



# Zerich Securities Ltd

*Regulated by the Cyprus Securities and Exchange Commission License no. 115/10.*

*Legal Entity Identifier: 5493000BDWYLEP2V5I94*

## **DISCLOSURE AND MARKET DISCIPLINE REPORT FOR 2021**

*April 2022*

## DISCLOSURE

*The Disclosure and Market Discipline Report for the year 2021 has been prepared by **Zerich Securities Ltd** as per the requirements of [Regulation \(EU\) 2019/2033](#) (the “Investment Firms Regulation”, “IFR”) issued by the European Commission and the [Law 165\(I\)/2021 on the prudential supervision of investment firms](#) (“L.165(I)/2021”) issued by the Cyprus Securities and Exchange Commission(the “CySEC”).*

***Zerich Securities Ltd** states that any information that was not included in this report was either not applicable on the Company’s business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.*

***Zerich Securities Ltd** is regulated by the Cyprus Securities and Exchange Commission under License number **115/10**.*

*The Legal Entity Identifier of **Zerich Securities Ltd** is **549300OBDWYLEP2V5I94**.*

<b>Contact Us</b>	
<b>Address</b>	<i>13-15 Grigory Afxentiou Street, I.D.E. Ioannou Building - Office 202, Mesa Yeidonia, CY-4003 Limassol</i>
<b>Telephone</b>	<i>+357 25 755 337</i>
<b>Fax</b>	<i>+357 25 755 336</i>
<b>Web site</b>	<i><a href="http://www.zerichsecurities.com">www.zerichsecurities.com</a></i>
<b>Email</b>	<i><a href="mailto:cyprus@zerichsecurities.com">cyprus@zerichsecurities.com</a></i>

*The Board of Directors is ultimately responsible for the risk management framework of the Company. The Risk Management framework is the sum of systems, policies, processes and people within the Company that identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company's operations.*

*The Board of Directors approves in full the adequacy of Risk Management arrangements of the institution providing assurance that the risk management systems in place are adequate with regards to the institution's profile and strategy.*

## Contents

<b>1. INTRODUCTION .....</b>	<b>6</b>
1.1. INVESTMENT FIRM .....	6
1.2. PURPOSE .....	7
1.3. THE COMPANY .....	8
1.4. REGULATORY SUPERVISION .....	9
1.5. MAJOR DEVELOPMENTS DURING 2021 .....	9
1.6. MAJOR CHALLENGES DURING 2021 .....	11
<b>2. GOVERNANCE AND RISK MANAGEMENT .....</b>	<b>14</b>
2.1. TYPES OF RISKS .....	15
2.2. RISK APPETITE .....	16
2.3. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS .....	17
2.4. STRESS TESTS .....	19
2.5. DIVERSITY POLICY .....	20
2.6. BOARD RECRUITMENT .....	20
2.7. REMUNERATION .....	21
2.8. DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BODY .....	25
2.9. BOARD RISK MANAGEMENT DECLARATION .....	25
2.10. RISK PROFILE .....	25
2.11. REPORTING AND CONTROL .....	26
<b>3. CAPITAL MANAGEMENT AND ADEQUACY .....</b>	<b>29</b>
3.1. THE REGULATORY FRAMEWORK .....	29
3.2. REGULATORY CAPITAL .....	29
3.3. SOLVENCY RATIO (CAPITAL RATIO OR TOTAL OWN FUNDS RATIO) .....	32
3.4. CAPITAL MANAGEMENT .....	32
<b>4. K-FACTOR REQUIREMENT .....</b>	<b>41</b>
4.1. RISK TO CLIENT .....	42
4.1.1 Quantitative Information .....	43
<b>5. FIXED OVERHEADS REQUIREMENT .....</b>	<b>45</b>
5.1. QUANTITATIVE INFORMATION .....	46
<b>6. LIQUIDITY REQUIREMENT .....</b>	<b>47</b>
6.1. QUANTITATIVE INFORMATION .....	47
<b>7. PRODUCT INTERVENTION MEASURES .....</b>	<b>49</b>
<b>8. MARKET ABUSE .....</b>	<b>50</b>
<b>9. COMPLIANCE, REPUTATIONAL AND LEGAL RISKS .....</b>	<b>51</b>
9.1. COMPLIANCE MONITORING .....	52
9.2. PREVENTION OF MONEY LAUNDERING AND TERRORISM FINANCING .....	52
<b>10. APPENDIX – REFERENCES TO EBA GUIDELINES .....</b>	<b>54</b>
<b>11. APPENDIX - SPECIFIC REFERENCES TO IFR .....</b>	<b>55</b>

## Tables

TABLE 1: COMPANY INFORMATION .....	6
TABLE 2: CAPITAL ALLOCATION FOR PILLAR I AND PILLAR II RISKS BASED ON THE COMPANY’S PROJECTIONS .....	18
TABLE 3: AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION .....	22
TABLE 4: AGGREGATE QUANTITATIVE INFORMATION ON DEFERRED REMUNERATION .....	23
TABLE 5: AGGREGATE QUANTITATIVE INFORMATION ON DEFERRED REMUNERATION THAT IS PAID OUT DURING THE FINANCIAL YEAR 2021, AND THAT IS REDUCED THROUGH THE PERFORMANCE ADJUSTMENTS .....	23
TABLE 6: AGGREGATE QUANTITATIVE INFORMATION ON GUARANTEED VARIABLE REMUNERATION AWARDS.....	23
TABLE 7: AGGREGATE QUANTITATIVE INFORMATION ON SEVERANCE PAYMENTS AWARDED IN PREVIOUS FINANCIAL YEAR, THAT HAVE BEEN PAID OUT DURING THE FINANCIAL YEAR 2021. ....	24
TABLE 8: AGGREGATE QUANTITATIVE INFORMATION ON SEVERANCE PAYMENTS DURING THE FINANCIAL YEAR 2021 .....	24
TABLE 9: DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BODY .....	25
TABLE 10: MATERIAL RISKS .....	26
TABLE 11: PERIODIC REPORTING SUMMARY .....	27
TABLE 12: CAPITAL REQUIREMENTS.....	33
TABLE 13: REGULATORY CAPITAL.....	34
TABLE 14: EU IF CC1.01 – COMPOSITION OF REGULATORY OWN FUNDS .....	36
TABLE 15: EU IFCC2: OWN FUNDS RECONCILIATION OF REGULATORY OWN FUNDS IN THE UNAUDITED BALANCE SHEET .....	38
TABLE 16: EU IF CCA OWN FUNDS: MAIN FEATURES OF OWN INSTRUMENTS ISSUED BY THE COMPANY .....	39
TABLE 17: RTC REQUIREMENT AS AT 31 <sup>ST</sup> DECEMBER 2021, EUR .....	43
TABLE 18: K-AUM REQUIREMENT AS AT 31 <sup>ST</sup> DECEMBER 2021, EUR .....	43
TABLE 19: K-CMH REQUIREMENT AS AT 31 <sup>ST</sup> DECEMBER 2021, EUR .....	43
TABLE 20: K-ASA REQUIREMENT AS AT 31 <sup>ST</sup> DECEMBER 2021, EUR .....	43
TABLE 21: LIQUIDITY REQUIREMENT AND LIQUIDITY ASSETS AS AT 31 <sup>ST</sup> DECEMBER 2021, EUR .....	48

# 1. Introduction

## 1.1. Investment Firm

**Zerich Securities Ltd** is established as a Cyprus Investment firm (“CIF”), licensed and supervised by CySEC. The **Zerich Securities Ltd** was granted its license on **22 February 2010**.

**Zerich Securities Ltd** offers Investment and Ancillary services to retail and professional clients. Its current activities are concentrated in the provision of investment services including reception, transmission, execution of orders in relation to one or more financial instruments, execution of orders on behalf of clients and portfolio management.

Additionally, the Company provides ancillary services, which include the safekeeping and administration of financial instruments, including custodianship and related services, granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction, foreign exchange services where these are connected to the provision of investment services and Investment services and activities as well as ancillary services where these are connected to the provision of investment or ancillary services.

**Table 1: Company information**

Company name	Zerich Securities Ltd
CIF Authorization date	22 February 2010
CIF License number	115/10
Company Registration Date	23 July 2009
Company Registration Number	HE 252803
<b>Investment Services</b>	
Reception & Transmission of orders in relation to one or more financial instruments	
Execution of Orders on Behalf of Clients	
Portfolio Management	
<b>Ancillary Services</b>	
Safekeeping and administration of financial instruments, including custodianship and related services	
Granting credit or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	
Foreign exchange services where these are connected to the provision of investment services	
Investment services and activities as well as ancillary services where these are connected to the provision of investment or ancillary services	

## 1.2.Purpose

The present report is prepared by **Zerich Securities Ltd** (the “Company”), a CIF authorized and regulated by the CySEC under the license number 115/10 and operates in harmonisation with the Markets in Financial Instruments Directive (“MiFID II”).

In accordance with Part Six of [IFR](#) and the Paragraph 37 of [L.165\(I\)/2021](#), the Company is required to disclose information relating to its risk exposure and management, capital structure, capital adequacy as well as the most important characteristics of the Company’s corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants.

These Pillar III Disclosures are made on a solo/consolidated basis and are updated and published annually; it will, however, be published more frequently if there are significant changes to the business (such as changes to the scale of operations, range of activities, etc.). CySEC is responsible for implementing and enforcing the [Directive \(EU\) 2019/2034](#) (the “Investment Firms Directive”, “IFD”) issued by the European Commission, a capital adequacy framework consisting of three (3) ‘Pillars’:

- **Pillar I:** sets minimum capital requirements comprising of base capital resources requirements; Risk to Client, Risk to Market and Risk to Firm risk capital requirements; and the Fixed Overheads requirement.
- **Pillar II:** requires firms to undertake an overall internal assessment of their capital adequacy and their liquid assets, taking into account all the risks which the firm is exposed to and whether additional capital should be held to cover risks not adequately covered by Pillar I requirements. This is achieved through the Internal Capital Adequacy Assessment Process and Internal Risk-Assessment Process (“ICAAP”).
- **Pillar III:** complements Pillars I and II and improves market discipline by requiring firms to disclose information on their capital resources and Pillar I capital requirements, risk exposures and their risk management framework.

The Pillar III Disclosures Report for 2021 sets out both quantitative and qualitative information required in accordance with Part Six of the [IFR](#) and in particular articles 46 to 53, which set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure Report is audited by the Firm’s external auditors and published on the Company’s website at [www.zerichsecurities.com](http://www.zerichsecurities.com), on an annual basis.

Furthermore, the Board of Directors (“BoD”) and the Senior Management have the overall responsibility for the internal control systems in the process of capital adequacy assessment and

they have established effective processes to ensure that the full spectrum of risks faced by the Company is properly identified, measured, monitored and controlled to minimise adverse outcomes.

