



Zerich Securities Limited

Internal Capital Adequacy Assessment Process (“ICAAP”) Report

August 2021

Document Control Sheet

Key Information

Title	Internal Capital Adequacy Assessment Process (“ICAAP”) Report
Prepared By	Outsourced Risk Manager
Reviewed By	Board of Directors
Approved By	Board of Directors – (16 th of August 2021)
Date Effective From	From Board of Directors approval
Version Number	v.01.21
Review Frequency	Annually
Next Review Date	June 2022

Review History

Date	Summary of Changes	Initials
August 2019	Updated for year ending December 2018	Outsourced to K.Treppides & Co
July 2021	Updated for year ending December 2020	Outsourced to K.Treppides & Co

Approvals

Name/Title	Date
Board of Directors	16 th of August 2021

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1. Executive Summary

1.1. Introduction

The Cyprus Securities and Exchange Commission (“CySEC”) requires adoption of the Internal Capital Adequacy Assessment Process (“ICAAP”) for ensuring that Zerich Securities Ltd (hereafter referred to as the “Company”) and its senior management are appropriately involved in the on-going assessment of the firm’s risks. This document is being provided for the purpose of summarising and communicating key results and issues of the Company at a senior level.

1.2. Scope and purpose of the ICAAP Report

The ICAAP Report for 2020 has been prepared in accordance with the requirements of Law [L.87\(I\)/2017](#) (hereinafter, the “Law”), Paragraph 33 of [Directive DI144-2014-14 of 2014](#) for the Prudential Supervision of Investment Firms (the “Directive” or “Directive DI144-2014-14”), and [Guidelines GD-IF-02 issued on 12 July 2012 for the Internal Capital Adequacy Assessment Process](#) (the “ICAAP Guidelines”).

The objective of the ICAAP Report is to assess and quantify the Company’s position, how the Company mitigates, and controls risks and to determine the amount of internal capital that the Company needs to allocate in order to cover all risks that the Company faces or in order to cover any potential risks to which the Company may be exposed in the future. The ICAAP Report is intended to capture the Company’s capital management process and methodologies as stipulated in accordance with the Commission’s guidelines.

The Company performs tailored made stress tests scenarios which are documented in the ICAAP Report. The stress tests scenarios are assessed throughout the year by the Board of Directors (“BoD”) in order to evaluate the current and future capital required to cover all the risks of the Company under normal business conditions and at different stress test scenarios.

The Company prepares its ICAAP Report on an individual basis (Solo).

The Company’s Risk Management Function bears the responsibility to review, maintain and update of the ICAAP Report. The update of the ICAAP Report is performed at least annually or more frequently if deemed necessary due to a changing business profile or operating environment. Market factors assessments are performed by the BoD on a frequent basis by conducting research in relation to the Company’s operating markets and microeconomic factors as well as the material risks in which the Company is exposed to. Based on the abovementioned research the Company’s BoD assesses the business model of the Company as well as the Company’s strategy and update them when it is deemed necessary. It is the objective of the Company to maintain high standards of internal governance and a sound system of internal control processes and procedures at all times.

Going forward, the ICAAP report is formally reviewed and approved by the BoD at least on an annual basis or when it is deemed necessary.

The BoD understands that changes in the business and governance might trigger the ICAAP Report to be revised and updated.

According to the Law, all Cyprus Investment Firms (“CIFs”) shall have sound, effective and complete strategies and processes in place to assess and maintain the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed to, on an ongoing basis.

The ICAAP of the Company plays an integral part of risk management practices, informing the BoD of the on-going assessment of the Company’s risks, the measures implemented to mitigate such risks and the current and future capital requirements, based on the analysis. Pillar II complements and strengthens Pillar I, by considering risks not covered in Pillar I. It involves corporate governance assessment, a quantitative and qualitative risk management framework, forward-looking capital planning and stress testing, offering a comprehensive and robust evaluation of CIFs capitalisation.

The Company submits by the 30th of June each year to CySEC the results arising from its ICAAP Report via the Form 144-14-11 as requested by CySEC on 10th July 2019 through the [Circular C326](#) regarding the Prudential Supervision Information.

The Company submits its ICAAP Report to CySEC upon request by the latter. The Company among with the submission of the ICAAP Report, explains how the Company has implemented and embedded the ICAAP process within its business, describes its risk profile and the extent of risk appetite that is prepared to accept as well as the capital that it considers as adequate to be held against all the risks that the Company is exposed to.

1.3. Overall Capital Analysis

Capital analysis has been conducted on the basis of the Company’s financial projections for the next three years as forecasted by the Senior Management and the Finance & Accounting Department ([Section 6.2 Projected Financial Position](#)). 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 Company is not expected to have adequate resources over the next three years to meet its strategic objectives and future increases in capital requirements will be satisfied by retention of future profit reserves. Further to the above, the Senior Management of the Company has a moderate risk profile, that is governed firstly by the regulatory requirements. The Company in year 2 and year is not expected to have own funds more than the sum of its capital requirements, and more than the Company's initial capital for.

1.4. Outcome and main results of the ICAAP

The ICAAP is an ongoing process in the Company with an assessment and a review of the calculations and assumptions required for Pillar II taking place at least annually. The ICAAP is used by the Company to better assess its risks and capital base under stressed scenarios of economic downturn, in order to be able to proactively take corrective measures.

1.4.1. Calculation and Allocation of Pillar II Capital and Capital Planning

Under Pillar I, the methods used to quantify the capital requirements are more straightforward, whereas under Pillar II, a more sophisticated methodology is required to quantify and aggregate the capital requirements for the risks in total. With this in mind, capital should be allocated specifically 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 be equal to **12.84%** based on the Company's financial projections for the next year provided by the management ([Section 6.2 Projected Financial Position](#)). The following table provides a breakdown of the capital allocation for Pillar II risks under the Base Scenario based on the Company's financial projections for the three next year provided by the management.

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

Table 1: Capital allocation for Pillar I and Pillar II risks based on the Company's projections

Analytical information regarding the calculation and allocation of Pillar II Capital is illustrated in [Section 7.5. Material Risks](#) of this Report.

1.4.2. Stress tests results

The Company has performed scenario analysis to evaluate the impact of exceptional, but plausible events, on the Company. The Company considered 6 hypothetical stress test scenarios which are in line with its business plan in order to assess the Company's potential risks arising from such scenarios.

The data used to carry out the stress tests were the next year's financial projections. The results for the abovementioned stress scenarios were performed based on the Company's financial projections for the next year. The impact on the capital and profitability indicators of the Company is based on the reduction in the gross revenue as a result of the specific event; and the result of the corrective action taken by the Company in light of the event.

The Company considered the following 2 scenarios, so that to assess the impact on the Company's profitability under stressed conditions:

1. **Scenario I:** Cyber security attack.
2. **Scenario II:** Failure of the major counterparty.

The impact on the Company's profitability arising from the abovementioned **2** stress tests is illustrated below.

Indicator	Budget (Next Financial Year)	Scenario I	Scenario II	Impact on Scenario I	Impact on Scenario II
	EUR	EUR	EUR	EUR	EUR
Profit/Loss	(427,173)	(431,513)	(437,740)	(4,340)	(163,487)

Under the **Scenario I**, the Company's loss amounts to **EU431,513**, which implies a increase of **EUR4,340** on the Company's loss compared to its profit based on the next year's financial projections provided by the management of the Company.

Under the **Scenario II**, the Company's loss amounts to **EUR437,740**, which implies a increase of **EUR163,487** on the Company's loss compared to its profit based on the next year's financial projections provided by the management of the Company.

In addition to the above, the Company performed the following **4** scenarios in order to assess the Company's capital and profitability indicators under normal and stress scenarios:

1. **Scenario III:** Base scenario (Next financial year).
2. **Scenario IV:** Business stress test scenario.
3. **Scenario V:** Regulatory/ Compliance stress test scenario.
4. **Scenario VI:** IT platform default.

The table below summarizes the probabilities of the Company's non- compliance with its minimum regulatory requirements Own Funds (to comply with its minimum initial capital of **EUR125,000** and its minimum Capital Adequacy ratio ("CAR") of **8.00%**) the CAR above **8.00%** under the abovementioned **4** scenarios.

Scenario	Probability of non- Compliance with its minimum regulatory requirement of 8.00%	Minimum Own Funds Requirements based on the Company's expectations for the next year – in EUR	Probability of non- Compliance with its minimum regulatory requirement in Own Funds
Base Scenario	0.0%	152,519	0.0%
Business stress test scenario	0.3%	142,346	0.1%
Regulatory/ Compliance stress test scenario	2.3%	136,702	0.9%
IT Platform default	5.8%	133,881	3.0%

The impact on the Company's capital and profitability indicators arising from the abovementioned **4** stress tests is illustrated below.

Analytical information regarding the stress test scenarios performed by the Company is illustrated in [Section 7.6. Stress Testing](#).

1.4.3. Capital Planning

The goal of the capital planning is to ensure that the Company always has enough capital to cover its capital requirement and support its risk profile and strategic aims. For ensuring that the Company will be able to meet its obligation its Capital planning takes into consideration both short-term and long-term effects of changes to the risk profile. Further to the above, the Company's capital plan includes expectations to regulations, strategic initiatives and thereby the future solvency needs. The capital plan should be revised on quarterly basis or upon need in order to ensure that the Company's projected adequacy is up to date, and it is to point where the excess capital can cover both Pillar I and Pillar II risks.

Nonetheless, the Company has to place significant emphasis on its evolution over time as the market conditions change and must adapt to the demands where necessary.

The table below summarises the capital planning based on the Company's projections for the next three years provided by the management. It is evident that based on the assumptions ([Section 7.6.3.1 Methodology of Scenario III, Scenario IV, Scenario V and Scenario VI](#) and [Section 7.6.3.3. Scenario III, Scenario IV, Scenario V and Scenario VI: Results based on the Company's projections](#)) of these projections, the Company's capital surplus is projected to decrease over the coming years. However, even if the risk-weighted exposure for Pillar I and Pillar II risks increased significantly, the Company's capital base would still be sufficient to be compliant with the minimum requirements.

A very high capital adequacy ratio may indicate that the Company's capital is under-utilised; with this in mind the Company's target capital adequacy ratio is above **26.00%**, while the own funds target is above **EUR500,000**.

It is however imperative that the Senior Management keep a close eye on the day-to-day operations, with a view of establishing the Company's initial success and making it viable in the long term.

	Actual	Projections		
Year	31 st December 2020	Year 1	Year 2	Year 3
	EUR	EUR	EUR	EUR
Risk Weighted Assets (Pillar I)	1,991,248	1,906,493	1,448,382	1,513,134
Capital Requirement for Pillar I	159,300	152,519	115,871	121,051
Capital Base	253,112	255,071	(19,181)	(98,648)
Capital Adequacy Ratio	12.71%	13.38%	(1.32%)	(6.52%)
Capital Requirement for Pillar II	-	6,457	7,748	8,523
Total Capital Requirement (Pillar I + Pillar II)	159,300	158,976	123,619	129,574
Capital (deficit)/surplus	93,812	96,095	(142,800)	(228,222)
Capital Adequacy Ratio (adjusted)	12.71%	12.84%	(1.24%)	(6.09%)

Table 2: Capital planning projections

Nonetheless, the Company has to place significant emphasis and closely monitor the dynamic changes in the market conditions and must make sure the necessary infrastructure and resources are in place to adapt and accommodate the needs and demands where necessary.

1.5. Economic Situation Overview

The Company's BoD closely monitors the Economic situation which affects the Company's operations and take all the appropriate measures and controls to overcome any weakness arising from the current circumstances. Analytical information regarding the economic situation that may affect the Company's operations are illustrated in [Section 4.4 Economic and Political Analysis of operating markets](#) of this Report.

1.6. Company's risks and mitigation process

The Company has a robust Risk Management structure comprising of the Company's BoD and its Risk Management Function. The existence of Risk Management governance and of a Risk Management control function at the legal entity (Company) level is crucial. This structure allows the Company to have medium level risk targets through a Risk Appetite Statement, to establish a culture of discussing and raising risk issues, to set up processes and controls necessary to manage the Company's risks and, finally, to build daily reporting to monitor risk and capital positions. This is substantially achieved through monitoring and reviewing the Risk Management work done and applying to it a legal entity (Company) lens to ensure the Company's risk profile, appetite and position are not subject to uncontrolled risk.

