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VERTIS ENVIRONMENTAL FINANCE LTD.

Pillar 3 Disclosure for the financial year ending 30 September 2023

Content

Introduction

In this section we provide introductory information about the content of this disclosure document and the methods applied in its preparation.

This document provides disclosure in accordance with Part Six of the Regulation (EU) No 2019/2033 on the prudential requirements of investment firms (herein referred to as "Investment Firms Regulation" or "IFR") – the so-called Pillar 3 - for Vertis Environmental Finance Ltd. (herein referred to as "Vertis" or "the Company") as of 30 September 2023. This report should be read and understood in connection with the Company's Annual Report for the fiscal year ended 30 September 2023. Vertis is not a member of a prudential financial group and the Company itself does not form a prudential financial group, therefore, this report applies only to Vertis Environmental Finance Ltd.

Background

On December 5, 2019, the Directive (EU) 2019/2034 and Regulation (EU) 2019/2033 on the prudential requirements of investment firms (IFD & IFR) were published and the implementation started on 26 June 2021.

Based on the IFR, the Company classifies itself as a Class 2 firm, meaning it is neither a Systemic Investment Firm nor a Small and non-interconnected investment firm.

Disclosure policy

Requirements and practice: During the preparation of this disclosure, we have taken into account the suggestions of recommendations (NBH) 8/2017 on general requirements, 9/2017 on liquidity and 13/2017 on the specific requirements of disclosure practices of credit institutions and investment firms.

Frequency: This report provides comprehensive disclosure on risks, risk and capital management of the Company. It is published once a year following Article 46 of the IFR.

Means of disclosure: The Company publishes this report on its website https://legal.vertis.com/ together with the Annual Report. This report should be read and understood in connection with the Company's Annual Report for the fiscal year ended 30 September 2023.

Materiality: The Company considers any information material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for making economic decisions.

Proprietary Information: The Company considers any information proprietary if disclosing it publicly would undermine its competitive position.

Confidential Information: The Company considers any information confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality.

Vertis does not publish proprietary or confidential information; however, it publishes general information related to these categories. In spite of this limitation, this document retains its ability to present fully the risk profile of the Company.

Section A: Basic information regarding risk management, objectives and policies

[Article 47 of IFR]

In this section we present basic information about the Company, its business model and business lines, basis of operation, its risk culture and management bodies responsible for risk management and risk strategy, as well as methods of risk taking, risk appetite and risk controls.

Introduction of the Organization

Vertis is an investment service provider licenced according to Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (IRA - Investment Regulation Act) for the following activities:

- Dealing on own account;
- Investment advice;
- Foreign exchange services where these are connected to the provision of investment services;
- Investment research and financial analysis;
- Receiving and transmitting orders.

We can determine the following EU Allowance products based on IRA and relevant to the capital requirement of IFR:

- spot dealing on own account,
- future contracts dealing on own account,
- forward contracts dealing on own account,
- futures options dealing on own account,
- forward options dealing on own account,
- transactions to hedge position and foreign exchange risk related to trades defined in the points above.

The greenhouse gas emission allowances and the rights on emission of air pollutants that consists of units that complies with the Act CCXVII of 2012 on Participation in the execution of the decree on the emissions trading system of the greenhouse gases and on the resource sharing.

The main business line – EU Allowance trading – continues to deliver good performance or even exceed plans or expectations. The main points of Company strategy are:

- increase market share in EU Allowance markets / countries where historically the Company had leading position – this shall primarily be done by increase in headcount of sales persons,
- increase EU Allowance market share in poorly penetrated countries by hiring sales persons, - strategy to build up market share,

Business model

The goal of the Company is to inspire and empower businesses to move to a zero carbon economy. Within the regulated market of EU Allowances, the Company objective is to be the leader in the market of financial services related to environmental products, finding the right balance among risks, opportunities and rewards, as well as to protect the economic interests of the Company, its owners and clients and to assure the Company's smooth and efficient operations within the acceptable amount of risk exposure taking into account the expected return yield and to ensure, secure and maintain the optimal capital structure.

The Company's main activity is trading on the EU Emissions Trading Scheme (EU ETS) on own account. The Company will only carry out order transmission activities if the client initiates a transaction which, due to the nature of the transaction (amount, maturity, other conditions), cannot be concluded on an own account basis under this Risk Management Regulation (see Section 1.3.2) and the client explicitly requests the transmission of the order. Vertis may transmit orders to licensed professional entities such as banks or other investment firms but may transmit to other third parties thus bringing together independent investors.

