and European Union is overseen by the Board.

The Company adopts a positive and proactive approach to managing these risks and maintains capital levels that exceed the minimum regulatory requirements.

Furthermore, the Board and senior management team of the Company acknowledge that the proper conduct of business not only safeguards against adverse reputational consequences to the Company but also helps to protect the reputation of its peers and the industry.

3.5. Board of Directors' declaration – Concise risk statement

The Board acknowledges that the senior management body has taken reasonable steps to establish and maintain risk management policies, processes, and day-to-day applications that are adequate and appropriate to the nature of the business.

The Company adopts a conservative risk appetite. The risk appetite and acceptable risk level are cascaded to the key risk components of the Company.

3.6. K-Factors

The IFR/IFD regime outlines K-Factors, which are measures of risk incorporated into the calculation of a firm's capital requirements. The K-Factors identified are grouped into 3 distinct categories of risk, which are defined as Risk to Client (RtC), Risk to Market (RtM), and Risk to Firm (RtF).

The Company monitors these risk K-Factors on an ongoing basis in order to determine its minimum capital requirement based on the measure of the risk arising from the Company's size, internal organisation, scope, and complexity.

Risk	K-Factor (Eur)
Risk to Client (RtC)	1,018
Risk to Market (RtM)	196,520
Risk to Firm (RtF)	30,458

3.7. Risk to Client (RtC)

Risk to Client takes into consideration the risks that may pose potential harm to the Company's clients. A range of measures are taken into consideration when calculating the RtC, these are represented as the sum of K-AUM + K-CMH + K-ASA + K-COH.

3.7.1. Assets under management (K-AUM)

K-AUM measures the amount of client assets under management and is defined as the potential risk to clients arising from incorrect management of client portfolios. The Company does not offer the service of portfolio management, and all trades are confirmed on an execution-only basis; therefore, in this

respect, the K-factor for K-AUM is 0 as the Company's business structure does not allow for risk arising from assets under management as it does not manage any such assets.

3.7.2. Client money handled (K-CMH)

K-CMH measures the amount of client money held and is defined as the potential risk which may arise from the Company's arrangements with respect to the holding of client money. This recognises the importance of holding sufficient capital in proportion to client balances.

All money belonging to our clients is held in separate bank accounts. In addition, such amounts are reconciled on a monthly basis to ensure consistency and client money protection.

3.7.3. Assets under management (K-ASA)

K-ASA measures the amount of client assets safeguarded and administered and is defined as the potential risk which may arise from the Company's arrangements in managing and safeguarding such assets. The Company does not hold any client assets, save for client money (which is accounted for in the calculation above K-CMH) and therefore, in this respect the K-Factor for K-ASA is 0.

3.7.4. Client orders handled (K-COH)

K-COH measures the amount of client orders which are handled daily by the Company through the execution of orders on behalf of clients. This risk factor recognises the importance of calculating such risks arising from the daily client orders handled to ensure the Company has in place sufficient arrangements and prudential requirements to carry out such orders.

3.8. Risk to Firm (RtF)

The company assesses, monitors, and has established policies in place to adequately control, mitigate, or transfer such risks. This risk can arise from trading counterparty default, the number of daily transactions resulting from dealing on own account, as well as concentration risk. The K-Factor for RtF is measured as the sum of K-TCD + K-DTF + K-CON.

3.8.1. Trading counterparty default (K-TCD)

K-TCD, or trading counterparty default, considers the exposures in the Company's trading book which give rise to the risk of a counterparty defaulting on a contract. The Company deals in derivatives which are settled in cash.

The Company does not issue credit and as such is not exposed to credit risk. All trades executed require an initial investment or margin amount for which payment is required upfront to confirm a trade. With respect to liquidity providers, which the Company utilizes when executing orders on behalf of clients, the Company exchanges collateral and maintains sufficient margin to execute such trades, should the margin level decrease this is topped up accordingly, furthermore, should such margin reach 100% no further trades will be confirmed, this amount is set in accordance with the Company's trading volume and risk appetite.

In addition, the Company has measures in place in the form of trading limits, which are in line with the Company's risk appetite vis-à-vis its exposure.