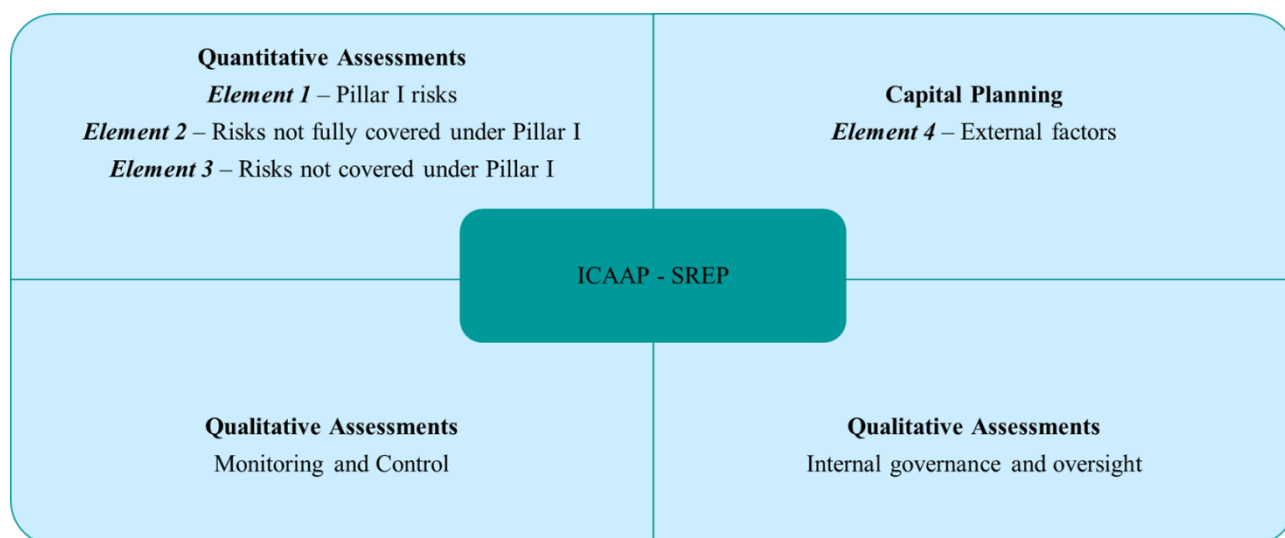
The main risk exposures of the Company and the mitigation process are summarized in the [Section 7.5. Material Risks](#).

1.7. Management next steps

The Company is committed to apply all necessary measures to strengthen its risk management and internal control framework. These measures and futures steps, in general lines, comprise of the following:

- The BoD will continue exercising its strong oversight and influence over the Risk Management function of the Company, in promoting the ICAAP and its provisions into an essential building block of the Company and nature its risk management culture.
- Mitigation actions taking place to reduce risk according to the priority set by the BoD.
- The ICAAP will be further applied and embedded in the daily operations of the Company.
- The ICAAP will be reviewed and assessed for its applicability at least yearly or when deemed necessary.
- The ICAAP will be re-run yearly by the Risk Management function, for the production of the ICAAP report.
- The Company will stand ready to cooperate with CySEC and consider/adopt its possible suggestions during SREP.

The graph below illustrates the process between ICAAP and SREP:



1.8. Pillar I results as at 31st December 2020 and Risk Profile

As at 31st December 2020, the Company's Pillar I CAR stood at **12.71%**, which is above the minimum regulatory requirement of to **8.00%**, while the Own Funds amounted to **EUR253,112**, with a surplus of **EUR93,812** above the minimum regulatory requirement.

The table below summarises a qualitative analysis of the Company's overall risk profile as at 31st December 2020:

Key Risk Category		Overall Comments
Regulatory and Adequacy	Capital and Capital (Own Funds)	<p>The Company's CAR stood at 12.71% as at 31st December 2020, which is above the minimum requirement 8.00%. Additionally, the Company's own funds stood at EUR253,112 which is above the minimum capital requirement of EUR159,300 to comply with its minimum initial capital of EUR125,000 and the minimum CAR requirement of 8.00%.</p> <p>The Company reports its Capital Adequacy ratio and Own Funds on a quarterly basis.</p>
Credit Risk		<p>Credit Risk mainly emanates from Concentration Risk at the Company's bank accounts.</p> <p>The capital usage for credit risk amounted to EUR110,689 as of 31st December 2020.</p> <p>The Company reports its credit exposures on a quarterly basis through its capital adequacy calculations.</p>
Market Risk		<p>The Company's market risk mainly arises from foreign exchange rates fluctuations which affect the Company's deposits in foreign currencies.</p> <p>.As at 31st December 2020, the total Net Long and Net Short in all the non-reporting currencies amounted to EUR607,630.87 and EUR0.00 respectively.</p> <p>The Company reports these exposures on a quarterly basis through its capital adequacy calculations.</p>
Operational Risk		<p>The Company is exposed to Operational risk associated with inadequate personnel, processes, systems, infrastructure or external events of the Company. The Company reports its operational risk exposure on a quarterly basis through its capital adequacy calculations.</p>

The table below summarises the Company's Pillar I capital requirements as at 31st December 2020.

Pillar I Capital requirements	
	31 st December 2020
	EUR
Credit Risk	110,689
Market Risk	48,610
<i>Foreign Exchange Risk</i>	<i>48,610</i>
<i>Equity Risk</i>	-
<i>Commodity Risk</i>	-
<i>Interest Rate Risk</i>	-
Operational Risk	132,394
Total Pillar I Capital requirements	159,300

1.9. Upcoming regulatory challenges for the Company

New prudential regime was introduced on 5th December 2019 for the investment firms and it will be applicable for implementation from 26th June 2021.

As per the new prudential regime, the Company will be classified as **Class 2** investment firm and will be subject to the new capital requirements set out in the [Investment Firms Directive](#) (“IFD”) and the [Investment Firms Regulation](#) (“IFR”) which will be into effect on 26th June 2021 onwards.

A new permanent capital has been introduced and the Company shall ensure that will comply with it. In particular, from 26th June 2021 onwards the minimum permanent capital that the Company shall maintain at all times shall amount to **EUR150,000**, in accordance with Article 9 of the IFD.

Furthermore, the Company will subject to a new capital requirement introduced by the new prudential regime, the K – factor requirement. In particular, the new K – factor requirement aims to capture the risk that the Company can pose to its clients, to market access or to the Company itself and is equivalent at least to the sum of:

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

The RtC, RtM and RtF will be calculated based on the provisions introduced by IFR.

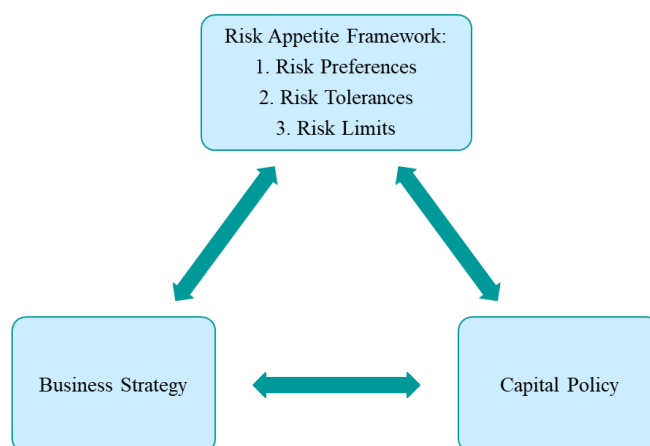
Further to the above, the Company will subject to new liquidity requirements, as well as new disclosures and reporting requirements as set out in the new prudential framework.

Following the new challenges arising from the new prudential regime, the Company assessed the impact of the new regulatory requirements introduced from the IFR and IFD in order to take all the appropriate measures to ensure compliance with the new prudential framework from 26th June 2021 onwards.

2. Risk appetite

Risk appetite statement is a board-approved statement that defines the types and aggregate levels of risk that an organization is willing to accept in pursuit of business objectives. It includes qualitative statements and guidelines as well as quantitative metrics and exposure limits.

The graph below illustrates the identification process of the Company's Risk Appetite statement:



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 report, 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:

- a. Governance (decision-making, management and supervisory bodies).
- b. Management (identification of risk areas, authorisation and risk-taking processes, risk management policies through the use of limits and guidelines, resource management).

- c. 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 Disaster Recovery plan in the most severe cases.

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

Risk Appetite Thresholds:

Willingness to accept risk - Appetite	
Risk Category	
Regulatory Capital	The Company's appetite for Regulatory Capital risk is low . The Company's minimum requirement for CET1 capital requirement is 4.50% of its Risk Weighted Assets. The Company will maintain the minimum internal CET1 ratio requirement of 7.00% and the minimum total ratio of 9.00% .
Market Risk	<p>The Company is only exposed to market risk arising from its non-trading book.</p> <p>Non-trading market risk: arises from market movements, in the Company's banking book. This includes mainly foreign exchange risk. The Company is exposed to foreign exchange risk, which arises from the Company's non-trading asset and liability positions, which are not denominated in the Company's reporting currency. The Company's appetite for Non-trading market risk is medium.</p>
Operational Risk	The Company's appetite for Operational risk is low . Operational risk is one of the major risks faced by the Company, which arises from errors, fraud or disruptions of service which might lead to monetary or reputation cost. The Company monitors its Operational risks through a range of controls, which are designed in such a way to enable the Company to identify them at their early stages. The Company maintains and updates a risk register on a regular basis as part of its ICAAP process.
Reputational Risk	The Company's appetite for Reputational risk is low . A threat or danger to the good name or standing of the Company. Reputational risk can occur through a number of ways: directly as the result of the actions of the Company itself, indirectly due to the actions of an employee or employees, or tangentially through other peripheral parties, such as customers, counterparties or regulators. Reputational risk affects the Company's ability to maintain existing or establish new business relationships and leads to a loss of revenue or litigation. The Company is highly sensitive to reputational issues and strives to keep its customers

	satisfied, maintain good relationships with other counterparties and comply with all relevant laws and regulations.
Legal and Compliance Risk	The Company's appetite for Legal and Compliance risk is low . The Company will uphold its legal obligations regarding fair access to financial services for consumers. Legal risk consideration is multi-faced, complex and span the entirety of Company's operations. The need for legal judgement necessitates decision-making to be transparent, supported and subject to appropriate governance processes. The Company has zero risk appetite for non-compliance with the applicable laws and regulations.

The BoD shall review and approve the risk appetite and capacity on an annual basis, with the aim of ensuring that they are consistent with the Company's strategy, business and regulatory environment and stakeholders' requirements.

3. Use of external consultants

The Company has decided to source the help of an external consultant to assist in the preparation process of the ICAAP Report.

It is noted that despite the use of external consultants, the Company's BoD retains the ultimate decision-making responsibility over the ICAAP. While the BoD is responsible for approving the design and general principles of the ICAAP, its detailed implementation rests with the Company's Senior Management.

4. Business Background

4.1. Company Overview

The Company was incorporated in Cyprus on 23rd July 2009 with registration number HE252803.

As at 22nd February 2010, the Company, regulated by CySEC, has been providing the following Investment and Ancillary Services:

Investment Services	Ancillary Services
Reception and transmission of orders in relation to one or more financial instruments.	Safekeeping and administration of financial instruments, including custodianship and related services.
Execution of orders on behalf of clients.	Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.
Portfolio management.	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.