Clients

The Company does not accept orders from private individuals.The Company's customers are primarily companies that are subject to compliance obligations under Directive 2003/87/EC, typically industrial installations, or airlines.

Before taking an order, Vertis will ensure

- the mandatory identification under its KYC procedure, anti-money laundering regulations; and customer qualification.
- performs the MiFID II client categorization (retail or professional client, eligible counterparty), and appropriateness and suitability test if required.

Professional Licensed Executing Partner

The Company will only transmit the order to a professional executing partner who fulfils the following conditions:

- is authorized to trade derivatives on greenhouse gas emission allowances and air pollutant emission allowance products;
- has appropriate professional experience and reputation in the market for greenhouse gas emission allowances and air pollutant emission rights products;
- has an appropriate financial and compliance track record.

The approval of the professional executing partner requires the agreement of the Risk Council.

Risk culture

This section includes relevant information about risk management by outlining the key responsibilities of and the connections between the Company's units. Roles and responsibilities are recorded in the Risk Management Regulation of the Company and described as having been effective from 3rd January 2018. Risk Management Regulation was recently updated on 19 July 2023.

Measurement, monitoring and management of risks within the Company is done according to the existing laws and regulations. The Company's organizational structure, policies, internal audit and managerial controls are developed in a way that the segregation of the front office, the back office, the risk management and the compliance is assured. Risk management is fundamentally built into the work processes and forms an integral part of the staff's daily work.

Roles and responsibilities

Board of Directors

The Board of Directors shall be responsible for the investment firm's risk exposures. The Board of Directors shall devote sufficient time to learn about risks and to consideration of risk issues and shall ensure that adequate resources are allocated to the management of all material risks as well as in the valuation of assets, the use of external credit ratings and internal models relating to those risks so as to ensure that the relevant strategic decisions are fully prepared and properly substantiated.

Vertis shall set up and operate an appropriate information system so as to establish reporting lines to the Board of Directors that cover all material risks the investment firm is or might be exposed to, and to supply up-to-date information through the management information system on risk management policies and changes thereof.

It is the duty of the Board of Directors to review the Risk Management Regulation and the related internal regulations every year. It receives quarterly reports of the Company's risk exposure from the Risk and Liquidity Manager. The review can be done more often if the Risk and Liquidity Manager considers it is necessary.

Supervisory Board

The Supervisory Board reviews the quarterly reports of the Company's risk exposure from the Risk and Liquidity Manager.

Risk and Liquidity Manager

The Company's Risk and Liquidity Manager is independent from all other departments. The Risk and Liquidity Manager is responsible for the implementation and application of the risk management processes taking into account the full range of applicable law. This includes monitoring credit exposure, trading exposure, collateral and margin sufficiency, market, operational and systemic risks and other risk factors.

The Risk and Liquidity Manager reports to the CFOO and Managing Director, to the Board of Directors and submits the risk reports to the Supervisory Board. Risk management closely cooperates with the Compliance Officer and with the Internal Auditor.

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Risk Council

A Risk Council (Council) is formed to set Risk Strategy and Risk Management Regulation and decide on high risk related matters. The Risk Council members are appointed by the Board of Directors for an undefined period. The members of the Risk Council:

- Krisztián Lovrity,
- Krzysztof Piątek,
- Kata Kiss
- Gauthier Bily

The decision of the Council is based on majority decisions, these Council decisions are valid if at least two third of the Council Members have expressed their opinion on the topic.

The following topics are within the scope of the Risk Council:

- counterparty credit limits,
- general credit risk limits, within which credit limits can be assigned to individual Counterparties,
- market risk limits,
- review of client open positions and limits,
- liquidation levels,
- improvements on communications – both internal and towards clients,
- review of the Risk Management Regulation,
- review of the Trading Book Regulation,
- review of compliance with these Regulations
- any other topic under the competence of the Council.

Credit Committee

In addition to the above Risk Council, Vertis has set up a Credit Committee. Its primary task is to perform an analysis of client financial situation through an analysis of financial information, indicators and ratios provided in clients' financial reports and to determine and assign individual clients' credit risk limits within the maximum limits set by the Risk Council.