3.8.2. Daily trading flow (K-DTF)

K-DTF measures the value of daily trades handled by the Company which are executed on own account and excludes trades executed on behalf of clients which are already considered in the calculation for K-COH (client orders handled).

3.8.3. Concentration risk (K-CON)

K-CON measures the concentration risk the Company may be exposed to. The Company monitors concentration risk through its accounting measures and robust internal control mechanisms. The limit with respect to the concentration risk of an exposure value to an individual client or group of connected clients shall be 25% of the Company's own funds. The Company shall be obliged to notify the Authority should this limit be exceeded.

3.9. Risk to Market (RtM)

The RtM K-Factor is assessed for all trading book positions that result in the Company dealing on own account. The Company assesses its trading book risk including positions other than trading book positions which may give rise to foreign exchange and commodity risk.

3.9.1. Net position risk (K-NPR)

Position risk is the risk of losses arising from movements in market prices in on- and off-balance sheet investments in financial instruments that qualify as trading book business. For measuring the net position risk on derivatives, the Company uses the standardised approach as set out in Regulation (EU) No 575/2013.

3.9.2. Foreign exchange risk

The Company's revenue, purchases, and operating expenditure are mainly denominated in euro and sterling pound. The Company has a short-term risk exposure for foreign currency risk on its cash and cash equivalents placed with financial institutions denominated in US Dollar, Euro, and Sterling Pound.

The Head of Risk monitors the Company's exposure to foreign currency risk on a continuous basis against acceptable thresholds. The Company does not hedge positions to mitigate its exposure to foreign currency risk.

3.9.3. Commodity risk

Commodity risk refers to the risk of holding or taking positions in commodities such as physical products which are and can be traded on the secondary market. It is the Company's policy not to hold any such investments in commodities.

3.9.4. Settlement risk

Settlement risk is the risk that the Company's cash against documented transactions in financial instruments are unsettled after the delivery due date.

Settlement risk is negligible for the Company. The Company collects the total purchase price for each contract up front, at the time the client enters a contract. This purchase price is deducted from the client's account balance.

The Company will conduct settlements on the very same day that the contract's conditions are fulfilled by crediting payouts to clients whose contracts are in the money. No additional funds will be exchanged between the Company and clients whose contracts are out of the money.

3.9.5. Credit/counterparty risk adjustment

For assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment, and some are tested at the cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company did not have any financial assets that are past due and impaired as of 31 December 2022. No specific and general credit risk adjustments were made to the Company's financial assets for the financial year ended 31 December 2022.

3.9.6. Credit valuation adjustment risk

Credit valuation adjustment ("CVA") refers to an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the entity but does not reflect the current market value of the credit risk of the entity to the counterparty.

The Company collects the total purchase price for each contract up front at the time the client enters a contract. This purchase price is deducted from the client's account balance. The Company does not offer any form of loans or financing facilities to its clients. This means that for the entire duration of the contract, the client will not be liable for any additional funds. As such, the credit risk of the client is not an influencing factor in the ultimate outcome of a given client's contract. The Company's risk exposure to credit valuation adjustment is low.

3.9.7. Liquidity risk

The Company's exposure to liquidity risk arises from its obligations to meet its financial liabilities, comprised of derivative financial liabilities, trade payables, and other payables. Prudent liquidity risk management activities include maintaining sufficient cash balances to ensure the availability of an adequate amount of liquid funds to meet the Company's obligations when they become due.

The Company adopts systems and procedures to monitor and manage liquidity risk. The primary objective of these systems and procedures is to ensure that adequate levels of liquidity buffers are maintained.

Periodic reconciliations, reporting, and cash management procedures are in place to manage the Company's liquidity.

The Company's liquidity risk is not deemed to be significant in view of the excess of net cash inflows arising from operating, financing, and investment activities.

4. Governance

4.1. Corporate governance principles

The Board of Directors is committed to meeting high standards of corporate governance and strives to uphold these standards of corporate governance as a private limited company by monitoring the developments in corporate governance standards within the industry and the region.