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

As with all investment firms, the Company is exposed to a variety of risks and in particular to Risk to Client and Operational risk. More information can be found in the sections below.

The Company is not preparing consolidated financial statements and is making the disclosures on an individual basis.

### **1.3. The Company**

The Company acts as a CIF and operates in **Cyprus**, offering Investment and Ancillary Services. As at 31<sup>st</sup> December 2021 the Company had **5** employees in Cyprus.

The Company has a stable business model and this is reflected in:

- A well-balanced capital allocation between the Company's operations
- A geographically balanced model.

The Company's growth strategy focuses on its existing areas of expertise and the quality of its customer base. The Company strives for sustainable profitability consistent with its cost of capital and a balanced business model. To this end, the Company:

- Seeks to contain the volatility of its results.
- Calibrates its capital ratio to ensure a significant safety margin relative to the minimum regulatory requirements.
- Monitors the stability and diversification of its funding sources.
- Ensures sufficient resilience in scenarios of liquidity shortages.
- Tightly controls its foreign-exchange risks.

The Company aims to maintain a diversified customer base.

The Company ensures that compliance rules are rigorously respected, especially in the area of anti-money laundering and counterterrorism financing. The Company monitors the loyalty of the behaviour of its employees with regard to customers and all its stakeholders, as well as the integrity of its investment and financial practices.



The Company considers its reputation to be an asset of great value that must be protected to ensure its sustainable development. The prevention and detection of the risk of harm to its reputation are integrated within all the Company's operating practices. The Company's reputation is protected by making its employees aware of the values of responsibility, ethical behaviour and commitment.

## 1.4. Regulatory Supervision

The minimum capital requirements as at 31<sup>st</sup> December 2021 for the [IFD](#) were calculated in accordance with the 'Pillar I' rules as set out by the Laws and Regulations, published by the CySEC. All CIFs under CySEC's authority must meet the requirements with respect to capital adequacy and market discipline, which are comprised by the following:

- Law [L.165\(I\)/2021](#): Prudential supervision of investment firms (hereafter "the Law on prudential supervision of investment firms").
- [Regulation \(EU\) 2019/2033](#) – Prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 – (hereafter "Investment Firms Regulation", or "IFR").
- [Regulation \(EU\) No. 648/2012](#) – European Markets Infrastructure Regulation.
- [Directive \(EU\) 2019/2034](#) on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU and 2014/65/EU – (hereafter "Investment Firms Directive", or "IFD").
- Law [L.87\(I\)/2017](#) regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets.
- [Regulation \(EU\) No. 575/2013](#) – Prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (hereafter "CRR").
- [Directive \(EU\) 2013/36 EU](#) - on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (hereafter "CRD IV").
- [Law L.97\(I\)/2021](#) on the capital adequacy of investment firms
- [Directive DI-97-01](#) regarding the discretions provided by Regulation (EU) 575/2013.

## 1.5. Major developments during 2021

New prudential regime was introduced on 5<sup>th</sup> December 2019 for the investment firms, and it is into force from 26<sup>th</sup> June 2021. The new prudential regime comprises of the [IFR](#) and [IFD](#) and it takes into consideration the investment firms' size and interconnectedness based on financial and economic factors.

The new prudential regime for investment firms introduced new classifications for investment firms based on their size, activities, systemic importance and interconnectedness. Under the new

prudential regime, the Company is classified as **Class 2** investment firm and is subject to the new capital requirements set out in the [IFD](#) and [IFR](#).

A new permanent capital has been introduced by the new prudential regime for the Company. In this respect, the Company proceeded by taking all the necessary actions to ensure compliance with the new permanent capital requirement. In particular, from 26<sup>th</sup> June 2021 onwards the minimum permanent capital that the Company shall maintain at all times amounts to **EUR150,000**, in accordance with Article 9 of [IFD](#).

Based on the new prudential regime, the Company is subject to a new capital requirement which equals to the highest of:

- Permanent minimum capital (**EUR150,000**).
- K-factor requirement.
- Fixed Overheads requirement.

The new K – factor requirement introduced by the [IFR](#) aims to capture the potential harm that the Company can do to its clients, the markets in which it operates and to itself and it is equivalent at least to the sum of:

- Risk-to-client (“RtC”).
- Risk-to-market (“RtM”).
- Risk-to-firm (“RtF”).

The K-factor requirement is tailored to the investment firms based on the type and scale of their activities. In this respect, the Company is exposed to capital requirement arising from the K-factor components that are relevant to the services and activities that it is authorised to provide.

During the year under review, the Company based on its type and scale of activities and the services authorized to provide, was solely exposed to risks arising from the potential harm that an investment firm can do to its clients.

Additionally, the Company is also subject to the Fixed Overheads requirement calculated in accordance with Article 13 of the [IFR](#). It is measured on the basis of the Company’s activity of the preceding year and shall amount to at least **one quarter** of the fixed overheads of the previous financial year.

Further to the above, the Company is subject to the new liquidity requirement introduced by the new prudential regime which intends to ensure that the Company has some resilience to unexpected liquidity shocks. It is measured in accordance with Article 45 of the [IFR](#) and shall amount to at least **one third** of the fixed overheads requirement and the **1.6%** of the total amount of the guarantees provided by the Company.

Following the new challenges arising from the new prudential regime, the Company assesses the impact of the new requirements introduced from the [IFR](#) and [IFD](#) on its Own Funds in order to take all the appropriate measures to ensure compliance with the new Own Funds requirements.

## 1.6. Major challenges during 2021

### COVID-19 challenges

During 2021, the Company faced material challenges in relation to its operations due to the spread of the coronavirus (“COVID-19”). In response to the need to address negative consequences of COVID-19 pandemic, the Company introduced a wide range of mitigating measures to ensure that the business operations of the Company will continue normally. In particular, due to the social distancing measures introduced to restrict the COVID-19 virus the Company should take all necessary following measures and actions:

- Identify all the key operation risks implement a plan to minimize the possible business disruptions.
- Arrange for all staff members to have access to a laptop and ensure that everyone will be able to perform their duties from home in case of need.
- Implement alternative communication channels for all Company’s employees.
- Establish measures and procedures in order to contribute to the slow of the spread of the illness. The Company has established the following measures in order to ensure that the virus is spread slowly:
  - a) Cancel all of the social and public gatherings, such as seminars and meetings.
  - b) Follow the instructions issued by the Ministry of Health, and required from its staff tested positive, employees with symptoms, employees who are contacts with confirmed COVID-19 cases, or travelled recently to get quarantine.

Further to the above, CySEC extended the deadline for submission of the following reports, in an effort to ensure operational continuity:

- Annual Compliance Report.
- Annual Risk Management Report.
- Annual Internal Audit Report.
- Annual Audited Financial statements.
- Annual Auditors’ Suitability Report.
- COREP forms based on the audited financial statements.
- Disclosures made in Form 144-14-11 on prudential supervision information.

## **New prudential framework for investment firms and CySEC's data collection exercise**

In response to the need to identify the new categorisation of the investment firms under the new prudential framework ([IFR/IFD](#)) as well as the new capital requirements arising from the new regulatory framework, CySEC launched a Data Collection exercise on 21<sup>st</sup> April 2021 (Circular [C442](#)). Based on the abovementioned Circular, the Company should perform an assessment based on the [IFR/IFD](#) and submit the Data Collection Template. The relevant reporting should be performed by the 31<sup>st</sup> of May 2021.

### **Implementation of the new prudential framework of investment firms and new reporting forms**

CySEC published on 4<sup>th</sup> of August 2021, guidelines on the implementation of the new prudential framework of investment firms ([IFR/IFD](#)), publication and testing submission of the new reporting forms under [IFR/IFD](#). The form ("FormZZ-01 Reporting for Class 2 CIFs") cover the new reporting prudential requirements under [IFR/IFD](#), as follows:

- Level and composition of own funds.
- Own funds requirements.
- Own funds requirements calculations.
- The level of activity in respect of the conditions set out in Article 12(1) of the [IFR](#), including the balance sheet and revenue breakdown by investment service and applicable K-factor.
- Concentration risk.
- Liquidity risk.

The FormZZ-01 Reporting for Class 2 CIFs shall be reported on a quarterly basis to CySEC, with the first official reference date 30<sup>th</sup> of September 2021.

Further to the above, a testing submission on a solo basis with reference date 30<sup>th</sup> of June 2021, was introduced by CySEC through the Circular [C464](#) dated on 4<sup>th</sup> of August 2021. The scope of this testing submission was to ensure that the investment firms familiarize themselves with the new prudential requirements and reporting obligations and take at an early stage the measures necessary to comply with the new prudential requirements.

### **Exposures to shareholders and directors**

CySEC issued the [Practical guide for the implementation of IFR/IFD](#) on 4<sup>th</sup> of August 2021 in order to provide to the CIFs important information in regards to the implementation of the new prudential framework for investment firms.

Based on the [Practical guide for the implementation of IFR/IFD](#), the limits on exposures to the Company's shareholders and directors which arise from the Directive DI144-2014-14 for the prudential supervision of investment firms issued by CySEC are no longer applicable since the abovementioned directive has been repealed.

Nevertheless, according to the [Practical guide for the implementation of IFR/IFD](#), the Company shall assess its banking book concentration risk it is exposed to during the assessment of the amount, type and distribution of internal capital and liquid assets that the Company consider adequate to cover the nature and level of risks which it may pose to others and to which the Company itself is or might be exposed.

## 2. Governance and Risk Management

Implementing a high-performance and efficient risk management structure is a critical undertaking for the Company, in all businesses, markets and regions in which it operates, as are maintaining a strong risk culture and promoting good corporate governance. The Company's risk management, supervised at the highest level is compliant with the regulations enforced by CySEC and the European regulatory framework.

The implementation of a high-performance and efficient risk management system is a critical undertaking for the Company, as well as the balance between strong risk culture and the development of its activities.

The Enterprise Risk Management programme ("ERM") is closely monitored at the highest level of the Company: it is supervised by the Management body, with the participation of members of the Executive Committee, and is the subject of regular reporting to the BoD.

The first phase of the ERM programme was carried out between 2020 and 2021 (year-end). It has improved the consistency and effectiveness of the Company's risk management system by fully integrating risk prevention and management within the day-to-day management of the Company's operations. In particular, the BoD ensures the adequacy of the Company's risk management infrastructure, monitoring changes in the cost of risk and approves the risk limits for market risks.

The Company operates a separate Risk Management function, which is responsible for the implementation of the Risk Management Policy, set by the BoD. The Risk Management Function is also responsible for the Risk Appetite of the Company and the monitoring of the risks on a regular basis. The procedures set by the Company ensure that all risks are effectively managed and measured against the set level of risk tolerance.