Credit Committee operates within the strict rules of this regulation and within the maximum limits set to it by the Risk Council, as provided in Risk Management Regulation. **It is not, by any means responsible for setting Risk Strategy or for managing the Risk Profile of the Company.**

Compliance Officer

The Compliance Officer is responsible for the Company's compliance with the provisions of law, the legal provisions contained in the regulations, and with the internal policies.

Internal Auditor

The Internal Auditor controls and assesses the followings:

- if the operations of Vertis comply with the laws and regulations,
- management of resources,
- operations of internal control lines.

Methods of risk taking

In order to manage risks and keep them within strict limits, Vertis has detailed procedures to manage risk takings which shall be applied during the daily workflow:

- Risk and Liquidity Manager revises the List of Approved (trading) products, all products available in Vertis "mv2" system are considered approved,
- the List of Approved Products and Transaction Types is regularly updated in the risk procedures and the Risk and Liquidity Manager communicates it to all relevant staff members,
- the List of regulated Approved Products must be in line with the content of the Investment Firm License of the Company,
- the employees of Vertis are not allowed to trade with any product or do any transaction that is not on the List of Approved Products and Transaction Types (products and transactions that can be selected in mv2 system),
- Risk and Liquidity Manager continuously monitors whether the rules are kept. At least quarterly reports are prepared and presented to the Board of Directors and to the Supervisory Board; the reports can be done more often if the Risk and Liquidity Manager considers it is necessary,
- the Risk and Liquidity Manager is involved in the standard legal documentation of products and transaction types to assure that daily practice is in line with approved List,

Section B – Risk management, objectives and policies by risk categories
Article 47 of IFR

Risk appetite - General principles of risk taking

The Company is an own account trader, trading on both regulated and OTC markets. The trading is done within the EU Emission Trading System (EU ETS), which is a cornerstone of the EU's policy to combat climate change and its key tool for reducing greenhouse gas emissions cost-effectively.

The Company's risk-taking principles are as follows:

- the objective of risk management is to adequately manage the risks, which allows that those risks remain within the limits necessary to achieve Company's business objectives,
- the Company at all times shall develop risk-taking, risk management and internal capital adequacy assessment process (ICAAP) so as not to endanger the safe operation and avoid restriction of its activities by the supervisory Authority (the principle of safe operation),
- the Company shall develop a risk management process to avoid conflicts of interest,
- the Company shall identify and measure all material risks, sets up monitoring system for them and reports about those risks. For the quantifiable risks, the necessary limits are set up internally and managed by internal controls and for the non-quantifiable risks, regular reports are developed and used in order to control those risks. (Principle of risk management is essential),
- the Company shall use methods of measuring risk exposures, which correspond to the Company's business characteristics, goals and policies,
- risk management and control methods, as well as the costs of risk management should be adequate to the risks involved their complexity and proportion. (Cost-benefit principle),
- operation of the Company is based on the compliance with the legal requirements; therefore the Company does not take risks in connection with illegal or unlawful activities or persons. (Prohibited activities principle),
- the Company takes risks in the context and to the extent described in its internal rules,
- risk management is essential part in the Company's business and strategic decision-making processes,
- introduction of any new business activity, new product or service is preceded by a full mapping of the potential risks involved.

Factors determining risk appetite

General principles of risk appetite are set by the Company taking into account:

- prudent risk-taking with comprehensive risk assessment and control environment,
- actual capital position of the Company,
- current risk profile of Vertis and limits set by the Risk Council,
- current economic condition, future expectations and forecasts regarding the state of the sector,
- shareholders expectation,
- requirements set by regulations of National Bank of Hungary (NBH) regarding capital adequacy.

Risk tolerance is the specific maximum risk that the Company is willing to take regarding each relevant risk type.

Risk target is the optimal level of risk that the Company wants to take in pursuit of a specific business goal.

Risk capacity is the amount and type of risk an organization is able to support in pursuit of its business objectives.

Risk limits are the thresholds to monitor that the actual risk exposure does not deviate too much from the risk target and stays within the Company's risk tolerance/risk appetite. Exceeding risk limits will typically act as a trigger for risk management action.

The Company's risk appetite, tolerance towards certain significant risk types (risk tolerance) could be characterized by one of the following qualitative measures: low, moderate, medium, significant, great.