The Board's roles, powers, duties and functions are established based on the following guiding principles:

- Be responsible for the Company's leadership and provision of strategic direction and oversight.
- Monitor and periodically assess the effectiveness of the Company's governance arrangement.
- Approve and oversee the development and implementation of the Company's strategic objectives, risk strategy, and internal governance.
- Ensure integrity of accounting and financial reporting procedures.
- Ensure adequacy and effectiveness of risk management and internal control functions.
- Ensure compliance with applicable legislation and relevant business standards.

4.2. Roles and responsibilities of members of the Board

The Board of Directors is committed to achieving and upholding the Company's governance standards, the following roles and responsibilities are attributed to the Board to maintain this standard:

- Maintain a sufficiently good reputation and possess sufficient collective knowledge, skills, and experience.
- Consider and approve frameworks, policies, and procedures.
- Devote adequate human and financial resources to the training of employees and members of the Board.
- Assess and consider acceptable risk tolerance level.
- Determine dividend policy and amount.
- Consider and approve implementation of appropriate corporate governance arrangements.
- Monitor adequacy and effectiveness of controls and address deficiencies.
- Act with honesty, integrity, and independence of mind.
- Oversee and monitor decision-making processes.

4.3. Members of the Board of Directors

In line with the Company's Governance arrangements, the management body established is adequate for the Company's business endeavours. The Board is comprised of three executive directors and one nonexecutive director.

During the financial year ended 31 December 2021, the directors in office and their directorships were listed accordingly as follows:

- Internal directorships within the Deriv Group of companies
- External directorships outside the Deriv Group of companies

Members of the Board	Internal	External
1. Joanna Frendo	4	Nil
2. Derek Swift	2	Nil
3. Damien Antoine Francois Narozniak — Non-executive director	2	Nil

4.4. Recruitment policy of members of the Board of Directors

The chairman and members of the board are responsible for reviewing the appropriate diversity in the context of board composition and perceived needs of the board at a particular point in time.

When a recruitment need arises, the board shall attempt to identify appropriate individuals as potential candidates. Consideration shall be based on skills, knowledge, expertise, qualification, experience, characteristics, competency, financial soundness, and with due regard for the benefits of diversity on the board, in accordance with good governance practices and applicable law.

The candidates shall be screened, and shortlisted candidates shall be interviewed and assessed by the chairman and members of the board. The successful candidate shall be nominated for election to the board at the upcoming board meeting.

A candidate shall not be appointed or begin performing any director-related function which requires prior approval by the MFSA until the MFSA has granted its approval.

The adequacy and appropriateness of this policy is assessed at least on an annual basis.

4.5. Policy on the diversity of the members of the Board of Directors

Board diversity and individuality are valued and encouraged to provide a broader range of competence, skills, and experiences to enhance the Company's capabilities to deliver business results and manage risks.

With regards to the selection of board composition, we are committed to embracing diversity to achieve our strategic objectives and to sustain our competitive advantage.

Differences in various important characteristics, such as educational and functional background, regional and industry experience, skills, opinions, personalities, gender, race, ethnicity, and other distinctions between directors shall be considered in determining board composition.

A well-balanced representation of the board enables efficient discharge of its duties and responsibilities, making use of all aspects of its diversity.

Board appointments shall be made taking into consideration the skills, experience, independence, competence, and knowledge which are essential to effectively promote the success of the Company.