The Risk Management Function consists of the Risk Manager which operates independently to the rest of the Company's functions. The Risk Manager reports to the Managing Director of the Company. The Risk Manager shall also submit reports to the Senior Management and BoD on a frequent basis, and at least annually, indicating whether the appropriate remedial measures have been taken in the event of any deficiencies.

The Risk Management function can report directly to the BoD, independently from Senior Management, in order to raise concerns and warn where appropriate, if risks identified can affect the Company.

The Company has established separate control functions which work independently from its operations and include the Compliance, Risk Management and Internal Audit. The head of each control function report directly to the Managing Director and have direct access to the BoD to raise concerns and warn in relation to any matter that may affect the Company. Meetings with the Board and the relevant control function takes place on a regular basis.

The BoD ensures that each control function has adequate recourses to perform their responsibilities in accordance to the size and the complex of the Company.

## 2.1.Types of Risks

Given the diversity and evolution of the Company's activities, risk management involves the following main categories:

- **Risk to Client:** risks carried by an investment firm during its services, actions or responsibilities, that could negatively impact its clients. RtC captures the risks arising from the clients assets under management and ongoing advice, client money held, assets safeguarded and administered and client orders handled.
- **Concentration risk (including Country risk):** risk of losses arising from the inability of the Company's customers, issuers or other counterparties to meet their financial commitments. Credit risk includes Counterparty risk linked to market transactions (Replacement risk) and securitisation activities. In addition, Credit risk may be further amplified by Concentration risk, which arises from a large exposure to a given risk, to one or more counterparties, or to one or more homogeneous groups of counterparties; Country risk arises when an exposure (loan, security, guarantee or derivative) becomes liable to negative impact from changing political, economic, social and financial conditions in the country of exposure.
- **Operational risks (including Accounting and Environmental risks):** risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss.
- **Liquidity risk:** risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost.
- **Compliance risk** (including Legal and Tax risks): risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company's activities.
- **Reputational risk:** risk arising from a negative perception on the part of customers, counterparties, shareholders, investors or regulators that could negatively impact the Company's ability to maintain or engage in business relationships and to sustain access to sources of financing.

- **Strategic risk:** risks inherent in the choice of a given business strategy or resulting from the Company's inability to execute its strategy.
- **Business risk:** risk of lower than anticipated profits or experiencing losses rather than a profit.

## 2.2.Risk Appetite

The Company defines Risk Appetite as the level of risk, by type and by business that the Company is prepared to incur given its strategic targets. Risk Appetite is defined using both quantitative and qualitative criteria.

The Risk Appetite Framework takes into account earnings sensitivities to business cycles and credit, market and operational events. The Risk Appetite is one of the strategic oversight tools available to the Management bodies. It underpins the budgeting process and draws on the ICAAP, which is also used to ensure capital adequacy under stressed economic scenarios.

Furthermore, the positioning of the business in terms of risk/return ratio as well as the Company's risk profile by type of risk are analysed and approved by the BoD. The Company's risk appetite strategy is implemented by the Senior Management in collaboration with the BoD and applied by all divisions through an appropriate operational steering system for risks, covering:

- Governance (decision-making, management and supervisory bodies).
- Management (identification of risk areas, authorisation and risk-taking processes, risk management policies through the use of limits and guidelines, resource management).
- Supervision (budgetary monitoring, reporting, leading risk indicators, permanent controls and internal audits).

Essential indicators for determining the Risk Appetite and their adaptations are regularly supervised over the year in order to detect any events that may result in unfavourable developments on the Company's risk profile. Such events may give rise to remedial action, up to the deployment of the recovery plan in the most severe cases.

The BoD of the Company has the ultimate responsibility for the Company's risk appetite at all times.

The Company is considering the time and requirements in order to initiate the establishment of a Risk Appetite Statement.



## 2.3. Internal Capital Adequacy Assessment Process

The ICAAP/ICARAP requires institutions to identify and assess risks not adequately covered in Pillar I, maintain sufficient capital to face these risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward looking basis, i.e., internal capital supply to exceed internal capital demand.

On 10<sup>th</sup> July 2019, CySEC issued Circular [C326](#) regarding the Prudential Supervision Information which will be required to be submitted (“Form 144-14-11”) by all the Investment Firms by the 30<sup>th</sup> of June each year. Specifically, this particular form was addressed by CySEC in order to collect relevant information by the CIFs regarding the following areas:

- The assessment of ICAAP/ICARAP.
- The assessment of annual audited financial statements.
- The safeguarding of clients’ money.

The regular deadline of the submission of the Form-144-14-11 for 2021 was extended by one month due to COVID-19 issues as per CySEC’s Circular [C445](#). Therefore, the Company’s ICAAP results, have been successfully submitted to CySEC through Form 144-14-11 by the end of July 2021.

The Company maintains compliance with the ICAAP as required under Pillar II of Basel III and its local implementation in Cyprus, through risk management and governance framework, methodologies, processes and infrastructure.

The Company prepared the ICAAP with reference date 31<sup>st</sup> December 2020. The results of these tests showed that the Company may face difficulties to absorb the impact of such risks if they were to materialize in line with the tests’ parameters. In particular, the results of the Company’s analysis suggest a Pillar I and Pillar II Capital allocation for the next year under the **Base Scenario** of **EUR158,976** and a total Eligible Capital of **EUR255,071** which creates a surplus of **EUR96,095**.

The methods used to quantify the Company’s Pillar I capital requirements are in accordance with CRR, whereas for computing its Pillar II capital requirement, the Company uses a more sophisticated methodology to quantify and aggregate the capital requirements for the risks in total. With this in mind capital, should be allocated in order to absorb Pillar II risks, incorporating the assessment undertaken by the Company for the purpose of its ICAAP.

All risks that are considered as material have been included in the analysis. Even when considering the capital allocation for Pillar II risks, the Company’s adjusted capital adequacy ratio for the next year is expected to stand at **12.84%** based on the Company’s financial projections. The following

table provides a breakdown of the Company's capital allocation for Pillar I and Pillar II risks for the next three years.

**Table 2: Capital allocation for Pillar I and Pillar II risks based on the Company's projections**

<b>Capital Allocation (in EUR) – Base Scenario- in EUR</b>		<b>Year 1</b>		<b>Year 2</b>		<b>Year 3</b>	
<b>Risk type</b>		<b>Pillar 1 Capital Allocation</b>	<b>Pillar 2 Capital Allocation</b>	<b>Pillar 1 Capital Allocation</b>	<b>Pillar 2 Capital Allocation</b>	<b>Pillar 1 Capital Allocation</b>	<b>Pillar 2 Capital Allocation</b>
Pillar I Risks	<b>Credit Risk</b>	103,533	-	104,987	-	100,560	-
	<b>Market Risk</b>	48,987	-	3,684	-	18,946	-
	<b>Operational Risk</b>	-	1,139	7,200	1,367	1,545	1,504
Pillar II Risks	<b>Counterparty risk</b>		-		-		-
	<b>Technology risk</b>		1,139		1,367		1,504
	<b>Liquidity risk (Funding)</b>		-		-		-
	<b>Liquidity risk (Asset)</b>		-		-		-
	<b>Business/Strategic risk</b>		1,139		1,367		1,504
	<b>Compliance/Regulatory risk</b>		2,279		2,735		3,008
	<b>Residual Risk</b>		380		456		501
	<b>Negative Balance Protection Risk</b>		-		-		-
	<b>Reputational risk</b>		380		456		501
	<b>Concentration Risk</b>		-		-		-
Capital Requirements		152,519	6,457	115,871	7,748	121,051	8,523
Total Eligible Capital		<b>255,071</b>		<b>(19,181)</b>		<b>(98,648)</b>	
Capital Adequacy Ratio		<b>13.38%</b>	<b>12.84% (adjusted)</b>	<b>(1.32%)</b>	<b>(1.24%) (adjusted)</b>	<b>(6.52%)</b>	<b>(6.09%) (adjusted)</b>

$$\text{Adjusted capital adequacy ratio} = \frac{\text{total eligible capital}}{\text{Pillar I} + \text{Pillar II risk weighted exposure}}$$

Furthermore, the Company applies stress tests scenarios in its ICAAP in order to assess the Company's potential risks arising from such scenarios. In particular, the updated ICAAP includes stress test scenarios that relate to the Company's base operating situations, business stress test scenario, regulatory/compliance stress test scenario, IT platform default stress test scenario, Cyber security attack stress scenario and failure of the Company's major counterparty scenario, based on the Company's expectations for the next three years.

Furthermore, the Company in its updated ICAAP/ICARAP report assessed with a new stress scenario the changes in relation to the challenges faced due to the outbreak of the COVID-19 crisis in order to evaluate the risks arising from this pandemic.

In line with the recent changes in the regulatory framework, the Company awaits the new guidelines for reconstructing its ICAAP/ICARAP in order to capture the new requirements arising from the new prudential regime.

## 2.4. Stress Tests

Stress testing is a key risk management tool used by the Company to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- Understanding the risk profile of the Company.
- The evaluation of the Company's capital adequacy in absorbing potential losses under stressed conditions: This takes place in the context of the Company's ICAAP on an annual basis.
- The evaluation of the Company's strategy: Senior management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows senior management to determine whether the Company's exposures correspond to its risk appetite.
- The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

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

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

The Company performs financial modelling and stress analysis on a frequent basis especially when year-end financial results are available or when it revises its business plan, mainly through its ICAAP/ICARAP report.

## **2.5.Diversity Policy**

Diversity is increasingly seen as an asset to organizations and linked to better economic performance. It is an integral part of how the Company does business and imperative to commercial success.

The Company recognizes the value of a diverse and skilled workforce and management body, which includes and makes use of differences in the age, skills, experience, background, race and gender between them. A balance of these differences will be considered when determining the optimum composition.

The Company is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the organization into the future. This is also documented as best practises in the Corporate Governance Code of many EU countries.

In line with the recent changes in the regulatory reporting framework, the Company shall maintain a dedicated diversity policy in relation to the Management body.

## **2.6.Board Recruitment**

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Senior Management is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the BoD.

The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. The final approval of a member of the Management Body is given by CySEC.

Factors considered in the review of potential candidates include:

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

- Risk management experience.

In line with the recent changes in the regulatory reporting framework, the Company shall maintain a dedicated recruitment policy in relation to the BoD.

The Company's BoD is chosen to be specialists in various fields in order to be able to offer diversity and the expertise required to oversee its smooth operations.

## **2.7. Remuneration**

Remuneration refers to payments or compensations received for services or employment. The remuneration system includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment and shall be appropriate to the CIF's size, internal organization and the nature, the scope and the complexity of its activities.