The Company's risk appetite / risk tolerance by risk categories

The risk tolerance regarding certain significant risk types is presented in the following table:

Risk Type	Risk appetite / Risk tolerance	Justification
Foreign exchange risk	Low	FX transactions are not the base activity, but an auxiliary activity performed towards specific needs of customers and form extremely low part of Company's total turnover. The Company's books are in EUR, the emission allowances are denominated in EUR and most transactions and contracts are executed in EUR. FX transactions do not aim at revenue generation but enable to serve client needs better.
Operational risk	Low	Tight product range with simple transactions and settlement processes. Strong internal controls, transparent processes with clear responsibility areas and reporting lines aimed at stable operations.
Strategic risk	Low	Strong political will to keep EU ETS as a main EU tool to fight climate change. Growing customer's exposure towards emission market generates steady demand for high quality services.
Profitability risk	Medium	The Company aims at building and maintaining steady and sustainable revenue stream based on steady demand, which combined with an adequate risk management and optimal risk-return trades, assures a predictable business environment. Moreover, the goal of the Company is to widen the portfolio of clients and reduce dependency on high revenues from limited number of

		clients; however with limited number of potential customers the diversification is limited.
Market risk	Medium	Due to own account trading activity the risks are more concentrated and higher than the other risk types. The risk tolerance is medium because the Company hedges most of its open positions and is allowed to use only a limited amount of capital for speculation.
Counterparty credit risk	Low	The Company creates measures to assure proper management and mitigation of counterparty credit risk in respect of all counterparties it anticipates transacting, and transacts, including counterparty categorization, the evaluation of counterparties, that is supported with both, external and internal information. Vertis has a counterparty limit system in order to manage counterparty credit risk.
Concentration risk	Medium	The Company plans to trade with just one financial instrument and the number of market participants is limited, but the market (EU market) is considered to be big and liquid. Therefore, the extent of concentration is medium.
Liquidity Risk	Low	Vertis is financed from internal sources, as well as external loans or credit lines. The Company invests only in liquid assets / investments and trades on liquid markets. Liquidity is crucial for the Company's core business and to assure the transactions and other liabilities are settled in timely manner without any extra pressure being put on liquidity. The Company developed reports to forecast possible bottlenecks in liquidity and has put in place measures and processes to assure required liquidity and liquidity buffers are provided.
Risk of non-investment activity	Low	Pursuant to Section 8 point (6) c) of IRA Vertis is entitled to have non-investment activity as well. Risk management of non-investment products with an environmental focus is subject to the same risk management principles as investment products. The Company also has some non-investment activity related to the liquidity management of the EUAs.

Limits

To maintain the risk tolerance of Vertis, the Company has set up a comprehensive limit system, to limit the total size of open positions, and the exposure towards the counterparties. Also, to maintain the Company's risk appetite within the desired levels, quantifiable risks are identified, and limits are set in the following areas:

- client credit risk;
- settlement risk;
- country risk;
- position risk (market risk);
- liquidity risk;
- product and asset classes.

Risk Valuation

This section of the disclosure encompasses those types of risks, which are approved by Vertis, taking into account its risk appetite, and considered as relevant based on the operation of the Company. The risk map resulted from the assessment process shall be reviewed annually by the Risk Council.

The Company classifies the following risk types:

Risk Type	Classification	IFR capital calculation method
Market risk	Material	Based on IFR K-NPR (net position risk) method
Credit risk	Material	Based on IFR - K-CON method
Counterparty credit risk	Material	Based on IFR K-TCD method
Operational risk	Material	Based on IFR K-DTF method
Foreign exchange risk	Not material	Standardized method, included in the K-NPR factor
Liquidity risk	Material	-
Strategic risk	Not material	-
Risk-to-Client	Not material	Based on IFR - K-COH method
Reputation risk	Not material	-

Credit risk

Credit risk is defined as the risk that a contractual partner will not fully or partially repay its liabilities when they become due and it will negatively affect Vertis's profitability. The credit risk of Vertis in its strict sense derives only from cash and unit settlement related to the provision of investment services (free delivery).

By default, the Company doesn't pre-pay or pre-deliver to clients. If the client has to pre-deliver or pre-pay, risk can only arise from the (negative) replacement cost of the product or the money spent on the product.

Vertis trading partners that are considered to be market makers, liquidity providers or clearing service providers are usually granted predelivery or prepayment limit, in order for Vertis to be able to continue its operations and provide services to base clients. Those market makers are usually large banks or trading institutions as well as well-established reputable traders.