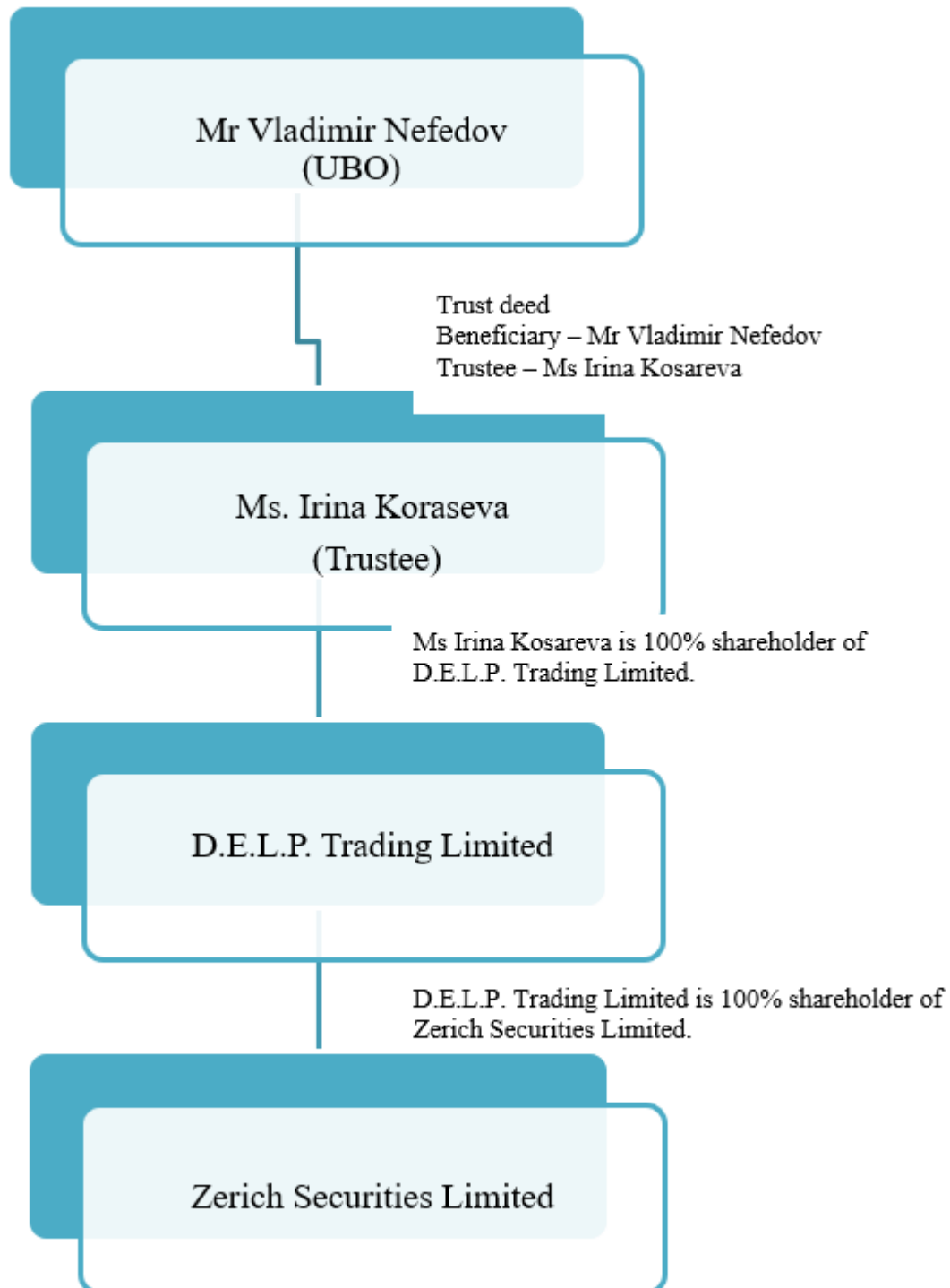
4.2. Group Structure

For the purpose of this report the following definitions apply:

“**Company**” is referring to the Zerich Securities Limited.

“**Shareholder**” is referring to the company D.E.L.P Trading Limited.

“**UBO**” is referring to the ultimate beneficial owner of the Company.



4.3. Business Model

The Company acts as a CIF and operates in Cyprus, on behalf of its clients facilitating them to invest in the Russian capital markets as well as to other major international capital markets. The Company offers portfolio managements services as well as brokerage services to its clients.

Economic and Political Analysis of operating markets

The Company's BoD closely monitors the Economic situation which affects the Company's operations and take all the appropriate measures and controls to overcome any weakness arising from the current circumstances.

Target Markets

The Company will principally enter into a business relationship mainly with clientele from the EEA countries.

4.4. Economic profile of Cyprus and Europe

Cyprus

Despite the lockdown measures at the beginning of the year, real GDP increased in the first quarter of 2021 (+2% compared to the last quarter of 2020). The rebound in activity, which started in the second half of 2020, has been driven by domestic demand, underpinned by fiscal stimulus, and exports of services other than tourism. On an annual basis, real GDP growth is expected to increase by 4.3% in 2021. This is higher than projected in spring due to the better than-expected performance in the first quarter and the considerable improvement in economic sentiment in June. The accelerating pace of vaccination and the improved epidemiological situation in Cyprus, as well as in the rest of the EU, have prompted a significant relaxation of domestic and travel restrictions since mid-May, laying the ground for sustained growth in the coming months. Nevertheless, the tourism sector is still expected to recover only gradually, as uncertainty remains and international travel, particularly from the UK – an important market for Cyprus – has yet to fully recover. The slight increase in employment in the first quarter of 2021, year-on-year, is also set to support the rebound in private consumption.

In 2022, real GDP is forecast to grow by 3.8% in view of favourable prospects for domestic and external demand and the implementation of the Recovery and Resilience Plan, which is set to strengthen private and public investment.

Headline inflation turned positive in the first five months of 2021 after falling by 1.1% in 2020. Inflation is forecast to increase to 1.4% in 2021 and to 1.3% in 2022, underpinned by higher prices for energy, non-energy industrial goods, and services.

Europe

The improving health situation and ensuing continued easing of virus containment measures are putting the EU economies back in motion. The near-term outlook for the European economy looks brighter than expected in spring. The contraction of GDP in the first quarter of the year turned out to be marginal, and milder than suggested by Eurostat's Preliminary Flash Estimate, which was incorporated into the Spring Forecast. Falling numbers of new infections and hospitalisations, thanks to an effective containment strategy and progress in vaccination, have led EU Member States to reopen their economies, to the benefit of service sector businesses, in particular. Upbeat survey results among consumers and businesses, as well as data tracking mobility, suggest that a rebound in consumption is already underway and set to strengthen in the coming months. There is also evidence of a beginning revival in tourism activity, which should also benefit from the new EU Digital COVID Certificate. Together, these factors are expected to outweigh the temporary production input shortages and rising costs hitting parts of the manufacturing sector.

Overall, GDP is now forecast to grow by 4.8% in 2021 and 4.5% in 2022 in both the EU and the euro area. The volume of output is projected to return to its pre-crisis level (2019-Q4) in the last quarter of 2021, which is one quarter earlier than expected in the Spring Forecast for the euro area. However, economic activity in the fourth quarter of 2022 would remain about 1% shy of the level that was expected before the pandemic, based on an extrapolation of the Winter 2020 Interim Forecast. The speed of the recovery will vary significantly across the Member States. Some are expected to see economic output return to their pre-pandemic levels by the third quarter of 2021, but others would take longer.

The forecast for inflation this year and next has also been revised upwards, though retaining a hump-shaped profile. Rising energy and commodity prices, production bottlenecks due to the shortage of some input components and raw materials and capacity constraints vis-à-vis booming demand both at home and abroad are expected to put upward pressure on consumer prices this year. In 2022, pressures are assumed to moderate gradually as supply constraints resolve, order backlogs clear, and demand growth moderates. Accordingly, inflation in the EU is now forecast to average 2.2% this year and 1.6% in 2022 (+0.3 and +0.1 pps., respectively, compared to the Spring Forecast). In the euro area, inflation is forecast to average 1.9% in 2021 (+ 0.2 pps.) and 1.4% in 2022 (+0.1 pps.).

Uncertainty and risks surrounding the growth outlook are high but remain overall balanced. The threat posed by the spread and emergence of variants of concern underscores the importance of a further rapid increase in full vaccination. Economic risks relate in particular to the response of households and firms to changes in restrictions and the impact of emergency policy support withdrawal.

Inflation may turn out higher than forecast if supply constraints are more persistent and price pressures are passed on to consumer prices more strongly.

4.5. Financial Information

The table below summarizes the income statements from the previous 6 years; a more comprehensive income statement and balance sheet will be included in a separate Appendix document.

Despite the losses in the previous financial years, the Company's development to date and the financial position as reflected in the financial statements are satisfactory. It is evident that the Company is not generating revenues to cover the costs and, subsequently, the equity of the shareholder has decreased significantly. It is important however to note that whenever there was a need for Capital injections in order to comply with regulatory requirements, the Company's UBOs proceeded with issuing new shares as required.

Ultimately, the BoD is responsible for the improvement of the financial position of the Company.

Figures in EUR	2015	2016	2017	2018	2019	2020
Total Revenue	502,536	687,431	576,040	298,595	332,656	125,932
Cost of Sales	(210,239)	(159,900)	(272,912)	(172,378)	(117,386)	(88,947)
Administrative Expenses	(301,223)	(387,474)	(321,044)	(434,356)	(390,154)	(463,088)
Other Expenses	(6,340)	-	-	(1,460)	(3,132)	(3,717)
Other Operating Income	-	1,228	3,078	-	16,895	-
Sundry Expenses	-	-	-	-	-	(4,776)
Financing Income/(Cost)	17,864	47,685	(32,282)	(11,080)	(10,593)	10,549
Profit/ Loss before TAX	2,598	188,970	(47,120)	(320,679)	(171,714)	(424,047)
Taxes	(4)	(3)	(2)	-	-	-
Profit/ Loss after TAX	2,594	188,967	(47,122)	(320,679)	(171,714)	(424,047)
Available for sale financial assets - fair value (loss)/gain	-	180.930	(83.763)	-	-	-
Total comprehensive income/(loss) for the year	2.594	369.897	(130.885)	(320,679)	(171,714)	(424,047)

Table 3: Income statements for the period 2015-2020

4.6. Important developments within the last five years

- Termination of operations**

During 2020 the Company ceased its operations and notified CySEC through a letter dated 4th February 2021 regarding its intention to proceed with a voluntary renouncement of its authorization. In response, CySEC through a letter dated 1st March 2021 informed the Company in relation to the Company's three months' timeframe for the implementation of the

actions pursuant to subsection 3 of the section 4 of the DI87-05. Further to the above, CySEC notified the Company for the additional required actions to be implemented before the renouncement of its license as per the Article 8(1)(a) of the Law L.87(I)/2017 and the Article 4(7) of the DI87-05.

The Company notified its clients regarding the renouncement of its authorisation and proceeded with the refund process accordingly. It shall be taken into consideration that, at the time of writing this report most of the Company's clients have been fully refunded. The remaining clients' funds, that the Company was unable to proceed with a refund, was transferred to the Investor Compensation Fund.

During Q2 2021 the Company informed CySEC in relation to its intention to maintain its license, due to the fact that the Company is in communication with a potential buyer. The Company currently awaits CySEC's board decision on the Company's decision not to proceed with the renunciation of its license and further actions that will be required to be taken.

- ***Business Continuity and Disaster Recovery plan***

During Q2/Q3-2020 the Company proceeded with an update of its Business Continuity and Disaster Recovery plans in accordance with CySEC's [Circular C358](#) in order to prevent the business disruptions and ensure that the Company's activities and operations will continue as normal following the outbreak of the Coronavirus (hereafter the "COVID-19") pandemic.

- ***Update of Policies***

During the year 2020 the Company proceeded with the update of the below policies:

- Business Continuity Policy
- Product governance Policy
- Data protection Policy
- Execution Policy
- CIF Records Policy
- AML Policy

4.7. Business and Strategic Goals

The Company's business and strategic goals are critical to the Company's business success and are part of the planning process.

The Company's main business and strategic goal for the next 3 to 5 years is to double the profit, the goals. The Company's goals include sustainable growth, staying profitable, remain competitive in the market by offering new products for clients, obtaining additional licence for dealing on own account.

Furthermore, corporate governance and client satisfaction remain key management objectives. The long-term objective is to improve technologies for best execution and provide more services such as provide access to IPO or to platforms for trading in crypto.

4.8. Pillar I Capital Adequacy

The Company calculates its Eligible Capital, Capital Adequacy Ratio and Pillar I capital requirements in accordance with the provisions of the [EU Regulation 575/2013](#) (hereafter the “CRR”) and report them to CySEC on a quarterly basis.

The tables below summarise the main Pillar I result for the years 2018-2020.