During 2021, the Company's remuneration system is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management, members of the Board of Directors or risk takers, whose professional activities have a material impact on the risk profile of the Company; the said practices are established to ensure that the rewards for the 'Executive Management' provide the right incentives to achieve the key business aims.

The total remuneration of staff consists of fixed and variable components. Fixed and variable components are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component. The Company manages and controls the ratios between the fixed and the variable component of the total remuneration for each individual and ensures compliance with the requirements arising from [IFD](#).

Based on the requirements arising from the [IFD](#) in relation to the remuneration policies, the Company shall update its Remuneration Policy and set appropriate ratios between the variable and fixed components of the total remuneration taking into account the business activities of the Company and associated risks, as well as the impact that different categories of staff, including senior management, risk takers, staff engaged in control functions and any employees receiving overall remuneration equal to at least the lowest remuneration received by senior management or risk takers, whose professional activities have a material impact on the risk profile of the investment firm or of the assets that it manages, have on the risk profile of the Company.

Based on the Remuneration Policy of the Company, the following ratios between the variable and fixed components of the total remuneration have been set taking into account the business activities

of the Company and associated risks, as well as the impact that different categories of staff, including senior management, risk takers, staff engaged in control functions and any employees receiving overall remuneration equal to at least the lowest remuneration received by senior management or risk takers, whose professional activities have a material impact on the risk profile of the investment firm or of the assets that it manages, have on the risk profile of the Company:

- Variable remuneration shall not exceed **100.00%** of the fixed component of the total remuneration for each individual<sup>1</sup>

The table below presents the remuneration of the members of the BoD and other key management personnel whose professional activities have a material impact on the risk profile of the Company for the year ended 31<sup>st</sup> of December 2021.

**Table 3: Aggregate Quantitative Information on Remuneration**

<i>Figures in EUR</i>	<b>No. of staff</b>	<b>Fixed</b>	<b>Variable</b>	<i>Of which were cash</i>	<i>Of which were shares</i>	<i>Of which were share-linked</i>	<i>Of which were other type of instruments</i>	<b>Total</b>
<b>Executive Directors</b>	2	169,484	-	-	-	-	-	169,484
<b>Non-Executive Directors</b>	2	18,000	-	-	-	-	-	18,000
<b>Other staff whose actions have a material impact on the risk profile of the Company</b>	3	96,591	-	-	-	-	-	96,591
<b>Grand Total</b>	7	284,075	-	-	-	-	-	284,075

The table below presents the amounts of deferred remuneration awarded for previous performance periods of the members of the BoD and other key management personnel whose professional activities have a material impact on the risk profile of the Company, split into the amount due to vest in the financial year for the year ended 31<sup>st</sup> of December 2021 and the amount due to vest in subsequent years.

<sup>1</sup> Shareholders of the CIF may approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided the overall level of the variable component shall not exceed **200.0000%** of the fixed component of the total remuneration for each individual

**Table 4: Aggregate Quantitative Information on Deferred Remuneration**

<i>Figures in EUR</i>	<b>No. of staff</b>	<b>Amount due to vest in 2021</b>	<b>Amount due to vest in subsequent years</b>	<b>Total</b>
<b>Executive Directors</b>	2	151,415	151,415	302,830
<b>Non-Executive Directors</b>	2	18,000	18,000	36,000
<b>Other staff whose actions have a material impact on the risk profile of the Company</b>	3	85,919	145,919	231,837
<b>Grand Total</b>	7	255,334	315,334	570,667

The table below presents the amounts of deferred remuneration of the members of the BoD and other key management personnel whose professional activities have a material impact on the risk profile of the Company, due to vest in the financial year 2021 that is paid out during the financial year 2021, and that is reduced through the performance adjustments.

**Table 5: Aggregate Quantitative Information on Deferred Remuneration that is paid out during the financial year 2021, and that is reduced through the performance adjustments**

<i>Figures in EUR</i>	<b>No. of staff</b>	<b>Amount paid out during 2021</b>	<b>Reduced through the performance adjustments</b>
<b>Executive Directors</b>	2	151,415	-
<b>Non-Executive Directors</b>	2	18,000	-
<b>Other staff whose actions have a material impact on the risk profile of the Company</b>	3	85,919	-
<b>Grand Total</b>	7	255,334	-

The table below presents the amounts of guaranteed variable remuneration awards of the members of the BoD and other key management personnel whose professional activities have a material impact on the risk profile of the Company, during the financial year 2021.

**Table 6: Aggregate Quantitative Information on Guaranteed Variable Remuneration Awards**

<i>Figures in EUR</i>	<b>No. of staff</b>	<b>Guaranteed Variable Remuneration Awards</b>
<b>Executive Directors</b>	-	-
<b>Non-Executive Directors</b>	-	-
<b>Other staff whose actions have a material impact on the risk profile of the Company</b>	-	-
<b>Grand Total</b>	-	-

The table below presents the amounts of severance payments awarded to the members of the BoD and other key management personnel whose professional activities have a material impact on the risk profile of the Company in previous financial years, that have been paid out during the financial year 2021.

**Table 7: Aggregate Quantitative Information on Severance Payments awarded in previous financial year, that have been paid out during the financial year 2021.**

<i>Figures in EUR</i>	<b>No. of staff</b>	<b>Severance payments awarded in previous financial years and they have been paid out during 2021</b>
<b>Executive Directors</b>	-	-
<b>Non-Executive Directors</b>	-	-
<b>Other staff whose actions have a material impact on the risk profile of the Company</b>	-	-
<b>Grand Total</b>	-	-

The table below presents the amounts of severance payments awarded to the members of the BoD and other key management personnel whose professional activities have a material impact on the risk profile of the Company during the financial year 2021.

**Table 8: Aggregate Quantitative Information on Severance Payments during the financial year 2021**

<i>Figures in EUR</i>	<b>No. of staff</b>	<b>Up-front Severance payments awarded during 2021</b>	<b>Deferred Severance payments awarded during 2021</b>	<b>Total</b>
<b>Executive Directors</b>	-	-	-	-
<b>Non-Executive Directors</b>	-	-	-	-
<b>Other staff whose actions have a material impact on the risk profile of the Company</b>	-	-	-	-
<b>Grand Total</b>	-	-	-	-

During the year ended 31<sup>st</sup> of December 2021, the Group didn't award any amount of severance payment to a single person.



## 2.8. Directorships held by Members of the Management Body

As at 31<sup>st</sup> December 2021, the members of the Management body of the Company, given their industry experience, have been taking seats in other Company boards. In line with this, the following table indicates the number of positions that each member holds (including the one in the Company). Positions held by a member of the Management body in the same group are considered as one position.

**Table 9: Directorships held by Members of the Management Body**

<b>Name</b>	<b>Position in the CIF</b>	<b>Directorships (Executive)</b>	<b>Directorships (Non-Executive)</b>
<b>Anton Belozarov</b>	Executive Director	<b>1</b>	<b>-</b>
<b>Georgios Ktoridis</b>	Independent Non-Executive Director	<b>-</b>	<b>2</b>
<b>Athos Demetriou</b>	Non - Executive Director	<b>1</b>	<b>3</b>

Mr. Viktor Antokhov resigned from his position as a member of the Board of Directors of the Company on 31<sup>st</sup> March 2021.

During 2021, the BoD has met 19 times discussing important issues surrounding the Company's operations in an effort to effectively discharge its duties.

## 2.9. Board Risk Management Declaration

The Company's Risk Management Function is entitled to review and appropriately assess the effectiveness of the risk management strategies and procedures adopted by the Company.

The abovementioned procedures are designed in order to manage and mitigate any deficiencies that the Company might face during its operations.

The Company's Management Body ensures that the Company has adequate measures and procedures in place so as to prevent and mitigate any risk arising from its operations.

## 2.10. Risk Profile

The Company's management body is appropriately informed and acknowledge the necessity of taking all the appropriate actions for complying with the Company's minimum requirements for its Own Funds Ratio and its Own Funds, which are **100.00%** and **EUR150,000**.

The Company applies adequate mechanisms and systems in order to detect the risks is exposed, arising from its operations.

The Company's material risks are assessed on quarterly basis via the use of a Risk Register and the results are communicated to the Company's BoD in order to decide which mitigating actions the Company should take.

The table below summarises the main risks identified and the controls the Company has already taken in order to manage and mitigate those risks.

**Table 10: Material Risks**

<b>Risk Type</b>	<b>Controls in place</b>
<b>Regulatory Risk</b>	<p>The Company monitors its Total Own Funds Ratio and Own Funds on a quarterly basis in order to ensure that the Company complies with the relevant requirements (<b>100.00%</b> and <b>EUR150,000</b>, respectively).</p> <p>The Company's Total Own Funds Ratio stood at <b>174.5783%</b> as at 31<sup>st</sup> December 2021, which is above the minimum requirement of <b>100.00%</b>. Additionally, the Company's Own Funds stood at <b>EUR261,867</b> which is above the minimum requirement of <b>EUR150,000</b> (to comply with the maximum between the minimum permanent capital of <b>EUR150,000</b>, the K-factor requirement of <b>EUR134</b> and the Fixed Overheads requirement of <b>EUR132,310</b>).</p>
<b>Risk to Client</b>	<p>The Company monitors its K-factor requirements in relation to the RtC and reports the relevant factor amount and capital requirements on a quarterly basis.</p> <p>As at 31<sup>st</sup> December 2021 the Company's RtC requirement mainly emanated from K-AUM, K-CMH and K-ASA in accordance to the Company's business and activities.</p> <p>As at 31<sup>st</sup> December 2021, the Company's capital usage for the RtC K-factor requirement amounted to <b>EUR134</b>. Additional information in relation to the Risk to Client requirement is disclosed in <a href="#">Section 4.1 – Risk to Client</a>.</p>
<b>Operational Risk</b>	<p>The Company is exposed to Operational Risk associated with inadequate personnel, processes, systems, infrastructure or external events of the Company. The Company assesses, monitors and mitigates its Operational risk exposure by having in place adequate measures, procedures and controls to be followed by its personnel. Additionally, the Company performs periodic checks on its IT infrastructure and ensures that security systems are in place and upgraded.</p>

## 2.11. Reporting and Control

In line with the requirements set out in the Cyprus Investment Firms Law and subsequent Directives, the Company has been able to maintain a good information flow to the Management body, as it can be seen below:

**Table 11: Periodic Reporting Summary**

<b>Report Name</b>	<b>Report Description</b>	<b>Owner</b>	<b>Recipient</b>	<b>Frequency</b>	<b>Original Deadlines<sup>2</sup></b>
<b>Annual Compliance Report</b>	To inform the Senior Management & the BoD of the Company regarding the Performance of Compliance function during the year	Compliance Officer	Senior Management, BoD, CySEC	Annual	<b>30/04/2022</b>
<b>Annual Internal Audit Report</b>	To inform the Senior Management & the BoD of the Company regarding the Internal Auditor during the year	Internal Auditor	Senior Management, BoD, CySEC	Annual	<b>30/04/2022</b>
<b>Annual Risk Management Report</b>	To present the work undertaken by the Risk Manager during the year	Risk Manager	Senior Management, BoD, CySEC	Annual	<b>30/04/2022</b>
<b>Pillar III Disclosures (Market Discipline and Disclosure)</b>	To disclose information regarding Company's risk management, capital structure, capital adequacy and risk exposures	Senior Management	BoD, CySEC, Public	Annual	<b>30/04/2022</b>
<b>Financial Reporting</b>	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual	<b>30/04/2022</b>
<b>Suitability Report</b>	It's a formal report, which is required to be provided to the retail clients of the CIF in order to make a personal recommendation to the client.	External Auditor	BoD, CySEC	Annual	<b>30/04/2022</b>

<sup>2</sup> CySEC, through its Letter dated on 18 April 2022, extended the deadline by one month of the following annual reports:

1. Audited Financial Statements
2. Form165-01 based on the Audited Financial Statements
3. External auditors' verification report regarding Pillar III Disclosures.