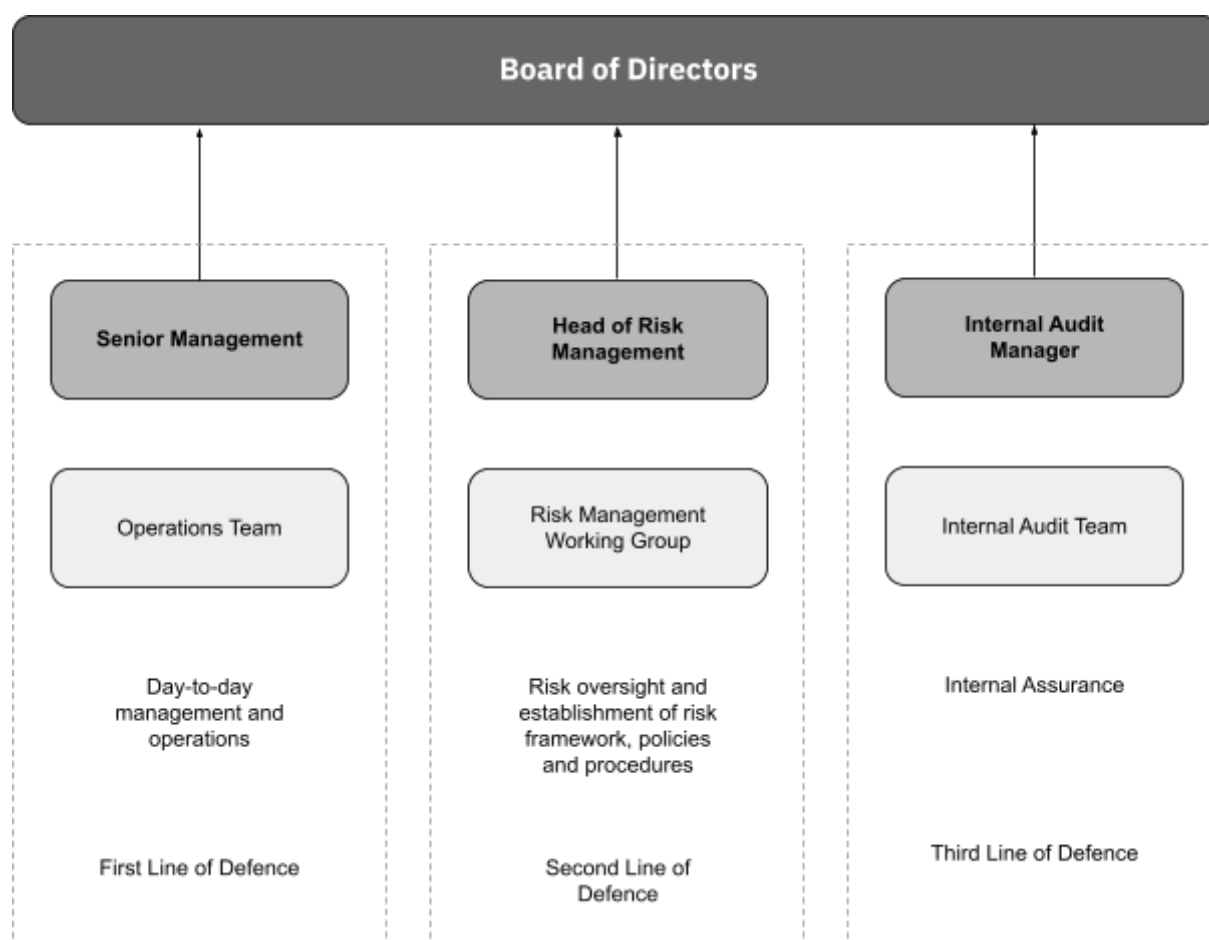
Board members are subject to evaluation on an annual basis. Board members' performance may be reviewed in accordance with the processes agreed by the board from time to time. The board is collectively responsible for the success of the Company.

The adequacy and appropriateness of this policy is assessed at least on an annual basis.

4.6. Risk management function

Risk is an inherent component in all aspects of the Company's business. The Company continuously promotes a culture of risk awareness and responsibility.

The following describes the structure and organisation of the Company's risk management function.



4.7. Risk management working group

In addition to the Board of Directors, the Company has set up a Risk Management Working Group (RMWG), which is comprised of the Risk Management function and the Head of Trading.

The RMWG has been established since 2018. The Group's risk management framework is designed to provide appropriate risk assessment and monitoring of the Company.

The RMWG reports directly to the Board of Directors, who is responsible for maintaining oversight of the RMWG's risk management framework and internal control systems which are designed to manage the risks the Company is or may be exposed to.

The RMWG periodically reviews the effectiveness and adequacy of the framework and systems by identifying, assessing, monitoring, and communicating key business risks.