In EUR		As at 31 December		
Tier I Capital	2018	2019	2020	
Share Capital	201,000	201,000	201,000	
Share Premium	999,000	999,000	999,000	
Retained Earnings	(568,395)	(740,108)	(1,164,155)	
Other Reserves	170,724	556,193	304,250	
Intangible Assets	(726)	(575)	(697)	
ICF	(88,746)	(89,617)	(86,286)	
Total Tier I Capital	712,857	925,893	253,112	
Tier II Capital				
Subordinated Loan	-	-	-	
Total Tier II Capital	-	-	-	
Total Own Funds	712,857	925,893	253,112	

Table 4: Company’s Own Funds for the years 2018-2020

In EUR	As at 31 December		
	2018	2019	2020
Credit Risk	116,220	138,555	110,689
Market Risk	3,842	99,245	48,610
<i>Foreign Exchange Risk</i>	<i>3,842</i>	<i>99,245</i>	<i>48,610</i>
<i>Equity Risk</i>	-	-	-
<i>Commodity Risk</i>	-	-	-
<i>Interest Rate Risk</i>	-	-	-
Additional Fixed Overheads	-	-	-
Fixed Overheads	118,128	119,104	132,394
Total Capital Requirement	120,062	237,800	159,300
Risk Weighted Assets	1,500,774	2,972,496	1,991,248
Eligible Capital	712,857	925,893	253,112
Total Capital Adequacy ratio	47.50%	31.15%	12.71%

Table 5: Company's Pillar I result for the years 2018-2020

5. Internal Governance of the Company

5.1. Internal Governance

The Company's operations are regulated by CySEC with supervision focusing on licensing, capital adequacy, risk concentration, conduct of business as well as organizational and reporting requirements.

The Company ensures that it clearly defines the roles and responsibilities of its BoD (and its members), senior management and persons undertaking key control functions (i.e persons undertaking Compliance, Risk Management, Internal Audit and similar control functions) and that the relevant individuals have clear reporting lines.

The Company maintains and operates effective organisational arrangements, ensuring the continuity and regularity of its operations in investment and ancillary services. The robust governance arrangements include a clear and effective organisational structure with well-defined and consistent lines of responsibility.

The organisational structure clearly specifies the reporting lines between staff members and allocates functions/responsibilities in a transparent manner. In particular, all sub-departments report to the head of their respective department, while the head of each department reports to the Senior Management.

5.2. Company's Organisational structure

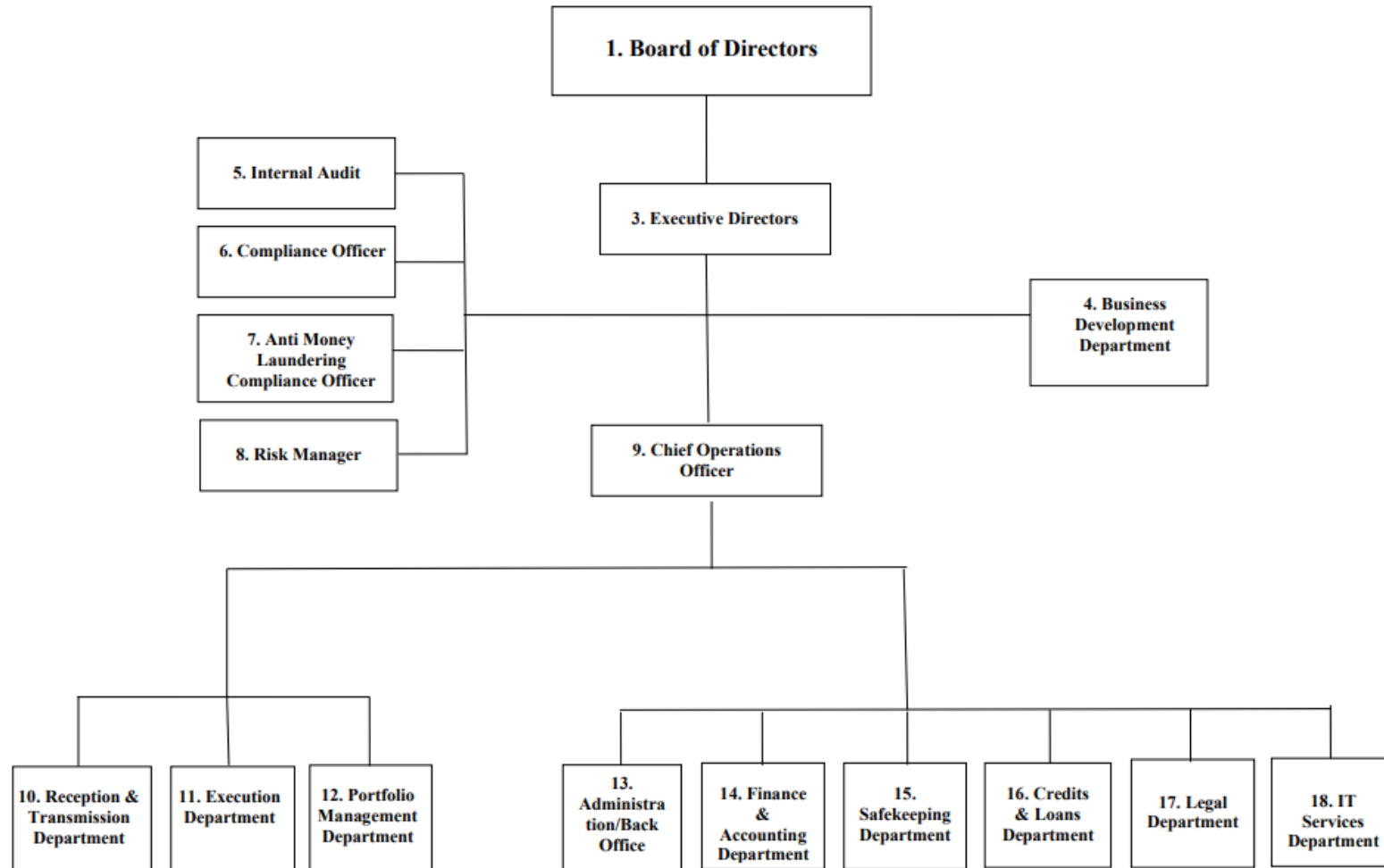
The Company adopts CySEC's guidelines on best practice regarding to corporate governance and maintains a corporate governance framework which:

- is appropriate to the nature, scale and complexity of its business and structure.
- is adequate to promote the sound and prudent management of the Company's business.
- protects the interests of its customers and stakeholders.

The Company ensures that it clearly defines the roles and responsibilities of its BoD (and its members), senior management and persons undertaking key control functions (i.e. persons undertaking Compliance, Risk Management, Internal Audit and similar control functions) and that the relevant individuals have clear reporting lines.

The diagram below represents the Company's Organisational structure as at 31st March 2021.

ZERICH SECURITIES LIMITED. ORGANISATIONAL STRUCTURE



1. Board of Directors
 - Mr. Anton Belozarov: Executive Director (Executive Director, part of "4-Eyes", CY-based)
Vacant
 - Mr. George Ktorides (Independent, Non-Executive Director, CY-based)
 - Mr. Athos Demetriou (Independent, Non-Executive Director, CY-based)
2. Executive Directors
 - Mr. Anton Belozarov (Executive Director, part of "4-Eyes", full-time, CY -based)
Vacant
3. Business Development Department
 - Mr Anton Belozarov (full-time, CY-based)
4. Internal Auditor
 - Fiduserve Management (outsourced, CY-based)
5. Compliance Officer
 - Mrs. Nina Griskeviciene (full-time, CY-based)
6. Anti Money Laundering Compliance Officer
 - Mrs. Nina Griskeviciene (full-time, CY-based)
7. Risk Manager
 - K.Treppides & Co Limited (outsourced, CY-based)
8. Chief Operations Officer Vacant
9. Reception & Transmission Department
 - Mr. Viktor Antokhov (full-time, CY-based)
10. Execution Department
 - Mr. Viktor Antokhov (full-time, CY-based)
11. Portfolio Management Department
Vacant
12. Administration/Back Office Department
 - Ms. Nadezhda Tatleri (full-time, CY-based)
13. Finance & Accounting Department
 - K.Treppides & Co Limited (outsourced, CY-based)
14. Safekeeping Department

- Ms. Nadezhda Tatları (full-time, CY-based)

15. Credits & Loans Department

- Ms. Nadezhda Tatları (full-time, CY-based)

16. Legal Department

- Mr. Viktor Antokhov (full-time, CY-based)

17. IT Services

- Agreement for cooperation with NMORE Group Ltd (outsourced, CY-based)

5.3.Functions and responsibilities of the Board of Directors

The BoD, as the supervising body, is responsible for maintaining an appropriate risk management framework to balance out the effects of everyday business with the available capital. The proper monitoring of the capital levels required and the allocation of capital to sufficiently safeguard the exposures to risks is needed to maintain a good understanding on the risk characteristics that the Company is facing.

The BoD held 6 meetings during 2020, discussing important issues surrounding the Company's operations. According to the Annual Risk Management Report for 2020, the Company's risk related policies/procedures and corporate governance are properly monitored by the BoD, with only minor issues outstanding. The Company follows the requirements of the legal framework by reporting to CySEC at least on a quarterly basis.

The BoD has a great interest in the Company's risk management programs and ensuring that proper risk mitigation plans are in place. Risk culture is the system of values and behaviours established within the Company that help shape decisions, making it a critical element of risk management efforts. Establishing a strong risk culture influences the decisions of both the management and the employees.

To instil a proper risk culture, the management, firstly has to ensure the appropriate training of employees, which in turn strengthens their critical thinking and judgement before making decisions at enterprise level. Secondly, a risk culture framework has to be established to assist with the holistic assessment of the risk culture. The Framework should (i) define the levers that contribute to the evolution of a strong risk culture (ii) be updated and reviewed continuously to better reflect the Company's evolution through time.

The Company's risk management policies and procedures are an integral part of the internal controls and corporate governance assessments. Through the Annual Risk Management Report, these policies and procedures will identify and properly manage all the risks it is exposed to, as well as setting the appropriate limits.

5.4.Functions and responsibilities of the Risk Committee/Risk Management function

The Company operates a separate Risk Management function, which is responsible for the implementation of the Risk Management Policy, set by the BoD. 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.

For a more detailed explanation of the Risk Manager's duties, refer to [Section 7.2 – Risk Manager](#).

The Company's Risk Manager will head the Risk Management function which will operate independently and will be responsible for the implementation of the Risk Management Policy of the Company. The Risk Management Policy of the Company is set by the Board of Directors. The Risk Manager shall also submit reports to the Senior Management and Board 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.

5.5.Internal Control Functions

5.5.1. Compliance

The Company has a established compliance function, which has been established to ensure compliance with legislative requirements. For a more detailed explanation of the Compliance Officer's duties and findings, refer to the Annual Compliance Officer's report 2020.

5.5.2. Internal Audit

The Internal Audit Function's duties are to regularly review and evaluate the operations and activities of the Company. Based on their findings the Internal Auditor offers recommendations and advice to ensure that the Company operates at the highest standards possible and in accordance with best practice, while simultaneously being within the legal framework formulated by the competent authorities.

The Company outsources the Internal Audit Function to Fiduserve Management Ltd.

For a more detailed explanation of the Internal Auditor's duties and findings, refer to the Annual Internal Audit report 2020.

5.6. Internal governance assessment

5.6.1. Internal Auditors

Overall, the Company has taken the appropriate actions to enhance its controls, policies and procedures, to comply with published regulatory requirements. While the Company displayed progress during the year, there is still a margin of scope for improvement.

Areas of controls that require improvement are carefully considered by the Company and corrective actions which are recommended by the Internal Auditor, in the majority of the instances, are initiated on a timely basis.

5.6.2. External Auditors

The main findings which have been detected for the year 2020 by the Company's External Auditors are summarised below:

- Pursuant to the additional requirements of the Auditors Law of 2017, the attention was drew to **note 34** of the financial statements where it is indicated that part of the Clients' funds are deposited in brokerage accounts for facilitating future investments in financial instruments instead of being deposited in accounts that should be opened in accordance to the requirements of the legislation. The External Auditors opinion is not modified in respect of this matter.
- Additionally attention was drew to **note 5** to the financial statements which indicates that the Company incurred a loss of **EUR424,047** during the year ended 31st December 2020, and, as of that date the Company's current liabilities exceeded its current assets by **EUR537,530**. As stated in **note 5**, these events or conditions, along with other matters as set forth in **note 5**, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The External Auditors opinion is not modified in respect of this matter.

5.6.3. Compliance Officer




The Company has established an independent Compliance Function which is responsible to ensure that the Company complies with the relevant legislation and regulation. The Compliance Officer is responsible to monitor the effective implementation of the policies and procedures that the Company has in place so as to minimise any risk that the Company may be exposed and reports directly to the BoD of the Company. The Compliance Officer and the Compliance Function are responsible to ensure that the Company has in place processes and procedures so as to comply with the applicable legislation and regulation. Furthermore, they are responsible

to maintain policies in order to detect any risk that the Company may be exposed and ensure that the Company has in place adequate measures to minimise such risks.