Market risk

Market risk is the risk of loss originating from the change of the market prices or the rates, which has several categories: for example, interest rate risk, security or commodity prices risk, FX rate risk.

Market risk of Vertis arises from two factors:

- Value of positions held in the trading book,
- Foreign exchange risk arising from assets and liabilities in foreign currencies.

The trading book contains all positions in financial instruments and in commodities, held by the Company, either with trading intent, or in order to hedge a position held with trading intent. Vertis continuously measures, monitors and reports on a daily basis all open positions which was made on own account.

Dealing on own account is strictly controlled by Vertis and kept within the limits set by the Company to be in line with the earlier defined risk appetite. In order to manage open positions, the Risk Management Regulation has set up the following limits:

- Duration limit, - length of position being kept, maximum expiry that is allowed to be traded (part of the product limit)
- Product limit, - products that are allowed to be traded
- Margin limit, - list of acceptable collaterals
- Currency limit, - we can only trade in EUR, possible deviations are PLN, HUF, CZK, GBP, RON, USD.

Due to the trading with spot, futures/forward emission allowances and options for such emission allowances Vertis is exposed to three risk classes:

- interest rate risk,
- commodity risk and
- risks arising from the nonlinearity of options (gamma and vega risk)

In case of interest rate risk, we can distinguish between general and specific risk, from which only the general risk arises from Vertis's positions and daily operation.

In order to calculate capital requirements for market risk, Vertis uses approach pursuant to Article 22(a) of IFR, which refers to the standardized approach under the CRR.

Due to the trading with spot, futures/forward emission allowances and options for such emission allowances Vertis is exposed to three risk classes:

- interest rate risk,
- commodity risk and
- risks arising from the nonlinearity of options (gamma and vega risk).

Operational risk

By definition, operational risk is a risk of losses due to inadequate internal processes, people and systems errors and external events. Operational risk involves legal risks, but no reputational or strategic risks.

Operational risks are managed by Vertis by identifying the sources of risks and losses and reducing their probability of occurrence by setting up appropriate procedures and control systems.

Vertis continuously and systematically identifies and manages the risks arising from its operation. This procedure includes the perception of risks, the place of risk, the estimated severity of the risk, the likelihood of the risk and the duration of the risk.

Operational risk also includes legal risks. Vertis only deals with transactions where there is no doubt about them in legal terms. Vertis' Head of Legal and Regulatory Affairs is responsible for managing legal risk, which may in some cases use external legal advisors.

Vertis handles operational risks in accordance with the following points:

- Identification and analysis of events and audit of processes that cause operational risks and create a loss for Vertis.
- Continuous monitoring of signalling systems related to operational risks.
- Reducing operational risk through the establishment of effective control procedures.
- Limits and procedures for detecting and avoiding fraudulent activities, negligence or deliberate omissions.
- Before conducting a complex, structured transaction, Vertis may involve external experts, who will identify and mitigate the risks involved in emerging potential operations.

Pursuant to Article 33 of the IFR, Vertis calculated its capital requirement according to the K-DTF capital requirement.

Foreign exchange risk

Foreign exchange risk rises from open or imperfectly hedged positions in a particular currency (different than EUR) as a result of unexpected movements in the level of exchange rates (that may lead to losses in the reporting currency (EUR) of the Company).

Foreign exchange positions are not held with the intention to trade, only in order to pay to clients in a currency that is different from the EUR or because the Company accepted such a payment from its client, creating a business need. Trading book contains these positions, as well as position established as a hedge for the positions or transactions described above.

Vertis only have foreign exchange positions with the following conditions:

- The Company may hold currencies different than the EUR or liquid assets denominated in multiple different currencies other than EUR only to serve a business need.
- The Company may hold its liquid assets in different currencies if it does not jeopardize its liquidity.
- The Company sets up and monitors limits on positions in different currencies.

The Company's exposure towards foreign exchange risk is managed with limits, and capital requirement for foreign exchange risk is included in the calculation of requirements for K-NPR factor pursuant to Article 22 of the IFR.

Counterparty credit risk

Counterparty credit risk means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Counterparty credit risk in case of Vertis only arises from its trading book activity, more precisely from the OTC positions held in the trading book.