<b>Audited Statement of Eligible Funds</b>	A measure of the CIF's ICF. It is expressed based on a risk based approach taking into account the reliability of the statement of eligible funds and financial instruments.	External Auditor	BoD, CySEC	Annual	<b>10/05/2022</b>
<b>Pillar III Disclosures (Market Discipline and Disclosure) based on the Audited figures</b>	To disclose information regarding Company's risk management, capital structure, capital adequacy and risk exposures based on its Audited figures.	Senior Management	BoD, CySEC, Public	Annual	<b>31/05/2022</b>
<b>Capital Adequacy Reporting</b>	A measure of the CIF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world	Risk Management Function/ Financial Department	Senior Management, CySEC	Quarterly plus Audited	<b>11/05/2021 11/10/2021 11/11/2021 11/02/2022</b>

## 3. Capital Management and Adequacy

### 3.1. The Regulatory Framework

The new prudential framework for investment firms takes into consideration specific business practises of different types of investment firms. In particular, the new prudential regime takes into account the investment firms' size and interconnectedness based on financial and economic factors. The new regulatory requirements are calibrated in a proportionate manner to the investment firms' type, the best interests of their clients and the promotion of the smooth and orderly functioning of their operating markets. The new prudential regime was published on 5<sup>th</sup> of December 2019. They were translated into European law by a directive ([IFD](#)) and a regulation ([IFR](#)) which entered into force on 26<sup>th</sup> of June 2021 onwards.

The general framework defined by the [IFD](#) is structured around three (3) pillars:

- **Pillar I:** sets the minimum solvency requirements and defines the rules that investment firms, that are required to comply with the regulation, must use to measure risks and calculate associated capital requirements, according to standard or more advanced methods.
- **Pillar II:** relates to the discretionary supervision implemented by the competent authority, which allows them to assess the adequacy of capital requirements as calculated under Pillar I and their liquid assets, and to calibrate additional capital requirements with regard to risks.
- **Pillar III:** encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to make a better assessment of a given institution's capital, risk exposure, risk assessment processes and, accordingly, capital adequacy.

In terms of capital, the main new measures introduced or were due for implementation in 2021 to strengthen investment firms' solvency were as follows:

- New initial capital.
- New K-factor capital requirements.
- Introduce of liquidity requirement.
- Application of fixed overheads requirement to Class 2 and Class 3 investment firms.

### 3.2. Regulatory Capital

According to the International Financial Reporting Standards ("IFRS"), the Company's regulatory capital consists of Common Equity Tier 1 and Tier 2 Capital.

#### Common Equity Tier 1 Capital ("CET1 Capital")

According to [CRR/CRDIV](#) regulations, CET1 capital is made up primarily of the following:

- Ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts.
- Retained earnings.
- Other reserves.
- Minority interest limited by [CRR/CRDIV](#).

Deductions from Common Equity Tier 1 capital essentially involve the following:

- Goodwill.
- Other Intangible assets.
- Losses for the current financial year
- Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities.
- Qualifying holding outside the financial sector which exceeds **15.00%** of own funds.
- Total qualifying holdings in undertaking other than financial sector entities which exceeds **60.00%** of its own funds.
- CET1 instruments in financial sector entities where the investment firms does not have significant investment.
- CET1 instruments in financial sector entities where the investment firms has a significant investment.
- Defined benefit pension fund assets on the balance sheet of the institution.
- The amount of direct, indirect and synthetic holdings of own CET 1 instruments, including own CET1 instruments that an investment firm is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation.
- Value adjustments to CET1 resulting from the requirements of prudent filters.
- The Investors Compensation Fund (“ICF”) contributions as per Circular [C162](#) issued by CySEC on 10<sup>th</sup> October 2016.
- According to paragraph 11(6) of the [Directive DI87-07](#), the members of ICF are required to keep a minimum cash buffer of 3 per thousand of the eligible funds and financial instruments of their clients as at the previous year in a separate bank account in case there is need for an extraordinary contribution and this should not be used for any other purpose. Therefore, CIFs should deduct the additional cash buffer of 3 per thousand of the eligible funds and financial instruments of their clients from the Common Equity Tier 1 capital. CIFs are expected to reflect the above in their submissions of the Form ZZ-01 (calculation of own funds and capital adequacy ratio).

### **Inclusion of Interim Profits:**

CySEC issued Circular [C305](#) to provide further guidance to the CIFs regarding the inclusion of interim profits in CET1 Capital.

According to Article 26(2) of the [CRR](#), CIFs may include interim profits in CET1 Capital, before the CIF has taken a formal decision confirming its final profits for the year, only if they get the prior permission of CySEC.

CIFs should apply for a permission from CySEC in order to include interim profits in CET1 Capital. In their application, CIFs are required to demonstrate that the conditions, as set out in Article 26(2) of [CRR](#), are met.

The verification of interim financial information by the external auditor of the CIF for the purpose of Article 26(2) of [CRR](#) shall be at least the ‘Independent auditors’ report on review of interim financial statements’ based on the international standard “International Standard on Review Engagements 2410, ‘Review of interim financial information performed by the independent auditor of the Entity’.

CIFs that apply to CySEC for a permission to include their interim profits in CET1 Capital should submit to CySEC, via portal and under the section “Application for permission as per Article 26(2) of [CRR](#) for interim profits”, the following:

- A confirmation letter from the CIF stating the below information:
  - The reporting period for which the CIF wishes to recognise as CET1 capital the verified profits.
  - Profits as verified.
  - Foreseeable charges/deductions (e.g. dividends).
  - The total CET1 prior and after the inclusion of verified profits
  - The independent auditor’s verification report with regards to the interim profits that the permission is requested.

It was clarified that interim profits, for which the permission of CySEC has not been granted, will not be eligible to be included in CET1 Capital.

It should be noted that CySEC’s permission is not needed for losses, whether interim or final. Losses must be deducted in full, from own funds as soon as they are incurred.

### **Tier 2 Capital**

Tier 2 capital includes:

- Dated subordinated notes.

- Any positive difference between (i) the sum of value adjustments and collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardised approach and (ii) expected losses, up to **0.60%** of the total credit risk-weighted assets using the Internal Ratings Based approach.
- Value adjustments for general credit risk related to collective impairment losses on customer loans and receivables exposures, risk-weighted using the standardised approach, up to **1.25%** of the total credit risk-weighted assets.

Tier 2 capital shall be less or equal to **one third** of Tier 1 Capital.

Deductions of Tier 2 capital essentially apply to the following:

- The amount of direct, indirect and synthetic holdings of own Tier 2 instruments, including own Tier 2 instruments that an investment firm could be obliged to purchase as a result of existing and contractual obligations.
- Tier 2 instruments of financial sector entities where the investment firm does not have a significant investment.
- Tier 2 instruments of financial sector entities where the investment firm has a significant investment.

### 3.3.Solvency Ratio (Capital Ratio or Total Own Funds Ratio)

The solvency ratio is set by comparing the investment firms' equity with the highest between the permanent minimum capital, the K-factor requirement or the fixed overhead requirement.

In accordance with the new regulatory framework, the Company shall comply with the following minimum requirements at all times:

- CET1 Ratio of **56.00%**.
- Tier 1 Ratio of **75.00%** (including CET1 and Additional Tier 1).
- Total Own Funds Ratio of **100.00%** (including CET1 and Additional Tier 1 Tier 2).

### 3.4.Capital Management

Capital management is implemented by the Senior Management. As part of managing its capital, the Company ensures that its solvency level is always compatible with the following objectives:

- Maintaining its financial solidity and respecting the Risk Appetite targets.
- Preserving its financial flexibility to finance organic growth.
- Adequate allocation of capital among the various business lines according to the Company's strategic objectives.
- Maintaining the Company's resilience in the event of stress scenarios.



- Meeting the expectations of its various stakeholders: supervisors, debt and equity investors, rating agencies, and shareholders.

The Company determines its internal solvency targets in accordance with these.

In line with the above, the Company is obligated to calculate and report on a quarterly basis, under [IFD](#), its Permanent minimum capital requirement (**EUR150,000**), K-factor requirement (Risk to Client) and the fixed overheads requirements the result of which, i.e. solvency/total own funds ratio, needs to be above **100.00%** at all times.

At 31<sup>st</sup> December 2021, the Total Capital ratio of the Company stood at **174.5783%** capital requirement of **EUR150,000**. Total Capital ratio and total capital requirements are calculated in accordance to the relevant provisions of the [IFR](#).