5.6.1. Risk Manager

The Risk Manager is the responsible person of the Risk Management function and has the responsibility to monitor, analyse and report risk on a comprehensive basis , including asset and liability gap, capital, liquidity, legal, compliance and regulatory risks, as well as, other non-financial risks. Furthermore, the Risk Manager is responsible to detect any risk issue and report directly to the BoD of the Company.

The table below summarises the main findings which have been detected during 2020 by the Company's Risk Manager and the relevant mitigation strategy to comply:

Risk Category	Qualitative / Quantitative / Events as at the date of writing this report	RAG	Control Activity in place during the reference period as provided by the Company's Management	Improvement/mitigation actions
Country Risk	The majority of the Company's financial exposures are in Russia (97.24%), while the rest are in Cyprus (2.60%), Bulgaria (0.11%), United States (0.04%) and Canada (0.02%).		<p>The Company monitors its exposures on a quarterly basis through its capital adequacy calculations.</p> <p>The Company's liquidity providers are incorporated in different regions. Additionally, for mitigating this exposure the Company maintains bank accounts in the Republic as well as outside the Republic.</p>	It is advisable to geographically diversify its exposures to other EU countries as well.
Information Technology Risk	The Company does not maintain policies, procedures and defences to mitigate risk arising from cyber security threats and breaches or failure of IT systems /IT security.		<p>The Company conducts technical audits to its IT systems and security on a regularly basis.</p> <p>Furthermore, the Company implements back-up procedures. The Company's outsourced IT Department performs back-ups on a regular basis.</p> <p>Additionally, the Company keeps all of its hard copies are in electronic format as well.</p> <p>The Company's IT Department ensures that, its IT system is fully safeguarded against intrusion.</p> <p>Finally, the Company's outsourced IT Department conducts checks on a regular basis on its IT infrastructure for monitoring this particular risk.</p>	The Company, is advised to develop policies, procedures and defences to mitigate risk arising from cyber security threats and breaches or failure of IT systems /IT security.
Integrity Risk (Legal and Compliance Risk)	<p>The major weaknesses identified by the Company's Compliance Officer are illustrated below:</p> <ol style="list-style-type: none"> 1. It was noted, that part of the Company's policies were outdated. 		The Company's Compliance Officer is monitoring on an ongoing basis all regulatory requirements and acts in line with the internal policies, promoting others in the Company to do the same.	As per the Management, the Company has updated most of its policies as per its Compliance Officer's request.

	<p>2. It was found that the Company was not in full compliance with its transactions reporting obligations.</p> <p>3. It was noted that, the Company's Legal opinions for the provision of its services in third countries were outdated.</p> <p>4. It was identified that the Company failed to fulfil its reporting obligations to CySEC within the specified deadlines.</p>			<p>The Company is advised to ensure that all of its policies are updated in accordance with the provisions of the law.</p> <p>Additionally, the Company should take all the corrective actions, which were suggested by its Compliance officer.</p>
Employment practices and workplace safety	The Company does not have safety measures/policies in place.	M	<p>The Company ensures that it takes all the appropriate by law measures in regard to the employment of its personnel (social insurance, proper employment agreements in place, annual leaves in line with the law).</p> <p>Additionally, the Company implements private health insurance contracts for all of its employees.</p>	The Company is advised to develop safety measures and policies in order to ensure a safe workplace environment.
Event Risk	The Company did not update its ICAAP report so as to include a stress test in relation to the pandemic.	M	The actions and measures taken against the material challenges faced due to the outbreak of the COVID-19 are illustrated in <u>Section 3 – COVID-19 pandemic</u> .	<p>The Company is advised to establish an Information Security policy.</p> <p>Additionally, the Company is suggested to implement access rights to its IT systems and key files information in order to be safeguarded against fraud incidents.</p> <p>Finally, the Company should maintain a record system, which will enable the Company to check for potential internal or external fraud events.</p> <p>The Company's ICAAP report should be updated at least on an annual basis.</p>

General Data Protection Regulation (“GDPR”)	<p>The major deficiencies identified by the Company’s Data Protection Officer (“GDPO”) are illustrated below:</p> <ol style="list-style-type: none"> 1. It was noted that, the Company did not conduct tests on its back up server. 2. It was found that the Company does not maintain Chinese walls between its departments. 	M	<p>The Company has established the below policies:</p> <ul style="list-style-type: none"> • GDPR Policy • Cookies Policy <p>Additionally, the Company has appointed a GDPO who is responsible to monitor and apply any circulars and directives that are currently in place and be up to date with any new Circular or regulation released by the Local and European regulators.</p>	As per the Management the Company took all the corrective actions, which were suggested by its GDPO. The Company shall monitor and ensure their proper implementation.
AML Policies & Procedures	<p>The major deficiencies identified by the Company’s Anti Money Laundering Officer (“AMLCO”) are illustrated below:</p> <ol style="list-style-type: none"> 1. It was noted that, the Company’s KYC questionnaire required to be updated. 2. It was found that, the Company did not maintain evidence of transaction monitoring. 3. It was noted that, the clients’ due diligence and KYC procedures were outdated. 4. The Company did not conduct AML trainings for all of its employees. 	M	<p>The Company has an AML Manual in place, which illustrates its measures and procedures in place for preventing money laundering incidents. The Company ensures that its AML Manual is always up to date in accordance with the provisions of the law.</p> <p>The Company’s AMLCO is the responsible person for ensuring the implementation of the Company’s AML Manual.</p>	<p>Management response:</p> <p>The Company’s KYC Questionnaire was updated in 2020.</p> <p>Furthermore, the Company ensures that it maintains evidence of transaction monitoring.</p> <p>Additionally, the Company has updated the due diligence and KYC for all of its clients.</p> <p>Finally, some of the Company’s employees have attended a number of training sessions on AML subjects.</p>

6. Financial Positions, Capital Planning and Business Strategy:

6.1. Capital Planning

The Company aims to keep monitoring its capital. Additionally, the Company plans to increase its capital if needed for saving money aside for mitigating its future risks.

6.2. Projected Financial Position

The table below is a high-level summary of the projected financial position for the Company for the next three years. This projection works with the prudent assumptions based on the Senior management teams' experience of the marketplace. It is anticipated that the firm will grow its revenue stream substantially and project that revenue will increase to **EUR498,144** at the end of year three.

	Year 1 EUR	Year 2 EUR	Year 3 EUR
Total Revenue	124,536	249,072	498,144
Management fees	78,000	156,000	312,000
Commission Income from trading	46,536	93,072	186,144
Staff Costs	(392,479)	(408,178)	(424,505)
Commission costs from trading	(11,799)	(12,979)	(14,277)
Electricity	(1,603)	(1,763)	(1,940)
Auditors Remuneration	(15,750)	(17,325)	(19,058)
Accounting fees	(15,700)	(17,270)	(18,997)
Internal Audit fees	(14,500)	(15,080)	(15,683)
Sundry expenses	(85,555)	(88,977)	(92,536)
Loss on investor compensation fund	(3,717)	(3,866)	(4,020)
Net Finance income/(cost)	11,945	12,423	12,920
Total Costs	(529,158)	(553,015)	(578,096)
Operating Profit	(404,622)	(303,943)	(79,952)
Depreciation	(22,551)	29,691	485
Profit/(Loss) before Tax	(427,173)	(274,252)	(79,467)
Tax Credit/(Tax)	-	-	-
Profit/(Loss) after Tax	(427,173)	(274,252)	(79,467)

Table 6: Projected Statement of comprehensive income for the next three years

	Year 1 EUR	Year 2 EUR	Year 3 EUR
Assets			
Non-Current Assets	795,727	864,894	814,020
Furniture and equipment	8,658	7,792	7,013
Computers & Software	40,296	30,222	22,667
Right-of-use of asset	29,691	29,691	-
Intangible Assets	1,081	724	485
Depreciation	(74,222)	6,242	(6,368)
Financial assets at fair value through OCI	790,223	790,223	790,223
Current Assets	617,031	313,087	233,135
Cash and cash equivalent	528,908	218,738	126,332
Accounts Receivable	6,227	12,454	24,907
Investors Compensation Fund	81,896	81,896	81,896
Total Assets	1,412,758	1,177,981	1,047,155
Current liabilities	1,075,791	1,115,267	1,063,907
Trade and other payables	1,072,483	1,115,267	1,063,907
Lease liabilities	3,308	-	-
Total liabilities	1,075,791	1,115,267	1,063,907
Equity			
Share Capital	201,000	201,000	201,000
Share premium	999,000	999,000	999,000
Non-refundable Advances	460,000	460,000	460,000
Fair value reserve	(155,750)	(155,750)	(155,750)
Retained Earnings	(1,167,283)	(1,441,535)	(1,521,002)
Total Equity	336,967	62,715	(16,752)
Total Equity and Liabilities	1,412,758	1,177,982	1,047,155

Table 7: Projected Statement of Financial position for the next three years

7. Risk Management Framework

The BoD accepts that in its pursuit of its strategic and business goals, the Company will be exposed to risk. Some risks, such as market price risk, will be consciously taken in the pursuit of profit. Other risks will be an indirect consequence of profit taking activities.

Accordingly, it is important that the Company's overall risk-taking activities are undertaken within a set of prescribed limits and tolerances in order that the potential impact of such risks on the earnings and capital ratios of the Company can be managed.

It is accepted that the risk profile of the Company will vary and at times the Company may be exposed to a higher level of risk particularly at times when the market or environmental conditions may be volatile.

7.1. Risk Governance, Policies and Procedures

All governance policies and procedures are set out to ensure compliance with legislative requirements as well as the departmental and general procedures. The Senior Management is responsible for overseeing risk management within the Company. The Senior Management, supports, implements and advises on policies approved by the BoD. The Head of each department is ultimately responsible for encouraging good risk management practices within their respective teams and departments.

For more information regarding the findings and actions taken by the Risk Manager during 2020, refer to the relevant Annual Risk Management report.

7.2. Risk Manager

Further to the information of the overall Internal Governance Framework, it should be noted that the BoD will appoint a Risk Manager to ensure that all the different types of risks taken by the Company are in compliance with the Law and obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place and are functional on an operational level from a day to day basis.

The outsourced Risk Manager is, inter alia, responsible to:

- a. Identify and evaluate the fundamental risks faced by the Company.
- b. Design the Company's ICAAP, identify, assess and quantify all material risks surrounding the Company, and propose the allocation of the necessary funds to cover those risks.
- c. Draft the Annual Risk Management report to the Senior Management and the BoD making recommendation and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.
- d. Provide recommendations regarding risk management, exposures and control, which will be presented to the Board of Directors and the management.

- e. Produce all of the required reports related to the risks the company is exposed as well as the documents that are required by the rules and regulations and keep records of these reports.

The Company's BoD is responsible for the implementation of the below following the risk management's suggestions:

- a. Ensure the compliance with and the implementation of the relevant provisions of the Law and the Directives, relating to risk management issues.
- b. Ensure the implementation of policies and procedures on risk management and internal control in consultation with the Risk Management Function, and if determined necessary by the Board of Directors.
- c. Ensure that the personnel of the Company is educated and trained on risk-related issues, as well as on ICAAP matters.
- d. Analyse the financial markets (from a risk management perspective), as applicable.
- e. Evaluate whether the introduction of any new services and/or activities by the Company could increase the risks assumed by the Company.
- f. Ensure the adoption and implementation of effective arrangements and procedures to manage all types of risks that arise due to the Company's operations in respect of the level of risk tolerance.
- g. Monitor the adequacy and effectiveness of the Company's risk management policies and procedures.

7.3. Risk Management tools

Risk is defined as the chance of an event happening that can impact the Company either negatively or positively.

Risk management is a responsibility for all stakeholders; different groups and levels within the firm are given more/less responsibility. However, risk management is not just a standalone process; it is a continuous process, integrated within the Company's existing business procedures. Risk management is multidimensional, encapsulated by the culture, processes and structures that are directed towards realising potential opportunities whilst managing adverse scenarios involving the following key steps:

Communicate and consult: Internal and external stakeholders are informed about the organisation's risk management approach and the effectiveness of the risk management approach.