The RMWG meet at least on a quarterly basis unless otherwise determined. Minutes of the RMWG's meetings are kept and provided to the Board of Directors following the RMWG meeting.

5. Own funds

5.1. Own funds

The Company has established adequate accounting procedures to assess and monitor its own funds requirements, which comprise Common Equity Tier 1, Additional Tier 1 items, and Tier 2 items, including applicable filters and deductions.

The following restrictions are applied to the calculation of own funds, including a reference to the instruments and deductions to which those restrictions apply.

5.1.1. Reconciliation of balance sheet to regulatory capital

	Balance sheet in accordance with IFRS	Regulatory adjustments	Regulatory own funds
	2022	2022	2022
	US\$	US\$	US\$
Ordinary share capital	2,000,000	-	2,000,000
Accumulated loss	(1,053,907)	948	(1,052,959)
Inadmissible assets - intangible assets	-	(573)	(573)
Investor compensation scheme	948	(948)	-
	947,041	(573)	946,468
	2021	2021	2021
	US\$	US\$	US\$
Ordinary share capital	2,000,000	-	2,000,000
Accumulated loss	(958,773)	948	(957,825)
Inadmissible assets - intangible assets	-	(489)	(489)
Investor compensation scheme	948	(948)	-
	1,042,175	(489)	1,041,686

5.2. Own funds disclosures

The Company does not issue any instruments classified as either Common Equity Tier 1 items, Additional Tier 1 items, or Tier 2 items.

The following tables contain a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items, and applicable filters and deductions applied to own funds of the Company and the balance sheet in the audited financial statements of the Company.

5.2.1. Template EU IF CC1.01 — Composition of regulatory own funds

		(a)	(b)
		Amounts	Source based on reference numbers/letters of the balance sheet in the audited financial statements
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	OWN FUNDS	1,367,879	
2	TIER 1 CAPITAL	946,468	
3	COMMON EQUITY TIER 1 CAPITAL	946,468	
4	Fully paid up capital instruments	2,000,000	EU IF CC2
6	Retained earnings	(957,825)	EU IF CC2
17	(-) Losses for the current financial year	(95,134)	EU IF CC2
19	(-) Other intangible assets	(573)	EU IF CC2
40	TIER 2 CAPITAL	190,411	
41	Fully paid up, directly issued capital instruments	190,411	

5.2.2. Template EU IF CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements.

As outlined previously, the Company does not form part of a consolidated group and, therefore, performs such reconciliations on an individual basis.

		a	b	c
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to EU IF CC1
		As at period end	As at period end	
Assets – Breakdown by asset classes according to the balance sheet in the published/audited financial statements				
1	Cash & cash equivalents	1,998,022		
2	Trade and other receivables	10,764		
3	Derivative financial instruments	29,729		
4	Plant & equipment	2,149		
5	Intangible assets	573		EU IF CC1 – 19
31 Dec 2022	Total Assets	2,041,237		
Liabilities – Breakdown by liability classes according to the balance sheet in the published/audited financial statements				
1	Trade and other payables	594,196		
2	Amount due to parent company	500,000		
31 Dec 2022	Total Liabilities	1,094,196		
Shareholders' Equity				
1	Retained Earnings	(957,825)		EU IF CC1 – 6

2	Current Earnings	(95,134)		EU IF CC1 – 17
3	Share Capital	2,000,000		EU IF CC1 - 4
31 Dec 2022	Total Shareholders' equity	947,041		

5.3. Own funds requirements

In accordance with the applicable regulatory framework, the Company ensures that its own funds are equal to the highest calculation of one of the following measures:

- Fixed overheads requirement
- Permanent minimum capital requirement
- K-Factors requirement

In accordance with the applicable IFR/IFD capital requirement framework, the Company is considered a Class 2 firm. The following table outlines the Company's own funds requirement calculated accordingly (values are represented in EURO and USD; the conversion rate was 0.9375586 as at 31 December 2022).

Requirement	Amount - USD	Amount - EUR
Permanent minimum capital requirement	799,950	750,000
K-Factor requirement	243,180	227,996
Fixed overheads requirement	263,345	231,625
Own funds requirement	799,950	750,000

5.4. Internal capital adequacy

The Company has effective procedures in place to assess and monitor its internal capital management and whether this framework continues to be adequate and in line with its current business strategies as well as proposed future business endeavours.