**Table 12: Capital Requirements**

EUR	December 31, 2021 (Unaudited)	September 30, 2021 (Unaudited)	EUR	Δ %
<b>Total Own Funds Ratio</b>	174.5783%	216.9260%		(42.3477%)
<b>Total Own Funds Ratio surplus/(deficit)</b>	74.5783%	116.9260%		(42.3477%)
<b>Capital Adequacy (CET1) ratio</b>	174.5783%	216.9260%		(42.3477%)
<b>CET1 Capital</b>	261,867	325,389	(63,522)	(19.5217%)
<b>Tier 1 Capital</b>	261,867	325,389	(63,522)	(19.5217%)
<b>Tier 2 Capital</b>	-	-	-	-
<b>Total Own Funds</b>	261,867	325,389	(63,522)	(19.5217%)
<b>Total Own Funds surplus/(deficit)</b>	111,867	175,389	(63,522)	(36.2175%)
<b>Risk to Client</b>				
Assets Under Management Requirement	45	259	(214)	(82.6055%)
Client Money Held Requirement - segregated	-	-	-	-
Client Money Held Requirement – non-segregated	57	177	(120)	(67.7419%)
Asset Safeguarded and Administered Requirement	32	64	(32)	(50.7692%)
Client Orders Handled Requirement – Cash trades	-	-	-	-
Client Orders Handled Requirement – Derivatives trades	-	-	-	-
<b>Total K-factor Requirement</b>	134	500	(366)	(73.2385%)
<b>Fixed Overheads Requirement</b>	132,310	132,310	-	-
<b>Permanent minimum capital Requirement</b>	150,000	150,000	-	-
<b>Total Own Funds Requirement</b>	150,000	150,000	-	-

<b>Liquidity Requirement</b>	44,103	44,103	-	-
<b>Liquid Assets</b>	11,539	58,764	(47,225)	(80.3637%)
<b>Liquid Assets surplus/deficit<sup>3</sup></b>	(32,564)	14,661	(47,225)	(322.1253%)

**Table 13: Regulatory Capital**

EUR	December 31, 2021 (Unaudited)	September 30, 2021 (Unaudited)	EUR	Δ %
<b>Common Equity Tier 1 capital: instruments and reserves</b>				
<b>Fully paid up capital instruments</b>	201,000	201,000	-	-
<b>Share premium</b>	999,000	999,000	-	-
Retained earnings	(738,409)	(738,409)	-	-
Accumulated other comprehensive income	-	-	-	-
Other reserves	786,611	730,799	55,812	7.6372%
Minority interest given recognition on CET1 capital	-	-	-	-
Adjustments to CET1 due to prudential filters			-	-
Other funds	-	-	-	-
<b>Common Equity Tier 1 (CET 1) capital before regulatory adjustments</b>	1,248,202	1,192,390	55,812	4.6807%
<b>Common Equity Tier 1 (CET 1) capital: regulatory adjustments</b>				
(-) Own CET instruments	-	-	-	-
(-) Direct holdings of CET 1 instruments	-	-	-	-
(-) Indirect holdings of CET 1 instruments	-	-	-	-
(-) Synthetic holdings of CET 1 instruments	-	-	-	-
(-) Losses for the current financial year	(901,829)	(782,441)	(119,388)	15.2584%
(-) Goodwill	-	-	-	-
(-) Other intangible assets	(415)	(469)	54	(11.6041%)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-	-	-
(-) Qualifying holding outside the financial sector which exceeds 15% of own funds	-	-	-	-
(-) Total qualifying holding in undertaking other than financial sector entities which exceeds 60.00% of its own funds	-	-	-	-
(-) CET 1 instruments of financial sector entities where the institution does not have a significant investment.	-	-	-	-

<sup>3</sup> The Company informed CySEC that as at 25th February 2022 the Company's Liquid Assets were above its minimum liquidity requirement.

(-) CET 1 instruments of financial sector entities where the institution has a significant investment.	-	-	-	-
(-) Defined benefit pension fund assets	-	-	-	-
(-) Other deductions	-	-	-	-
CET 1: Other capital elements, deductions and adjustments	(84,091)	(84,091)	-	-
<b>Total regulatory adjustments to Common Equity Tier 1 (CET 1) capital</b>	(986,335)	(867,001)	(119,334)	13.7640%
<b>Common Equity Tier 1 (CET 1) capital</b>	261,867	325,389	(63,522)	(19.5217%)
<b>Additional Tier 1 Capital</b>	-	-	-	-
<b>Tier 1 Capital</b>	261,867	325,389	(63,522)	(19.5217%)
<b>Tier 2 Capital</b>	-	-	-	-
<b>Total Capital</b>	261,867	325,389	(63,522)	(19.5217%)
Permanent minimum capital requirement	150,000	150,000	-	-
K-Factor requirement	134	500	(366)	(73.2385%)
Fixed overheads requirement	132,310	132,310	-	-
<b>Total Capital Requirement</b>	150,000	150,000	-	-
<b>Capital Ratios</b>				
CET 1 capital ratio	174.5783%	216.9260%		(42.3477%)
Tier 1 Capital ratio	74.5783%	116.9260%		(42.3477%)
<b>Total Own Funds ratio</b>	174.5783%	216.9260%		(42.3477%)

The Company calculates its regulatory capital in accordance with the relevant provisions set out in [CRR](#).

**Table 14: EU IF CC1.01 – Composition of regulatory own funds**

<b>Common Equity Tier 1 (CET 1) capital: instruments and reserves</b>			
	EUR	December 31, 2021 (Unaudited)	Source based on reference numbers/letters of the unaudited balance sheet
1	<b>OWN FUNDS</b>	261,867	
2	<b>TIER 1 CAPITAL</b>	261,867	
3	<b>COMMON EQUITY TIER 1 CAPITAL</b>	261,867	
4	Fully paid up capital instruments	201,000	301000
5	Share premium	999,000	311000
6	Retained earnings	(738,409)	341000
7	Accumulated other comprehensive income	-	
8	Other reserves	786,611	321000, 331000, 331001
9	Minority interest given recognition on CET1 capital	-	
10	Adjustments to CET1 due to prudential filters	-	
11	Other funds	-	
12	<b>(-) TOTAL DEDUCTIONS FROM CET 1 capital</b>	<b>(986,335)</b>	
13	(-) Own CET 1 instruments	-	
14	(-) Direct holdings of CET 1 instruments	-	
15	(-) Indirect holdings of CET 1 instruments	-	
16	(-) Synthetic holdings of CET 1 instruments	-	
17	(-) Losses for the current financial year	(901,829)	
18	(-) Goodwill	-	
19	(-) Other intangible assets	(415)	101004, 101003
20	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	
21	(-) Qualifying holding outside the financial sector which exceeds 15% of own funds	-	
22	(-) Total qualifying holding in undertaking other than financial sector entities which exceeds 60.00% of its own funds	-	
23	(-) CET 1 instruments of financial sector entities where the institution does not have a significant investment.	-	
24	(-) CET 1 instruments of financial sector entities where the institution has a significant investment.	-	
25	(-) Defined benefit pension fund assets	-	
26	(-) Other deductions	-	

27	CET 1: Other capital elements, deductions and adjustments	(84,091) <sup>4</sup>	113006
28	<b>ADDITIONAL TIER 1 CAPITAL</b>	-	
29	Fully paid up, directly issued capital instruments	-	
30	Share premium	-	
31	<b>(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1</b>	-	
32	(-) Own AT1 instruments	-	
33	(-) Direct holdings of AT1 instruments	-	
34	(-) Indirect holdings of AT1 instruments	-	
35	(-) Synthetic holdings of AT1 instruments	-	
36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	-	
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment	-	
38	(-) Other deductions	-	
39	Additional Tier 1: Other capital elements, deductions and adjustments	-	
40	<b>TIER 2 CAPITAL</b>	-	
41	Fully paid up, directly issued capital instruments	-	
42	Share premium	-	
43	<b>(-) TOTAL DEDUCTIONS FROM TIER 2</b>	-	
44	(-) Own T2 instruments	-	
45	(-) Direct holdings of T2 instruments	-	
46	(-) Indirect holdings of T2 instruments	-	
47	(-) Synthetic holdings of T2 instruments	-	
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	-	
49	(-) T2 instruments of financial sector entities where the institution has a significant investment	-	
50	Tier 2: Other capital elements, deductions and adjustments	-	

<sup>4</sup> The amount of EUR84,091 represents the ICF contributions as per [Circular C162](#) of the CySEC dated 10 October 2016, the additional cash buffer of 3 per thousand of the eligible funds and financial instruments of Company's clients as per the paragraph 11(6) of the [Directive DI87-07](#).

**Table 15: EU IFCC2: Own funds reconciliation of regulatory own funds in the unaudited balance sheet**

		Unaudited Balance sheet	Under regulatory scope of consolidation	Cross reference to EU IF CC1
		31st December 2021 (Unaudited)	31st December 2021 (Unaudited)	
<b>Assets - Breakdown by asset classes according to the balance sheet in the unaudited balance sheet</b>				
1	Intangible Assets	415	N/A	19
2	Current Assets	948,477	N/A	27 <sup>5</sup>
3	Cash at bank and in hand	11,539	N/A	27 <sup>6</sup>
	<b>Total Assets</b>	960,431	N/A	
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the unaudited balance sheet</b>				
1	Trade Creditors	406,125	N/A	
2	Other Creditors	78,680	N/A	
3	VAT accounts	(45,425)	N/A	
4	Accruals	5,500	N/A	
5	Balances with Related Parties	169,178	N/A	
	<b>Total Liabilities</b>	614,057	N/A	
<b>Shareholders' Equity</b>				
1	Called Up Share Capital	201,000	N/A	4
2	Share Premium	999,000	N/A	5
3	Revaluation Reserve	(92,389)	N/A	8
4	Profit & Loss	(738,409)	N/A	6
5	Profit period	(901,829)	N/A	17
6	Other Reserves	879,000	N/A	8
	<b>Total Shareholders' equity</b>	346,373	N/A	

<sup>5</sup> The amount of EUR81,896 represents the ICF contributions as per [Circular C162](#) of the CySEC dated 10 October 2016.

<sup>6</sup> The amount of EUR2,195 represents the additional cash buffer of 3 per thousand of the eligible funds and financial instruments of Company's clients as per the paragraph 11(6) of the [Directive DI87-07](#).

**Table 16: EU IF CCA Own funds: main features of own instruments issued by the Company**

		<b>Ordinary Shares</b>
<b>1</b>	Issuer	Zerich Securities Ltd
<b>2</b>	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
<b>3</b>	Public or private placement	Private
<b>4</b>	Governing law(s) of the instrument	Cyprus
<b>5</b>	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
<b>6</b>	Amount recognised in regulatory capital (EUR in million, as of most recent reporting date)	0.201000
<b>7</b>	Nominal amount of instrument	N/A
<b>8</b>	Issue price	EUR1
<b>9</b>	Redemption price	N/A
<b>10</b>	Accounting classification	Shareholder's equity
<b>11</b>	Original date of issuance	Various
<b>12</b>	Perpetual or dated	N/A
<b>13</b>	Original maturity date	N/A
<b>14</b>	Issuer call subject to prior supervisory approval	N/A
<b>15</b>	Optional call date, contingent call dates and redemption amount	N/A
<b>16</b>	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	N/A
<b>17</b>	Fixed or floating dividend/coupon	N/A
<b>18</b>	Coupon rate and any related index	N/A
<b>19</b>	Existence of a dividend stopper	N/A
<b>20</b>	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
<b>21</b>	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
<b>22</b>	Existence of step up or other incentive to redeem	N/A
<b>23</b>	Noncumulative or cumulative	N/A
<b>24</b>	Convertible or non-convertible	N/A
<b>25</b>	If convertible, conversion trigger(s)	N/A
<b>26</b>	If convertible, fully or partially	N/A
<b>27</b>	If convertible, conversion rate	N/A
<b>28</b>	If convertible, mandatory or optional conversion	N/A
<b>29</b>	If convertible, specify instrument type convertible into	N/A
<b>30</b>	If convertible, specify issuer of instrument it converts into	N/A
<b>31</b>	Write-down features	N/A
<b>32</b>	If write-down, write-down trigger(s)	N/A
<b>33</b>	If write-down, full or partial	N/A
<b>34</b>	If write-down, permanent or temporary	N/A
<b>35</b>	If temporary write-down, description of write-up mechanism	N/A
<b>36</b>	Non-compliant transitioned features	N/A
<b>37</b>	If yes, specify non-compliant features	No
<b>38</b>	Link to the full term and conditions of the instrument (signposting)	N/A

## Deductions from Own Funds:

The Company, in accordance with Article 36 of the [CRR](#), deducted from CET 1 Capital the amount of **EUR84,091** representing the ICF contributions as per Circular [C162](#) of the CySEC dated 10 October 2016, the additional cash buffer of 3 per thousand of the eligible funds and financial instruments of Company's clients as per the paragraph 11(6) of the [Directive DI87-07](#) and the Intangible assets.