Establish the context: The Company must be in a position to understand the extent to which external factors can impact its ability to achieve its objectives. Internally, an understanding of the organisational elements such as culture, structure, capabilities, goals, objectives, strategies and the way they intersect is required.

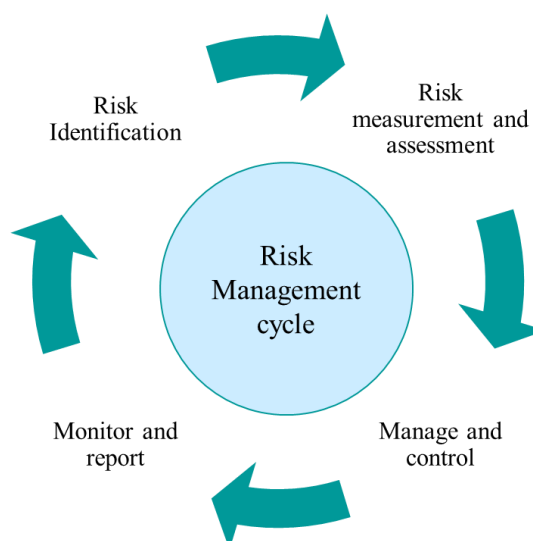
Identify risks: being fully aware of the possible risks involved and having a better understanding of the risk, assists when considering current controls and identifying further treatment actions. Risks faced by an organisation can be the result of external and/or internal factors.

Analyse and evaluate risks: identifying and assessing the probability and impact of adverse, but possible, events and the effectiveness of the controls that are in place to manage the risks. Evaluation of risks, based on the outcome of the analysis, assists in everyday decision-making as to which risks need to be addressed and the priority with which they will be addressed.

Mitigate risks: possible mitigation options are examined to determine the most appropriate action for managing the risk; these are to transfer, avoid, reduce or accept (“TARA”) the risk.

Monitor and review: involves regular checks of the effectiveness and efficiency of the controls. The results are fed back to other functions, so that new risks can be identified, and existing ones can be managed better.

This process is formally conducted across the entire organisation on a regular basis, illustrating a top-down and bottom-up approach to risk management.



7.4. Risk Management policy

Risks in the Company are managed through its Risk Management Framework. The Company has adopted a low risk appetite, with exception to appetite to market risk which is medium. The foundation of the Company’s Risk Management framework are the Pillar I risks; the framework is then built up by allocating additional capital where the Company deems necessary.

Allocating capital, however, is not enough to mitigate certain risks, hence the Company will regularly update the Risk Management policy and Internal Operations Manual as the Company evolves through time.

7.5. Material Risks

7.5.1. Risk Assessment based on the Company's projections

PILLAR I Risks

The ICAAP's main objective is to assess the Company's capital position for each type of risk it is exposed to. Sensitivity analysis is then performed on each type of risk, identifying how each one affects the Company's financial position, profitability, liquidity and solvency, followed by a scenario analysis.

Assumptions based on the Company's projections

The following analyses take into account the following assumptions:

- The Operational Risk was considered to follow a log-normal distribution with mean value based on the Company's expectations under each scenario.
- Credit Risk and Market risk follow a log-normal distribution with mean values based on the Company's expectations under each scenario. The Company's Credit risk is estimated in accordance with the Requirements of the CRR for each year. Further to the above, the Company's Market risk is predicted under the assumption that the Company's proportion of net assets/net liabilities denominated in a foreign currency and the total net assets/ total net liabilities will remain stable.
- The eligible capital is assumed to follow a normal distribution with mean value based on the Company's expectations under each scenario.
- For the purposes of this report and our calculations, Eligible Capital and Own Funds were treated as being equal and were used interchangeably.

The Normal (or Gaussian) distribution is a very common continuous probability distribution. Normal distributions are important in statistics and are often used in the natural and social sciences to represent real-valued random variables whose distributions are not known. Therefore, the Company's Eligible Capital was approximated under the normality assumption. It shall be noted that Credit, Market and Operational Risks cannot take negative values, therefore the normal distribution was not an appropriate choice for approximating those risks. As a result since the log-normal process is the statistical realization of the multiplicative product of many independent random variables, each of which is positive, the log-normal distribution was chosen as a proper choice for approximating the abovementioned risks.

Risk assessment based on Company's projections

The Company will use a Risk Scoring Methodology for the assessment of the various anticipated risks. These risks will be evaluated (See **Table 8** and **Table 9** below) by the Risk Management Function, in terms of their probability of occurrence and their aggregate financial impact (yearly) on the Company, based on a six-level scoring matrix. Note that the yearly

financial impact levels have been determined by the Company; if a single risk requires a capital allocation of **EUR34,184** or more it was deemed to be catastrophic for the Company, while the risk of **EUR422** or less was deemed as insignificant. The rest of the table was completed accordingly, and the figures are what the Company believes sufficiently represents each risk scale category. Hence the various risks will be categorised into 4 categories of severity, i.e. A, B, C and D (See **Table 10** below):

Score Level	Description	Frequency
6	Certain to occur	Occurs monthly
5	Expected/Likely to occur	At least once Quarterly
4	Frequent	Quarterly to Annually
3	Occasionally	Every 1-5 years
2	Unlikely	Every 5-20 years
1	Rare	Every 20 years or more

Table 8: Probability of risk occurring

Score Level	Risk Scale	Financial Impact (yearly in EUR)	Average [E(X)]
		EUR	EUR
1	Minor/ Low/	<422	211
2	Moderate/Medium	422 – 1,266	844
3	High	1,266 – 3,798	2,532
4	Major	3,798 – 11,395	7,596
5	Critical	11,395 – 34,184	22,789
6	Catastrophic	>34,184	68,368

Table 9: Impact of risk

Impact of Risk							
Probability of Risk		1	2	3	4	5	6
	6	B	C2	C3	D1	D2	D3
	5	B	C1	C2	C3	D1	D2
	4	B	B	C1	C2	C3	D1
	3	B	B	B	C1	C2	C3
	2	A	B	B	B	C1	C2
	1	A	A	B	B	B	B

Table 10: Probability/Impact Matrix

The Probability/Impact Matrix allows the Company to combine the above-discussed risk assessment methodology; the resulting score determines whether to TARA the risk.

With this in mind, the Company is willing to accept risks rated **A** and **B**, whilst it will not tolerate risks falling within categories **C** and **D** (i.e. having a score of more than or equal to **10**), which are considered as “material” risks. Thus, having defined the “materiality threshold”

of the risks the Company will then assess and identify the risks breaching it; the Company will then transfer the risk or reduce it to a lower risk category of the material risk identified (at least to a risk rated **B**), by allocating additional capital and/or by imposing additional controls.

Further to the above, and for the allocation of additional capital to cover potential losses due to the identified ‘material risks’, the Company will adhere to the following internal procedure to allocate capital requirement weightings (see **Table 11**). Based on these weights, the additional Capital Requirement of each material risk will be the weighted expected financial impact, in other words:

$$\text{Additional capital requirement for Pillar II} = w_i * E(X)$$

where w_i = weight, $E(X)$ = expected financial impact

Risk Category	Weight (in %) of additional capital requirements
C1	15%
C2	30%
C3	45%
D1	60%
D2	75%
D3	90%

Table 11: Risk category and relevant weighting for capital requirements

Credit Risk

Credit risk is the risk that the Company may be exposed to in cases where the Company’s counterparty/counterparties fail to fulfil their obligations. This type of risk can reduce the amount of future cash inflows from financial assets. Even though nowadays it is difficult to open banking account, the Company limits the amount of credit exposure to any institution (financial or credit) and liquidity providers that the Company co-operates with. The BoD is qualitatively responsible for managing credit risk. As a result, in order to mitigate its risk, the Company ensures that its own and clients’ funds are sufficiently diversified and kept in reputable credit institutions. Similarly, the Company co-operates with regulated and reputable liquidity providers.

Credit risk is primarily assessed under the Capital Adequacy requirements under CRD IV/CRR. On a more proactive approach, the Company has incorporated appropriate due diligence policies and procedures used before entering into an agreement with a counterparty/third party service provider; once an agreement has been established, the Company regularly checks the credit rating and financial health of counterparties, terminating the agreement where deemed necessary. The Company continues to have a low risk appetite regarding the credit risk. The Company places all its holdings in bank accounts, reputable Payment Service Providers and CySEC regulated financial institutions.

Risk policy and management tools

Based on the Company's internal risk assessment falling within the scope of ICAAP, the projected credit risk is rated as a **12(C1)** risk (Probability=3, Impact=4), however since the Company has already allocated enough capital, no additional capital is required to be allocated for mitigating credit risk based on the Company's risk assessments based on Company's expectations for the next year.

Market Risk

Market risk is the potential for change in the market value of the trading and invested positions. Risk can arise from changes in interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices and other relevant parameters, such as market volatility and market-implied default probabilities.

The Company is primarily exposed to Market risk arising from its assets and liabilities denominated and funded in a currency other than its reporting currency.

The Company measures and mitigates its exposure to market risk with the following principles and philosophies:

- Medium market risk appetite.
- Business model focused on the customer.
- Independent calculation of the results of market activities by the risk function.
- Strict control ex ante of products, underlying assets, currencies, etc., for which operations are authorised as well as of the corresponding valuation models.

The Company aims to accurately measure all types of market risks by a comprehensive set of risk metrics reflecting economic and regulatory requirements. In accordance with economic and regulatory requirements, the Company measures market risks by several internally developed key risk metrics and regulatory defined market risk approaches.

Risk policy and management tools

One of the primary objectives of market risk management is to ensure that the market volatility does not expose the Company to unacceptable losses outside of its risk appetite. The Company acts as an intermediary when receiving and transmitting its clients' orders and does not take on any own positions, thus the Company is not currently exposed to Equity, Commodity and Interest Rate risk.

Risk policy and management tools

Based on the Company's internal risk assessment falling within the scope of ICAAP, the projected market risk is rated as a **9(B)** risk (Probability=3, Impact=3), therefore no additional

capital was allocated to mitigate market risk based on the Company's risk assessments based on the Company's expectations for the next year.

Operational Risk

Operational risk is defined as the risk of direct or indirect loss generated from a variety of causes associated with people, processes, systems, infrastructure or external events of the Company. It is the risk of loss resulting from inadequate or failed processes, people or systems, inaccuracy and improper disclosure of data. It shall be noted that, the Company calculates its operational risk in accordance under the Fixed Overheads approach. The Company assesses Operational Risk annually through the calculation of the Company's Capital Adequacy Ratio, which incorporates this risk into the calculations, based on its audited financial statements of the preceding year.

Risk policy and management tools

Based on the Company's internal risk assessment falling within the scope of ICAAP, the projected operational risk is rated as a **12(C1)** risk (Probability=3, Impact=4), and therefore the Company has allocated **EUR1,139** based on its Risk assessments based on the Company's expectations for the next year.

Risks not fully covered in Pillar I

The Risk Manager of the Company will monitor and assess all the types of credit, market and operational risks faced by the Company that are not fully covered in Pillar I on a frequent basis. In this respect, the credit risks not covered in Pillar I are:

- Issuer Risk,
- Collateral Risk,
- Concentration Risk,
- Residual Value risk,
- Securitisation Risk,
- Settlement Risk,
- Documentation Risk and
- Cyclicity and Economic Risks.

The abovementioned risks have been taken into consideration, despite the fact they have been assessed as not being material at this stage of the Company's business cycle. The Company will continue to monitor and assess the aforementioned risks, and should any of them become material, it will be registered within the Risk Register and appropriate Pillar II provisions will be made. The Company is not currently exposed to Market Risks not covered in Pillar I. Thus, the Company will not be affected by changes in interest rates since, other than cash at bank, which attracts interest at normal commercial rates, the Company has no other significant interest-bearing financial assets or liabilities. This will however be monitored on a regular basis

and should the need for provisions regarding Market Risk arise, the Company will introduce the corresponding Pillar II Capital Allocations.

PILAR II Risks

Technology Risk

The Company's effective operation is dependent on technology and advanced information systems; the ability to provide clients with reliable, real-time access to its systems is fundamental to the success of the business. This dependency on technology exposes the Company to a major risk in the unlikely, but possible, event that the systems crash for a short period of time (less than a day), possibly even longer. The Company's systems are designed in such a way to mitigate the risk of such failures. This is done through the use of multiple service providers for a single service; these include, but are not limited to, data, market information, telephone and internet connectivity.