The objective of counterparty credit risk management of Vertis is the following:

- The Company sets up, communicates, maintains, and monitors manageable counterparty credit risk limits,
- The Company creates guidance for Risk Manager(s) to enable counterparty credit risk evaluation and a decision-making process granting credit limit approvals within the approved limits.
- The Company creates measures to assure proper management and mitigation of counterparty credit risk.

In order to mitigate counterparty credit risk Vertis has set up limits to each counterparty. These limits are at least annually reviewed by the Risk Council. To minimize counterparty credit risk the Company's clients are required to pay a specified amount of margin, unless they are granted a credit limit for collateral [margin] by the Risk Council.

The Company calculates capital requirement for K_TCD factor [Trading Counterparty Default] pursuant to article 26 of the IFR.

Liquidity risk

Liquidity risk is defined as the risk of inability of the Company to satisfy / fulfil its daily, short-term (1-3 months) and long-term (3-12 months) financial obligations, or due to the related market liquidity risks, it can only sell its balancing capacity / liquidate assets or positions at a significant loss.

Liquidity risk comprises both funding liquidity and market liquidity risk:

- Funding liquidity risk appears when the Company cannot fulfil its long term obligations because of an inability to obtain new funding (e.g. cannot meet the cash, margin and collateral requirement of counterparties). Funding liquidity risk can be managed by holding cash and cash equivalents, setting credit lines in place.
- Market liquidity risk appears when the Company is not able to sell its assets easily at the market price without avoiding losses because of illiquid market.

Liquidity is the ability of the Company to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

Main objectives of Vertis with regards to liquidity management and the steps used to mitigate liquidity risk take into account, that:

- The Company shall always be liquid and solvent in order to satisfy its due liabilities towards its customers.
- The Company shall monitor liquidity risk and mitigates such risk via efficient controlling process and necessary interaction with market to create required liquidity (repo) or dispose of excess liquidity.
- The Risk and Liquidity Manager shall design liquidity position and liquidity forecast reports to the Risk Council, to the Sales Manager and to the Head of Trading in order to take necessary actions to secure the required level of liquidity.

Liquidity management framework consists of the following:

- Continuous measurement and forecast: The Company measures its assets (cash and emissions allowances) inflow and outflow based on the settlement details recorded for each executed transaction.
- Reporting: Current cash flow and forecasted cash flow report is produced and analysed by the Risk and Liquidity Manager to identify liquidity gaps that need to be filled.
- Proactive Liquidity Risk management: on a daily basis, the Risk and Liquidity Manager, the Head of Trading are consulting in order to identify and fill liquidity gaps; Risk and Liquidity Manager may also request the Head of Trading to enter into transactions in order to secure the required liquidity level.

The Board of Directors considers the risk management system put in place to be adequate with regard to the Company's profile and strategy (Article 47 of IFR).

Section C – Information regarding corporate management and governance
Article 48 of IFR

The main governing body of the Company is the Board of Directors.

[Article 48 (a) of IFR] On the 30th of September the members of the Board of Directors were:

- Barna Baráth
- James Atkins
- Jernej Kozlevcar

We would like to point out that since we are not obliged to publish the number of directorships outside Vertis until 2026, we chose not to do so, taking into account GDPR considerations.

Vertis' main overseeing body is the Supervisory Board.

The members of the Supervisory Board are:

- Dr. Pál Rahóty,
- Zsolt Grebicsaj,
- Róbert Huszár.

The main activity of the Company is the organization of trade in carbon-dioxide emission rights regulated in international conventions. Vertis has been active in this market since 2006, and its governance body and management have been stable since then. As a result of the stable governance structure, the management has outstanding professional experience in the trade of carbon dioxide emission rights. In addition, some members of the Board of Directors have investment banking background as well.

Policy on selection of members of the management body [Article 48 (b) of IFR]

Vertis is committed to provide equal opportunities to its current and potential employees on every level, especially in case of managerial positions and doesn't discriminate on the grounds of age, gender, pregnancy or maternity, civil status, disability, religion or belief, political or any other opinion, membership of a national minority, property, birth or sexual orientation. This applies to recruitment and selection, training, promotion, pay and employee benefits, employee grievances and discipline procedures and all terms and conditions of employment.

When selecting the management body Vertis respects the rules set by Investment Regulation Act, e.g., professional experience, education, reputation etc.