## Capital Ratios

The Total Own Funds Ratio as reported to CySEC for the year ended 31<sup>st</sup> December 2021 was **174.5783%**, above the minimum regulatory requirement of **100.00%**.

The table below summarises the Company's capital position measured through the capital ratios as at 31<sup>st</sup> December 2021.

Capital Ratios	Regulatory Requirement	Position as at 31 <sup>st</sup> of December 2021
CET1 ratio	≥ 56.00%	174.5783%
Tier 1 ratio	≥ 75.00%	174.5783%
Total Own Funds ratio	≥ 100.00%	174.5783%



## 4. K-Factor Requirement

The [IFR](#) introduces a new approach of accounting the potential harm that an investment firm can do to its clients, the markets in which it operates and to itself.

The K-factor requirement captures the Risk-to-Client, Risk-to-Market and Risk-to-Firm. As per the Article 15 of the [IFR](#), an investment firms capital requirement equals to the sum of the following K-factor requirements:

- **Risk-to-Client:** Risk-to-Client covers risks carried by an investment firm during its services, actions or responsibilities, which could negatively impact its clients.
- **Risk-to-Market:** Risk-to-Market captures the net position risk (“**K-NPR**”) from the trading book in accordance with the market risk provisions of the [CRR](#) or, where permitted by the competent authority for specific types of investment firms which deal on own account through clearing members, based on the total margins required by an investment firm’s clearing member (“**K-CMG**”).
- **Risk-to-Firm:** Risk-to-Firm captures an investment firm’s exposure to the default of its trading counterparties (“**K-TCD**”), concentration risk (“**K-CON**”) in an investment firm’s large trading book exposures to specific counterparties and operational risks from an investment firm’s daily trading flow (“**K-DTF**”).

The K-factor requirement is tailored to the investment firms based on the type and scale of the investment firm’s activities. The investment firms are required to calculate the K-factor requirement only for the K-factor components that are relevant to the services and activities that they are authorized to provide.

During the year under review, the Company based on its type and scale of activities and the services authorized to provide, was solely exposed to risks arising from the potential harm that an investment firm can do to its clients.

The Company monitors the value of its K-factors in order to detect any trend that could leave the Company with a materially different own funds requirement and reports these exposures on a quarterly basis.

## 4.1. Risk to Client

The K-factors under the RtC captures the client assets under management and ongoing advice (K-AUM), client money held (K-CMH), assets safeguarded and administered (K-ASA) and client orders handled (K-COH). The K-factors under RtC are proxies covering the business areas of the Company from which harm to clients can conceivably be generated in case of problems.

The components of the Risk to Client are the following as per the Article 16 of the [IFR](#):

- **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 continuity of service ongoing portfolio management and investment advice.
- **K-CMH:** captures the risk of potential for harm where an investment firm holds 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 provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm.
- **K-ASA:** captures the risk of safeguarding and administering client financial instruments 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.
- **K-COH:** captures the potential risks from both execution of orders in the name of the client and the reception and transmission of client orders.

The Company calculates the RtC K-factor requirement based on the Article 16 of [IFR](#).

The Company monitors the value of its K-factors in order to detect any trend that could leave the Company with a materially different own funds requirement and reports these exposures on a quarterly basis.

As at 31<sup>st</sup> December 2021 the Company's RtC requirement mainly emanated from K-AUM, K-CMH and K-ASA in accordance to the Company's business and activities.

The Company calculates the K-AUM, KCMH, K-ASA and K-COH requirements in accordance with the Articles 15, 16, 17, 18, 19 and 20 of the [IFR](#), respectively.

### 4.1.1 Quantitative Information

The RtC K-factor requirement in this section is measured based on the Article 16 of [IFR](#).

As at 31<sup>st</sup> December 2021, the Company's capital usage for the RtC K-factor requirement amounted to **EUR134** (compared to **EUR500** as at 30<sup>th</sup> of September 2021).

In particular, the Company's RtC K-factor requirement as at 31<sup>st</sup> of December 2021 consisted of:

- The Company's K-AUM requirement which amounted to **EUR45** (compared to **EUR259**, as at 30<sup>th</sup> of September 2021).
- The Company's K-CMH requirement which amounted to **EUR57** (compared to **EUR177** as at 30<sup>th</sup> of September 2021).
- The Company's K-ASA requirement which amounted to **EUR32** (compared to **EUR64** , as at 30<sup>th</sup> of September 2021).

The tables below illustrate the Company's RtC requirements as at 31<sup>st</sup> December 2021.

**Table 17: RtC Requirement as at 31<sup>st</sup> December 2021, EUR**

Risk to Client	Factor amount	K-factor requirement
<b>K-AUM</b>	224,939	45
<b>K-CMH</b>	11,434	57
<b>K-ASA</b>	79,342	32
<b>K-COH</b>	-	-
<b>Total Risk to Client Requirement</b>		134

**Table 18: K-AUM Requirement as at 31<sup>st</sup> December 2021, EUR**

K-AUM	Factor amount	K-factor requirement
AUM – Discretionary portfolio management	224,939	45
AUM – Ongoing non-discretionary advice	-	-
<b>Total</b>	224,939	45

**Table 19: K-CMH Requirement as at 31<sup>st</sup> December 2021, EUR**

K-CMH	Factor amount	K-factor requirement
CMH - segregated	-	-
CMH – non - segregated	11,434	57
<b>Total</b>	11,434	57

**Table 20: K-ASA Requirement as at 31<sup>st</sup> December 2021, EUR**

K-ASA	Factor amount	K-factor requirement
ASA – Fair value of financial instruments (Level 1)	-	-

ASA – Fair value of financial instruments (Level 2)	79,342	32
ASA – Fair value of financial instruments (Level 3)	-	-
<i>Of which: Assets formally delegated to another financial entity</i>	-	-
<i>Of which: Assets of another financial entity that has formally delegated to the Company</i>	-	-
<b>Total</b>	<b>79,342</b>	<b>32</b>

## 5. Fixed Overheads Requirement

The Fixed Overheads requirement is measured on the basis of the Company's activity of the preceding year and it is designed to capture the operational risks of the Company.

Operational risks (including accounting and environmental risks) correspond to the risk of losses arising from inadequacies or failures in internal procedures, systems or staff, or from external events, including low-probability events that entail a high risk of loss. This section describes the monitoring of the Company's operational risk, in addition to providing an analysis of the Company's operational risk profile and regulatory capital requirements.

The Company has developed processes, management tools and a control infrastructure to enhance the Company-wide control and management of the operational risks that are inherent in its various activities. These include, among others, general and specific procedures, permanent supervision, business continuity plans and functions dedicated to the oversight and management of specific types of operational risks, such as fraud, risks related to external service providers, legal risks, information system security risks and compliance risks.

In order to control the exposure to operational risks, the management has established two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
- To improve the effective management of the Company and strengthen its brand and external reputation.

The Company recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance.

To that effect, the management of operational risk is geared towards:

- Maintaining a strong internal control governance framework.
- Managing operational risk exposures through a consistent set of processes that drive risk identification, assessment, control and monitoring.

The Company implements the below Operational Risk Mitigation Strategies in order to minimize its Operational Risk Exposure:

- The development of operational risk awareness and culture.
- The provision of adequate information to the Company's management, at all levels, in order to facilitate decision making for risk control activities.

- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives.
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.
- Established a “four-eye” structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management. The Board further reviews any decisions made by the Management while monitoring their activities.
- Detection methods are in place in order to detect fraudulent activities.
- Comprehensive business contingency and disaster recovery plan.

The Senior Management employs specialized tools and methodologies to identify, assess, mitigate and monitor operational risk. These specialized tools and methodologies assist operational risk management to address any control gaps. To this effect, the following are implemented:

- Incident collection.
- Key Risk Indicators.
- Business Continuity Management.
- Training and awareness.

The Company calculates its Fixed overheads requirement in accordance with the Article 13 of [IFR](#).

### **5.1.Quantitative Information**

The Fixed Overheads requirement, as at 31<sup>st</sup> December 2021, was **EUR132,310** (compared to **EUR132,310** as at 30<sup>th</sup> September 2021).

## 6. Liquidity Requirement

Liquidity risk corresponds to the risk of the Company not being able to meet its cash or collateral requirements as they arise and at a reasonable cost. Liquidity requirement introduced by the [IFR](#) and intends to ensure that the Company has some resilience to unexpected liquidity shocks.

The Company's primary objective is to ensure the funding of its activities in the most cost-effective way by managing liquidity risk and adhering to regulatory constraints. The liquidity system aims at providing a balance sheet framework with assets and liabilities target structure that is consistent with the risk appetite defined by the BoD:

- The assets structure should allow the businesses to develop their activities in a way that is liquidity-efficient and compatible with the target liabilities structure.
- The liabilities structure is based on the ability of the businesses to collect financial resources from customers and the ability of the Company to sustainably raise financial resources on the markets, in accordance with its risk appetite.

The principles and standards applicable to the management of liquidity risks are defined by the Company's governing bodies, whose duties in the area of liquidity are listed below:

- The Company's BoD(i) establishes the level of liquidity risk tolerance as part of the Risk Appetite exercise, (ii) meets regularly to examine the Company's liquidity risk situation, on a quarterly basis.
- The Senior Management (i) sets budget targets in terms of liquidity (ii) allocates liquidity to the pillars.

To minimize its exposure to liquidity risk, the Company implements the below Liquidity Risk Mitigation Strategies:

- Regular analysis & reporting to the BoD on the funding needs of the Company.
- Monitoring of the Company's exposures and diversification to avoid rise of concentration risk as per the internal policies.
- Cash Management.