Risk policy and management tools

Based on the Company's ICAAP risk management methodology and the relevant calculations, Technology Risk has been assessed as a **12(C1)** risk (Probability=3, Impact=4) and therefore the Company has allocated **EUR1,139** based on its Risk assessments based on the Company's expectations for the next year.

Liquidity Risk (Asset)

Asset liquidity risk is the inability to liquidate a position in a timely manner at a reasonable price. The costs related to this risk include the execution cost (bid-ask spread and price impact) and the opportunity cost of waiting. This risk can emanate from the Company's trading activities; hence the appropriate risk management policies have to be established, incorporating hedging strategies as well as the roles and responsibilities of the management on the day-to-day implementation of said strategy.

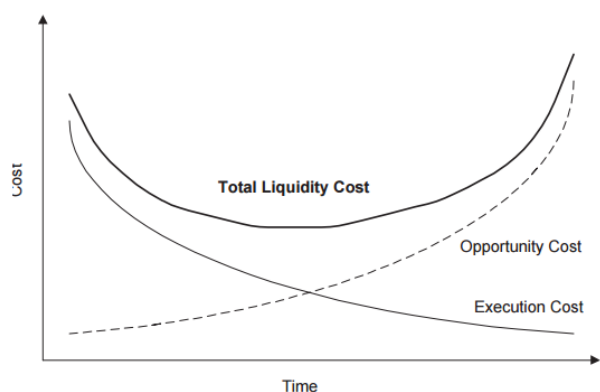


Figure 1: Asset liquidity risk costs against time

Risk policy and management tools

Based on the Company's Internal Risk Assessment falling within the scope of ICAAP, Liquidity Asset Risk is rated as a **9(B)** risk (Probability=3, Impact=3), therefore no additional capital was allocated to mitigate liquidity asset risk based on the Company's risk assessments based on the Company's expectations for the next year.

Business/Strategic Risk

Business risk arises from probable losses that might be incurred by the Company during unfavourable market conditions, thus having a current and/or future possible impact on earnings or capital from adverse business decisions and/or lack of responses to industry changes by the Company. On the other hand, strategic risk is the result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The BoD is responsible for setting the strategy while the management body is responsible for the implementation. Most importantly, there should be no discrepancy between the BoD's and managers' interests.

Risk policy and management tools:

Based on the Company's internal risk assessment falling within the scope of ICAAP, Business/Strategic Risk is rated as a **12(C1)** risk (Probability=3, Impact=4). Based on the Company's ICAAP risk management methodology and the relevant calculations, the additional capital requirement for Business Risk is **EUR1,139** based on the Company's Risk Assessments based on the Company's expectations for the next year.

Compliance/Regulatory Risk

Compliance risk arises from violations of the Law, Directives and Circulars issued, regulations, prescribed practices, internal policies and procedures or ethical standards. This risk exposes the Company mainly to financial losses due to imposed fines from the regulating body. Compliance incidents may also negatively affect the Company's reputation, reduce the Company's value, limit business opportunities, reduce the potential to expand and the possibility of not being able to enforce contracts.

MIFID II /MIFIR

Following the implementation of MIFID II, the Company will have to deal with the following key challenges in order to be compliant with abovementioned regulatory updates:

- Adequacy of Systems and Controls.
- Data challenge.
- Evidence of optimal best execution arrangements.

- Broker selection and monitoring.
- Client documentation.
- Product complexity.
- Governance.

Data Protection

Following the implementation of Data Protection, GDPR, the Company deals with the following key challenges in order to be compliant with the abovementioned regulation.

The Company must make sure the information is:

- used fairly and lawfully.
- used for limited, specifically stated purposes.
- used in a way that is adequate, relevant and not excessive.
- Accurate.
- kept for no longer than is absolutely necessary.
- handled according to people's data protection rights.
- kept safe and secure.
- not transferred outside the European Economic Area without adequate protection.

New prudential Framework for investment firms:

Following the implementation of the new prudential framework for investments firms [[REGULATION \(EU\) 2019/2033 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on the prudential requirements of investment firms and amending Regulations \(EU\) No 1093/2010, \(EU\) No 575/2013, \(EU\) No 600/2014 and \(EU\) No 806/2014 \(the “IFR”\) and \[DIRECTIVE \\(EU\\) 2019/2034 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU \\(the “IFD”\\)\\]\]\(#\), which comes into force on 26th June 2021 the Company shall take the below actions in order to deal with the challenges which arise from the implementation of the abovementioned prudential framework:](#)

- Will review its internal records and systems and will proceed with the required changes in order to ensure that the data which will be required for the computation of its K-factor requirements will be available at all times.
- The Company will update its policies and procedures in order to ensure compliance with the new requirements arising from the IFD and the IFR.

Risk policy and management tools

During the assessment of the risk, the Company took into consideration the possibility of non-compliant incidents occurring and the possible subsequent penalties that could be imposed by CySEC. The Company's Anti-Money Laundering procedures will be regularly assessed for their compliance with the regulatory requirements. The Company, in an effort to enhance its

compliance levels, will arrange regular on-site internal audit inspections by its Internal Auditor in order to assess its compliance with the regulatory framework.

Based on the Company's internal risk assessment falling within the scope of ICAAP and the relevant calculations, Compliance/Regulatory risk has been assessed as a material **16(C2)** risk (Probability=4, Impact=4) which adds a capital requirement of **EUR2,279** based on the Company's Risk Assessments based on the Company's expectations for the next year. It should be noted that for the identification of the range of the yearly financial impact, the Company, in addition to possible sanctions from CySEC, has also taken into account possible fees/expenses to external consultants, the services of whom are utilised, as well as time and resources wasted for the resolution of such situations.

Reputational Risk

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

Risk policy and management tools:

The Company is aware that, operating in a competitive industry, with ruthless competitors, who may also act in unethical ways, could introduce risks of reputational nature. The possibility of having to deal with serious incidents will be limited as the Company exerts its best efforts in providing high quality services to its Clients. In addition, the Company's Board members and Senior Management comprise of experienced professionals who are recognised in the industry for their integrity and ethos, and, as such, add value to the Company.

Based on the Company's ICAAP risk management methodology and the relevant calculations, Reputational Risk has been assessed as a **12(C1)** risk (Probability=4, Impact=3), therefore the Company has allocated **EUR380** of capital under Pillar II based on the Company's calculation based on its expectations for the next year.

Residual Risk:

Residual Risk is defined as the risk remaining after management takes action to reduce the impact and/or likelihood of an adverse event, including control activities in responding to a risk.

Risk policy and management tools:

Based on the Company's ICAAP risk management methodology and the relevant calculations, Residual Risk has been assessed as a **12(C1)** risk (Probability=**4**, Impact=**3**), therefore the Company has allocated **EUR380** of capital under Pillar II based on the Company's calculation based on its expectations for the next year.

Concentration Risk:

Risk that occurs due to lack of diversification.

Risk policy and management tools:

Based on the Company's ICAAP risk management methodology and the relevant calculations, Concentration Risk has been assessed as **9(B)** risk (Probability=**3**, Impact=**3**), therefore no additional capital was allocated to mitigate concentration risk based on the Company's risk assessments based on the Company's expectations for the next year.

Use of a Risk register

Risks inherent in the Company will be assessed by updating the risk register. Within the risk register, the Company will document and categorise all risks that it is, or could potentially be, exposed to in the future. The risks will be assessed based on the probability of occurring as well as on the financial impact that they could have on the Company (yearly) if they were to materialise. The product of the score of probability of occurrence and the score of probability of impact gives the total score of the risk. The result of this assessment is the profiling of risks in different categories of severity i.e. A, B, C, D, and in the sub-categories C1, C2, D1, D2, D3, regarding risks rated C and D.

Risk type	Description	Prob.	Impact	Risk score (category)	Monitoring process employed	Mitigation techniques	Additional Capital allocation under Pillar II (based on the Company's Risk Assessment based on the Company's expectations for the next year) – in EUR
Credit risk (Pillar I)	Current banking accounts	3	4	12 (C1)	- Quantification with standardised approach	Pillar I capital	-
					- Internal Risk Assessment		
					- Diversification of deposits with banks		
Market risk (Pillar I)	Foreign exchange exposure on balance sheet and in trading book	3	3	9(B)	- Quantification with standardised approach	Pillar I capital	-
					- Internal Risk Assessment		
					Diversification of exposures		
Operational risk (Pillar I)	All types of operational risks	3	4	12 (C1)	- Quantification with basic indicator approach	Pillar I capital	1,139
					- Internal Risk Assessment		
Counterparty risk	Counterparty risk is the risk to each party of a contract that the counterparty will not live up to its contractual obligations	3	3	9(B)	- Internal Risk Assessment	No additional capital is required at current stage	-
					- Review and strengthening of due diligence procedures		

Concentration Risk	Risk that occurs due to lack of diversification.	3	3	9(B)	- Internal Risk Assessment	No additional capital is required at current stage	-
Technology risk	Information technology (IT) risk can result from human error, malicious intent, or even compliance regulations.	3	4	12 (C1)	- Internal Risk Assessment	Additional capital is required at current stage	1,139
Liquidity risk (Funding)	Arises when the Company is unable to meet its current/future cash obligations	3	3	9(B)	- Internal Risk Assessment	No additional capital is required at current stage	-
Liquidity risk (Asset)	Arises when the Company is unable to liquidate a position in a timely manner at a reasonable price	3	3	9(B)	- Internal Risk Assessment	No additional capital is required at current stage	-
Business/ Strategic risk	Current and future possible impact on earnings and capital from adverse business/strategic decisions and/or lack of responses to industry changes.	3	4	12 (C1)	- Internal Risk Assessment	Additional capital is required at current stage	1,139
Compliance / Regulatory risk	Current and future possible of impact on earnings and capital arising from regulatory breaches leading to probable fines.	4	4	16 (C2)	- Internal Risk Assessment	Additional capital is required at current stage	2,279
Reputational risk	Current and future possible of impact on earnings and capital arising from regulatory breaches leading to bad reputation.	4	3	12 (C1)	- Internal Risk Assessment	Additional capital is required at current stage	380

Residual Risk	Residual Risk is defined as the risk remaining after management takes action to reduce the impact and/or likelihood of an adverse event, including control activities in responding to a risk.	4	3	12 (C1)	- Internal Risk Assessment	Additional capital is required at current stage	380
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7.6. Stress Testing

The purpose of stress testing is to examine the effect of exceptional, but plausible events, scenarios on the Company's profitability and financial position. By itself, the stress tests cannot address all risk management weaknesses present in the Company but should be a part of the comprehensive approach undertaken. It has a leading role to play in the strengthening of the Company's corporate governance and its resilience to the financial system.

The data used to carry out the stress tests were the next year's financial projections of the Company provided by the management ([Section 6.2 Projected Financial Position](#)). The results for the stress scenarios were performed based on the Company's financial projections for the next year. The impact on the capital and profitability indicators of the Company is based on the reduction in the gross revenue as a result of the specific event; and the result of the corrective action taken by the Company in light of the event.

7.6.1. Stress Scenarios: Overview

The Company considers the following 6 stress scenarios:

Scenario I: Cyber security attack

It is an adverse scenario that may arise due to cyber security attack. The Company will face reputational risk arising from its customers' complaints for GDPR risk arising from the access to sensitive information by hackers. As a result, the Company may lose a portion of its key clients which will lead to reduction of revenue and increase of operational expenses (such as legal expenses) in order to handle potential complaints and fines that may arise from the data breach.

Under this scenario, the Company assumes decrease of the income, as well as increase in legal, fines which lead to negative impact on the Company's profitability.

Scenario II: Failure of major Counterparty

It is an adverse event which may arise during a financial crisis due to:

- **Market volatility:** currency, stock, index, commodity values fluctuations.
- **Unpredicted market movements:** Unable to forecast market movements with precise certainty.

Due to the outbreak of coronavirus the investors' portfolios may fallout. The market may experience a significant crisis point or drawdown in part due to fear of the coronavirus spreading around the world. Due to unexpected unpredictable external factors (e.g pandemic) major foreign exchange rates, equity prices and commodity prices were highly volatile, and their prices deteriorated. In this respect, the Company's Liquidity Provider may face significant challenges, regarding its gain/losses from its trading positions.

This scenario may hit the Company's profitability.