On top of the requirements of Investment Regulation Act, we consider experience in emissions trading, representation of Vertis Values professional and managerial competences to be important objectives.

The outgoing Board of Directors when submitting the subsequent appointment of Directors are expressing their opinion to the Shareholders if and how the above-described competences are fulfilled by the new management body. The shareholders are required to take this opinion into account.

To assure adequate balance, it is recommended to Shareholders to consider the followings:

- candidates from different age groups
- candidates from both gender
- the competences and skills; both the ones required by law, and the ones that will help the Directors to meet their managerial duties
- origin and international experience
- the continuity of management activities and Board committees if there is any

[Article 48 (c) of IFR] **Vertis operates a Risk Council as well as Credit Committee**. The role and duties, reporting lines in risk management between the Risk Council, Credit Committee, the Board of Directors, the Supervisory Board and the Risk and Liquidity Manager are presented in Section A of this disclosure report.

Last business year, the Risk Council made fourteen (14) written decisions.

Own funds

Article 49 of the IFR

The Company's Tier 1 capital consists of ordinary shares - some of which have been issued at a premium - a general reserve and retained earnings.

Deductions are made for the value of intangible assets (Intellectual property rights, Software products, Other intangible assets, Activated value of foundation reorganization) and Qualified Holdings.

The Company's Tier 1 capital is set out in the table below.

Capital item	**EUR 2023/09/30**	**HUF 2023/09/30**
Share capital	2,757,089	1,078,711,100
Retained earnings	19,274,684.47	7,541,220,300
Capital reserve	37,552.67	14,692,500
Share premium capital	675,294.10	264,208,800
Total	**22,744,620.24**	**8,898,832,700**

Deductions	**EUR 2023/09/30**	**HUF 2023/09/30**
Intangible assets	- 5,317	- 2,080,300
Qualified Holdings	- 0	- 0
Total	**- 5,317**	**- 2,080,300**

Eligible Own Funds	**22,739,303**	**8,896,752,400**

Capital Requirements
Article 50 of the IFR

Following the Article 11 and calculated in accordance with Articles 13, 14 and 15 of the IFR at 30 September 2023 Vertis has the following Own funds requirements [in EUR]

fixed overheads requirement calculated in accordance with Article 13;	permanent minimum capital requirement in accordance with Article 14	K-factor requirement calculated in accordance with Article 15
1,024,000	**750,000**	**K – Factor: 712,000** Risk - to – Client: 0.00 Risk - to – Market: 654,000 Risk - to – Firm: 58,000

Applying Article 11 on the above table, the Company's own funds requirements amount to 1,024,000 EUR.

In addition to IFR requirement, by the decision of National Bank of Hungary following SREP evaluation [Supervisory Review and Evaluation Process], the Company is required to hold own funds equivalent to 115% of the capital requirement under Article 11(1) of the IFR until the next SREP is completed.

Therefore, the total IFR and SREP own funds requirements amount to 1,177,600.00 EUR.

Liquidity requirements
Article 43 of IFR

The Company is required to hold an amount of liquid assets equivalent to at least 1/3 of fixed overhead requirements, that is at least 341,333.34 EUR.

In addition to IFR requirement, by the decision of National Bank of Hungary following SREP evaluation [Supervisory Review and Evaluation Process], the Company is required to increase its liquidity requirement by 7,970,059 EUR for 30 September 2023.

On 30 September 2023, the Company holds more than 8,311,392 EUR [which is its total Liquidity requirement] of liquid assets, all as unencumbered short-term deposits at more than one credit institution, having deducted all cash, short term deposits and financial instruments belonging to clients, even where held in the own name of the Company [Article 43.2 of IFR].

Composition of own funds

Following Article 9 of the IFR, an investment firm shall have own funds composition meeting the following criteria at all times

(a) $\frac{\text{Common Equity Tier 1 capital}}{D} \geq 56\,\%$,

(b) $\frac{\text{Common Equity Tier 1 capital} + \text{Additional Tier 1 capital}}{D} \geq 75\,\%$,

(c) $\frac{\text{Common Equity Tier 1 capital} + \text{Additional Tier 1 capital} + \text{Tier 2 capital}}{D} \geq 100\,\%$,

Vertis meets the conditions with the ratio of each subpoint (a), (b) and (c) being at 2,221%.