The Company calculates its Liquidity requirement in accordance with the Article 43 of [IFR](#).

### 6.1. Quantitative Information

The Liquidity requirement, as at 31<sup>st</sup> December 2021, was **EUR44,103** (compared to **EUR44,103** as at 30<sup>th</sup> September 2021).

The table below illustrates the Company's Liquidity requirement as at 31<sup>st</sup> December 2021 compared with the liquid assets of the Company at the same period.

*Table 21: Liquidity Requirement and Liquidity Assets as at 31st December 2021, EUR*

	Amount
Liquidity Requirement	44,103
Total Liquid Assets <sup>7</sup>	11,539
<i>Of which are coins and banknotes</i>	11,539

---

<sup>7</sup> The Company informed CySEC that as at 25th February 2022 the Company's Liquid Assets were above its minimum liquidity requirement.



## 7. Product Intervention Measures

On the 27<sup>th</sup> March 2018 ESMA agreed on temporary product intervention measures on the provision of Contracts for Differences (“CFDs”) and Binary Options to retail clients, which were formally adopted by ESMA on the 1<sup>st</sup> June 2018 and were renewed for last time on 1<sup>st</sup> May 2019 and 2<sup>nd</sup> April 2019, respectively.

ESMA decided not to renew its product intervention measures relating to the binary options and CFDs, since most of the National Competent Authorities (“NCAs”) have taken permanent national product intervention measures, which are at least as stringent as ESMA’s measures.

On 27<sup>th</sup> September 2019, CySEC issued a Policy Statement (“[PS-04-2019](#)”) and permanently introduced ESMA measures into national law pursuant to Article 42 of [Regulation EU No 600/2014](#) or MiFIR. The purpose of this policy was to publish the relevant rules that restrict the sale, marketing and distribution of CFDs in or from Cyprus in line with ESMA’s temporary product intervention measures. On 27<sup>th</sup> September 2019, ESMA published an Opinion concluding that overall CySEC’s national measures are justified and proportionate, with the exception for CySEC’s decision to define the Territorial Scope of Cyprus National Product Intervention Measures (“CyNPIMs”).

### *National Intervention Measures:*

CySEC replicated ESMA’s Product Intervention measures:

- Leverage requirements/ initial margin requirements.
- Margin close out rule.
- Negative Balance Protection.
- Restriction on the incentives offered to the trade CFDs.
- Standardised risk warnings with minor amendment as defined below:
  - 1) For new CFD providers or with CFD providers without any trades during the last twelve months, the specific percentage range of retail client accounts that lose money shall not be mentioned.
  - 2) For the durable medium and webpage specific risk warning and the abbreviated specific risk warning: “... ***The vast majority of retail investor accounts...***”.
  - 3) For the reduced character specific risk warning: “***Retail client accounts generally lose money***”.

The Company is up to date in relation to the Product Intervention measures and has amended its procedures so as to comply with the Product Intervention measures which are into force.

## 8. Market Abuse

As per Article 16(2) of the [Regulation 596/2014](#) the Company is required to establish and maintain effective arrangements, systems and procedures in order to detect and report suspicious orders and transactions that may constitute insider dealing or market manipulation. The Company's measures and procedures shall be in line with the measures and procedures required to be established (as applicable) by the [Delegated Regulation 2016/957](#).

The Company shall have policies and procedures in place in order to minimise this risk. Additionally, the Company shall ensure that the compliance function has sufficient knowledge, understanding, skills and authority to assess such procedures as well as that the responsible staff for trading is capable for monitoring the clients' trading activity and identify potential suspicions of market abuse. Further to the above, the Company shall ensure that all employees who are involved in trading are adequately trained, in order to be able to identify orders, which may give rise to market abuse. The Company shall monitor the trading activities of its individuals/algorithms and its clients, and keep records of the submitted orders, the modified, the cancelled and the executed transactions in order to be able to perform efficient live monitoring. The Company shall have effective systems in place (i.e. automatic software), which will trigger alerts or flags depending on the parameters and indications of potential market abuse designed by the Company in order for these to be further investigated. Moreover, the Company shall have proper arrangements in place for reporting to CySEC identified suspicious transactions without any delay. The Company shall conduct periodic assessments on its procedures and arrangements to identify instances that potential market abuse may not be detected. Finally, the Company shall keep for at least 5 years detailed records of the followed arrangements and procedures, to identify conduct, that may involve market abuse, including how each alert of possible suspicious behaviour is dealt and whether or not a report to CySEC is made.

## 9. Compliance, Reputational and Legal Risks

Compliance risk (including legal and tax risks) corresponds to the risk of legal, administrative or disciplinary sanction, or of material financial losses, arising from failure to comply with the provisions governing the Company's activities.

Compliance means acting in accordance with applicable regulatory rules, as well as professional, ethical and internal principles and standards. Fair treatment of customers, with integrity, contributes decisively to the reputation of the Company.

By ensuring that these rules are observed, the Company works to protect its customers and, in general, all of its counterparties, employees, and the various regulatory authorities to which it reports.

### **Compliance System and Department**

Independent compliance structures have been set up within the Company's different business lines to identify and prevent any risks of non-compliance.

The Compliance Officer verifies that all compliance laws, regulations and principles applicable to the Company's services are observed, and that all staff respect codes of good conduct and individual compliance. The Compliance Officer also monitors the prevention of reputational risk and provides expertise for the Company, performs controls at the highest level and assists with the day-to-day operations. The Compliance Officer is responsible for:

- The Company's financial security (prevention of money laundering and terrorism financing; know-your-customer obligations; embargoes and financial sanctions).
- Developing and updating consistent standards for the function, promoting a compliance culture, coordinating employee training and managing Company regulatory projects.
- Coordinating a compliance control mechanism within the Company (second-level controls), overseeing a normalised Compliance process, oversight of personnel operations and, finally, managing large IT projects for the function.
- Preventing and managing conflicts of interest.
- Proposing ethical rules to be followed by all Company employees.
- Training and advising employees and raise their awareness of compliance issues.
- Building and implementing steering and organisational tools for the function: Compliance and Reputational Risk dashboards, forums to share best practices, meetings of functional compliance officers.
- Generally monitoring subjects likely to be harmful to the Company's reputation.

## 9.1.Compliance Monitoring

In light with the new regulatory requirements introduced during 2021, the Company's compliance function has adopted the compliance monitoring plan for the reference year which was appropriate to the size of the Company as well as the nature, scale and complexity of its business so as to be able to detect any risk of failure by the Company to comply with its obligations under the relevant legislation, as well as the associated risks.

It targets the continued enhancement of priority functions, the central tools for monitoring regulatory application (including training, harmonisation, and regulatory oversight), financial security, constant oversight, customer protection, market integrity (including preventing conflicts of interest), and reporting quality.

The Company intends to uphold the strictest rules in order to ensure high ethical and professional standards.

## 9.2.Prevention of Money Laundering and Terrorism Financing

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

The Company has in place, and is updating as applicable, certain policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks, based on the [Prevention and Suppression of Money Laundering and Terrorist Financing Law of 2007-2021](#) ("AML Law"). Among others, these policies, procedures and controls include the following:

- The adoption of a risk-based approach that involves specific measures and procedures in assessing the most cost effective and appropriate way to identify and manage the Money Laundering and Terrorist Financing risks faced by the Company.
- The adoption of adequate Client due diligence and identification procedures in line with the Clients' assessed Money Laundering and Terrorist Financing risk.
- Setting certain minimum standards of quality and extent of the required identification data for each type of Client (e.g. documents from independent and reliable sources, third party information).
- Obtaining additional data and information from Clients, where this is appropriate and relevant, for the proper and complete understanding of their activities and source of wealth and for the effective management of any increased risk emanating from a particular Business Relationship or an Occasional Transaction.
- Monitoring and reviewing the business relationship or an occasional transaction with clients and potential clients of high-risk countries.
- Ensuring that the Company's personnel receive the appropriate training and assistance.

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

## 10. Appendix – References to EBA guidelines

Templates	Compliance References	Section
EU IF CC1.01	Composition of regulatory own funds	3.4
EU IF CC2	Own funds reconciliation of regulatory own funds to balance sheet in the audited financial statements	3.4
EU IF CCA	Own funds main features of own instruments issued by the Company	3.4

## 11. Appendix - Specific References to IFR

IFR Ref	High Level Summary	Compliance Reference (Document Sections)
<i>Scope of disclosure requirements</i>		
46(1)	Requirement to publish Pillar III disclosures.	1.2
46(2)	Disclosure of information set out in Articles 47, 49 and 50.	2, 3, 4, 5, 6
46(3)	Requirement to publish Pillar III disclosures where the investment firm meets the conditions for qualifying as small and non-interconnected investment firms set out in Article 12 of the IFR,	N/A
<i>Risk management objectives and policies</i>		
47	Disclosure of the risk management objectives and policies for each separate category of risk set out in Parts Three, Four and Five in accordance with Article 46 of IFR, including a summary of the strategies and processes to manage those risks and a concise risk statement approved by the investment firm's management body succinctly describing the investment firm's overall risk profile associated with the business strategy.	Preface, 2
<i>Governance</i>		
48(a)	Number of directorships held by members of the management body.	2.8
48(b)	Diversity with regard to the selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved.	2.5, 2.6
48(c)	Whether or not the investment firm has set up a separate risk committee and the number of times the risk committee has met annually	2
<i>Own Funds</i>		
49(1)(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 investment firm and the balance sheet in the audited financial statements of the investment firm	3.4
49(1)(b)	Description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the investment firm	3.4
49(1)(c)	Description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments and deductions to which those restrictions apply	3

<b><i>Own Funds Requirements</i></b>		
<b>50(a)</b>	Summary of the investment firm's approach to assessing the adequacy of its internal capital to support current and future activities.	2.3
<b>50(b)</b>	upon a request from the competent authority, the result of the investment firm's internal capital adequacy assessment process, including the composition of the additional own funds based on the supervisory review process as referred to in point (a) of Article 39(2) of Directive (EU) 2019/2034	N/A
<b>50(c)</b>	K-factor requirements calculated, in accordance with Article 15 of the IFR, in aggregate form for RtM, RtF, and RtC, based on the sum of the applicable K-factors.	4
<b>50(d)</b>	Fixed overheads requirement determined in accordance with Article 13 of the IFR.	5
<b><i>Remuneration Disclosures</i></b>		
<b>51</b>	Remuneration Policy and practices.	2.7
<b><i>Investment Policy Disclosures</i></b>		
<b>52</b>	Investment Policy.	N/A
<b><i>Environmental, social and governance risks Disclosures</i></b>		
<b>53</b>	Environmental, social and governance risks.	N/A