The Company's internal capital adequacy is actively managed through periodic monitoring of capital ratios, its objectives are to:

- Comply with the capital resources requirements required by the MFSA.
- Ensure its ability to continue as a going concern and to provide an adequate return to shareholders and benefits to other stakeholders by pricing services commensurately with the level of risk and maintaining an optimal capital structure to reduce the cost of capital.

The Accounting department conducts weekly reconciliations of the company's accounts, including operational as well as client money accounts. An analysis of the banks is performed on a monthly basis taking into consideration the balances kept ensuring adequacy in accordance with the stipulated risk assessment. A cash flow analysis is also conducted monthly to mitigate any potential liquidity risk.

5.4.1. Permanent minimum capital

The Company must always maintain a permanent minimum capital of EUR 750,000 which is defined as the higher of its calculations for its K-Factors and fixed overheads requirement. Robust accounting procedures and ongoing monitoring are in place to ensure the Company maintains such capital requirements.

The Company's total K-Factor is lower, and the fixed overheads requirement is calculated to be lower than the required permanent minimum capital and, therefore, maintains its own funds according to the required permanent minimum capital of EUR 750,000.

5.4.2. Fixed overheads requirement

The amount required to be maintained shall amount to at least 25% of the fixed overheads of the preceding year. The Company calculates and maintains its fixed overheads requirement in accordance with its accounting procedures and overall business structure.

6. Remuneration policy and practices

6.1. Remuneration policy

The Company has in place a risk-based remuneration policy that does not expose it to excessive risk. The Company's remuneration policy is designed to achieve an appropriate balance between risk and reward.

This policy is established and approved by the Board of Directors and complies with the following principles:

- The remuneration policy is documented and approved by the Board of Directors.
- It is adequate to the size, organisation, nature, and complexity of business activities.
- It is gender-neutral.
- It promotes sound and effective risk management.
- It avoids conflicts of interest.
- Promotes responsible conduct of business.

The Board of Directors annually reviews the remuneration policy and is responsible for its overall implementation.

6.2. Remuneration structure

The current remuneration structure is based on two key principles, which are considered best practice in the human resources domain:

- Internal equity — the directors or staff who perform similar job functions with similar skill levels should earn similar amounts.
- External competitiveness — the compensation package for directors and staff compares favourably with companies operating in a similar industry, business nature, size, and geographical area of the business.

Over time, remuneration reflects the directors' and staff's value to the Company and is fair vis-a-vis other directors and staff within the Company.

The remuneration policy applies to those categories of staff whose professional activities have a material impact on the investment firm's risk profile and is based on basic fixed remuneration criteria, which reflect the relevant professional experience and organisational responsibility as set out in an employee's job description as part of the terms of employment.

6.3. Directors' and members of staff remuneration

Remuneration amounts paid are fixed, and any increase is based on the Company's performance as well as individual performance. Bonus is discretionary and performance-based. In addition, all payments are settled in cash, and no shares or share options are granted as part of the remuneration package.

The Company does not apply additional payments such as variable or guaranteed variable remuneration at any time, nor does it apply deferred remuneration payments.

The employees' remuneration does not depend on any trend in revenues or sales targets. Therefore, this approach does not affect the Company's sound capital base, nor does it have an adverse effect on the interests of our clients. Rather, it promotes sound conduct of business.

Furthermore, the Company has not issued any severance payments from previous periods which were paid during the financial year ending 31 December 2022.

The following table discloses the remuneration amounts paid to the members of the Board of Directors as at year-end 2022 as well as any members of staff whose roles and responsibilities have a material impact on the Company's risk profile.

Type of Remuneration	Executive Director	Non-executive Director	Total
	US\$	US\$	
Fixed	44,124	6,320	50,444
Variable	-	-	-
Deferred Remuneration	-	-	-
Severance Payments	-	-	-
Total	44,124	6,320	50,444
Number of beneficiaries	2	1	3

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