The Company's approach to assessing the adequacy of its internal capital to support current and future activities

Article 50 (a) of the IFR

Stress test

The company applies certain stress testing. The stress testing is formulated in the Company's ICAAP Policy and consists of the following main elements:

a) Market price scenarios

We examine possible market price development scenarios, which are based on our calculations of normal and stressed historical 10day, 99th VaR. We also examine scenarios regarding increased option volatility.

b) Reverse stress test

The company has also prepared reverse test scenarios for certain type of risks, asking itself what conditions or actions may put the company into stressed situation or condition, what the consequence of such state or situation would be and what actions, monitoring system, preventive action, limits can be applied or made available to prevent such scenario from materializing – those are not used to calculate capital requirements.

The key applications of the findings of the stress test results are as follows:

- **Verification of the feasibility of an out-of-ordinary transaction**, to check, verify and confirm its impact on the capital requirements, to analyse not only its current impact on capital requirements but also understand the capital consumptions on a longer period (for example what is the impact of entering into long or short position in option with long dated expiry and in high amount)
- The amount of incremental capital requirement would determine whether or not to proceed with the transaction or adjust it accordingly. It could have impact on the amount of required capital, **choice of hedging or pricing used for that particular transaction.**
- Dividend decisions – due to the nature of our business – own account trader - great part of our exposures and hence capital requirements are dependent on market price and size of our positions. Examination of internal capital requirements based on price development scenarios, help in understanding potential future requirements and capital needs and plan the retention of profits (eligible capital) according to the expected trading plan and potential market development.

Remuneration Policy

The most important design characteristics of the remuneration system.

In execution, monitoring and revision of the remuneration policy, Vertis, in accordance with the Company's size, nature of activity, scope and complexity, the internal organizational structure along with its independence, takes into account the circumstances based on which it determines which employees and office-holders fall under the scope of the remuneration policy and what regulations are to be developed regarding their remuneration based on the provisions of the Investment Act.

The principles of the remuneration policy are accepted by the Supervisory Board of Vertis based on Paragraph 5 of Appendix 4 of the Investment Act (IRA) and is revised as necessary. The Company's Board of Directors is responsible for the implementation of the Policy.

Remuneration Committee

Based on the provisions of Point 6 of Appendix 4 of the Investment Act, no remuneration committee will be set up at the Company.

Personal scope

The Remuneration Disclosure provides aggregated information on all staff that have a material impact on the Company's risk profile. For these purposes, Material Risk Takers ("MRTs") include:

- the managing directors of the Company
- members of the Company's Board of Directors and the Supervisory Board,
- the Company's employees and managers responsible for risk management, internal audit and for the management of compliance functions,
- those employees not mentioned above who belong to the same remuneration category and whose activity has a significant impact on the risk taking of the investment firm. If determining such a person is justified other than those specified in the following section, based on the proposal of the Board of Directors the Supervisory Board adopts a decision on it. With regard to the proportionality requirement set out in the Commission Delegated Regulation No 2021/2154 the following employees have material impact on the Company's risk profile:
- members of the Risk Council;
- the employee who has managerial responsibilities for the prevention of money laundering and terrorist financing;
- Head of IT Development;
- Head of IT Operations;
- IT Security Officer
- employees who meet the quantitative criteria according to Article 4 of the regulation,

For persons of priority, who have a material impact on the Company risk profile, there is a direct link between the size of variable remuneration and net profit result of the Company.

The key performance measures for determining the size of variable remuneration are the net profit result of the Company (quantitative Key Performance Indicator or KPI), as well as compliance with all applicable laws, internal regulations and capital requirements as well as execution of strategic goals and the business plan (qualitative KPI). All deferred remuneration is vested.

Quantitative information (*all data in gross HUF, unless otherwise stipulated*)

We would like to point out that since we are not obliged to publish the quantitative information until 2026, we chose not to do so, taking into account GDPR considerations.

The Company benefits from a derogation laid down in Article 32(4) of Directive (EU) 2019/2034.

Investment Policy

Article 52.2. of IFR

The Company does not exercise any voting rights in respect of any company whose shares are admitted to trading on a regulated market.

Environmental, Social and Governance risks

Article 53 of IFR

The Company meets the criteria set in Article 32(4) of Directive (EU) 2019/2034, and as such is released from the disclosure of Environmental, Social and Governance Risks.

Budapest, 2024 _______________ Vertis Environmental Finance Ltd.