Scenario III: Base Scenario

The Company considers the financial projections for the next year as provided by the management to represent the Base Scenario in order to assess the Company's capital and profitability indicators based on the Company's financial projections for the next three years provided by the management.

Scenario IV: Business stress test scenario

It is an adverse scenario that may arise due to restrictions/limitations in operating and/or advertising/promotion in certain countries/markets. As a result of such restriction/limitation, the Company may lose a portion of its clients of the which in turn will lead to the reduction of revenue.

Under this scenario, the Company assumes decrease of the trading income, which will lead to negative impact of the Company's profitability. The negative impact on the profitability implies a significant hit on the Company's capital indicators.

Scenario V: Regulatory/Compliance stress test scenario

It is an adverse scenario that may arise due to a potential termination of the business relationship between the Company and its main credit institution and the inability of the Company to proceed with opening new accounts with other credit institutions. The potential closure of the Company's bank accounts and the potential inability of the Company to proceed with opening new bank accounts will lead to operational issues. Furthermore, the Company will may face reputational risk arising from its customers complaints due to the potential issues of safeguarding of clients' funds that may arise. As a result, the Company may lose a portion of its dissatisfied clients which will lead to reduction of the revenue and increase of operational expenses (such as legal expenses and administration fees) in order to handle potential complaints or fines.

Under this scenario, the Company assumes decrease of the trading income, as well as increase in operational expenses which lead to negative impact on the Company's profitability. The negative impact on the profitability implies a significant hit on the Company's capital indicators.

Scenario VI: IT Platform default

It is an adverse scenario that may arise due to unexpected IT Platform failure and the inability of the Company to proceed with a repairment of its systems in a reasonable timeframe. The Company will potentially face reputational risk arising from its customers' complaints for their inability to trade. As a result, the Company may lose a portion of its key clients which will lead to reduction of revenue and increase of operational expenses (such as legal expenses or IT/Platform expenses) in order to handle potential complaints or fines.

Under this scenario, the Company assumes decrease of the trading income, as well as increase in Operational expenses which lead to negative impact on the Company's profitability. The negative impact on the profitability implies a significant hit on the Company's capital indicators.

The Company considered the following **2** scenarios, so that to assess the potential impact on the Company's profitability under stress conditions:

1. **Scenario I:** Cyber security attack.
2. **Scenario II:** Failure of the major counterparty.

In addition to the above, the Company performed the following **4** scenarios in order to assess the potential impact on the Company's capital and profitability indicators under normal and stress scenarios:

1. **Scenario III:** Base scenario (Next financial year).
2. **Scenario IV:** Business stress test scenario.
3. **Scenario V:** Regulatory/ Compliance stress test scenario.
4. **Scenario VI:** IT platform default.

7.6.2. Assessment of the Company's Profitability under Scenario I and Scenario II

7.6.2.1. Methodology of Scenario I and Scenario II

The data used to carry out the stress tests were the three-year financial projections ([Section 6.2 Projected Financial Position](#)). The results for the following **Scenario I** and **Scenario II** were performed based on the Company's projected Profit and Loss for the next year. The impact on the Profit and Loss of the Company is based on the reduction in the gross revenue as a result of the specific event; and the reduction in costs as a result of the corrective action taken by the Company in light of the event.

7.6.2.2. Scenario I and Scenario II: Assumptions

Scenario I: Cyber security attack

Under this scenario, the Company considers the adverse event which may arise due to unexpected cyber security attack which may potentially lead to loss of key relationships/clients.

Assumptions	
Impact on Revenue	Estimated drop of 35% in gross revenue.
Corrective Action	Reduction in Staff Cost by 10% .

Scenario II: Failure of major Counterparty

Under the stress Scenario II, the Company considers the adverse event that may arise during a financial crisis due to market fluctuations and the unpredicted market movements.

Assumptions	
Impact on Revenue	Estimated drop of 40% in gross revenue.
Corrective Action	Reduction in Staff Cost by 10% .

7.6.2.3. Scenario I and Scenario II: Impact on profitability

The impact on the Company's Profitability arising from Scenario I and Scenario II is illustrated below.

Indicator	Base Scenario (Next Financial Year)	Scenario I	Scenario II	Impact on Scenario I	Impact on Scenario II
	EUR	EUR	EUR	EUR	EUR
Profit/Loss	(427,173)	(431,513)	(437,740)	(4,340)	(163,487)

Table 12: Impact on the Company's Profitability of Scenario I and Scenario II

Scenario I: Cyber security attack

Under the **Scenario I**, the Company's loss amounts to **EUR431,513**, which implies an increase of **EUR4,340** on the Company's loss compared to its profit based on the next year's financial projections provided by the management of the Company.

Scenario II: Failure of major Counterparty

Under the **Scenario II**, the Company's loss amounts to **EUR437,740**, which implies an increase of **EUR163,487** on the Company's loss compared to its profit based on the next year's financial projections provided by the management of the Company.

7.6.3. Assessment of the Company's Capital and Profitability indicators

7.6.3.1. Methodology of Scenario III, Scenario IV, Scenario V and Scenario VI

Scenario Analysis is a type of stress testing by applying hypothetical scenarios to assess the impact of exceptional, but plausible events, on the Company. The range of stress scenarios are in line with the business plan, however for a deeper analysis, the Company considered 4

hypothetical scenarios, the Base Scenario, Business stress test scenario, the Regulatory/Compliance stress test scenario and the IT platform default scenario.

The data used to carry out the stress tests were the three-year financial projections ([Section 6.2 Projected Financial Position](#)). The results for the abovementioned 4 scenarios were performed based on the Company's financial projections for the next three years. The impact on the Profit and Loss of the Company is based on the reduction in the gross revenue as a result of the specific event; and the reduction in costs as a result of the corrective action taken by the Company in light of the event.

The operational risk ("OR") of the Company was considered to follow a log-normal distribution with mean value based on the Company's expectations under each scenario.

The Eligible Capital ("OF") is assumed to follow a normal distribution with mean value based on the Company's expectations under each scenario.

The next step involves fitting distributions to each of the risks, which were: Credit ("CR") and Market ("MR") risk. Both Credit and Market Risk were assumed to follow a log-normal distribution with mean value based on the Company's expectations under each scenario as defined in [Section 7.5.1 – Risk Assessment based on the Company's projections](#).

The foundations are now in place to calculate the Capital Adequacy Ratio ("CAR") in the base case scenario simulations; the formula is as follows:

$$CAR = \frac{OF_i}{Total\ Risk\ Weighted\ Assets} = \frac{OF_i}{CR_i + MR_i + OR_i}$$

The stress tests are carried out using the Latin Hypercube simulation method, where a pre-specified number of iterations (N) are run, in this case 1 simulation of 100,000 iterations. Each iteration produces an output figure for the variables, leading to a distribution of figures. At the end of the simulation, a confidence interval is produced; the Company has decided to take a rigorous approach in the stress testing, by looking at a two-sided **95.00%** confidence interval. This interval indicates that in x samples from the same population, **95.00%** of samples will produce intervals that contain the true value of the parameter.

It should be noted that, since the Credit risk, the Market risk, the Operational risk, the Eligible Capital and the Capital Adequacy ratio are assumed to be random variables with specific distributions, the **95.00%** confidence intervals will present information for the **mean** values of these random variables. In this respect, the Company's actual values might not fall in the abovementioned confidence intervals with **5.00%** probability.

It shall be taken into consideration that the Company's stress tests' results are reflecting the Company's results for the next year. The Company tends to update the data which is used to carry out its stress test on annual basis so that to reflect its expected results for the next year.

7.6.3.2. Scenario III, Scenario IV, Scenario V and Scenario VI: Assumptions

Scenario III: Base Scenario

The Company considers the financial projections for the next year as provided by the management to represent the Base Scenario in order to assess the Company's capital and profitability indicators based on the Company's financial projections for the next three years.

Scenario IV: Business/Strategic stress test scenario

Under this scenario, the Company considers the adverse event which may arise due to restrictions/limitations in operating and/or advertising/promotion in certain countries/markets. As a result of such restriction/limitation, the Company may lose a portion of its clients which in turn will lead to the reduction of revenue.

Assumptions	
Impact on Revenue	Estimated drop of 55% in gross revenue.
Corrective Action	Reduction in Staff Cost by 5% .

Scenario V: Regulatory/Compliance scenario

Under this scenario, the Company considers the adverse event which may arise due to a potential termination of the business relationship between the Company and its main credit institution and the inability of the Company to proceed with opening new accounts with other credit institutions. As a result, the Company may lose a portion of its dissatisfied clients which will lead to reduction of the revenue and increase of operational expenses (such as legal expenses and administration fees) in order to handle potential complaints or fines.

Assumptions	
Impact on Revenue	Estimated drop of 45% in gross revenue.
Impact on Expenses	Estimated increase of Legal and Compliance fees by EUR40,000 .
Corrective Action	Reduction in Staff Cost by 5% .

Scenario V: IT platform default

Under this scenario, the Company considers the adverse event which may arise due to unexpected IT Platform failure and the inability of the Company to proceed with a repairment of its systems in a reasonable timeframe. The Company will potentially face reputational risk arising from its customers' complaints for their inability to trade. As a result, the Company may

lose a portion of its key clients which will lead to reduction of revenue and increase of operational expenses (such as legal expenses or IT/Platform expenses) in order to handle potential complaints or fines.

Assumptions	
Impact on Revenue	Estimated drop of 40% in gross revenue.
Impact on Expenses	<ul style="list-style-type: none"> • Estimated increase of Legal and Compliance fees by EUR30,000. • Estimated increase of Computers & Software expenses by EUR30,000.
Corrective Action	Reduction in Staff Cost by 5% .

7.6.3.3. Scenario III, Scenario IV, Scenario V and Scenario VI: Results based on the Company's projections

Scenario III: Base Scenario

Firstly, a two-sided test with a confidence interval of **95.00%** was performed on all the variables, including the capital adequacy ratio; the own funds confidence interval was **EUR213,115 – EUR297,025**, while the total risk weighted exposure **95.00%** confidence interval lower and upper bounds were **EUR1,682,783** and **EUR2,151,728** respectively. From the figures in Appendix 5.2 it can be observed that the **95.00%** confidence interval of the Capital Adequacy ratio, under the assumptions stated above, was in the range of **10.79%** and **16.32%**.

The Company's CAR ratio will be above the minimum capital requirement of **8.00%** with **100.0%** confidence. Similarly, the own funds confidence interval is also above the minimum capital requirement of **EUR152,519** with **100.0%** confidence.

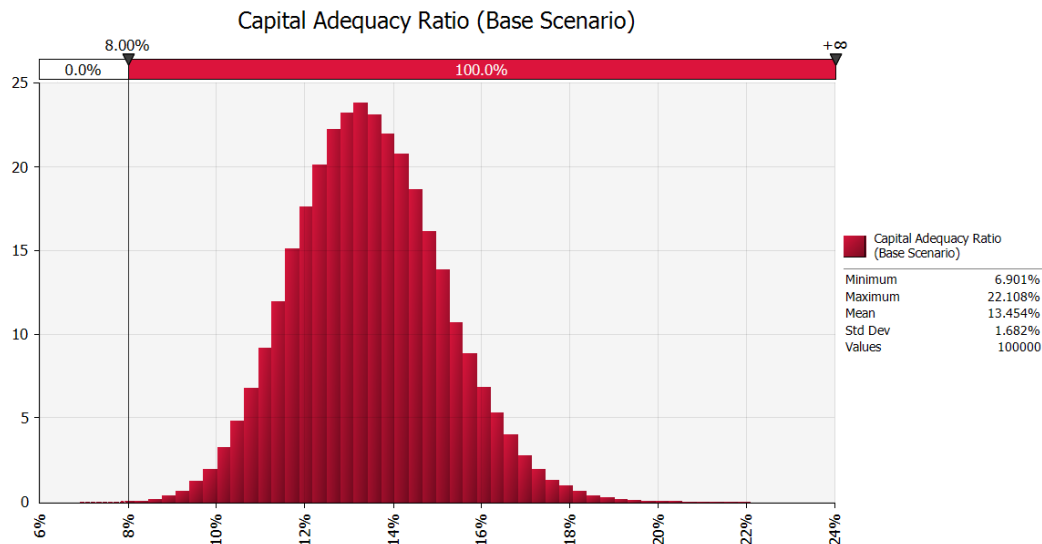


Figure 2: Confidence interval that capital adequacy ratio is above 8.00%

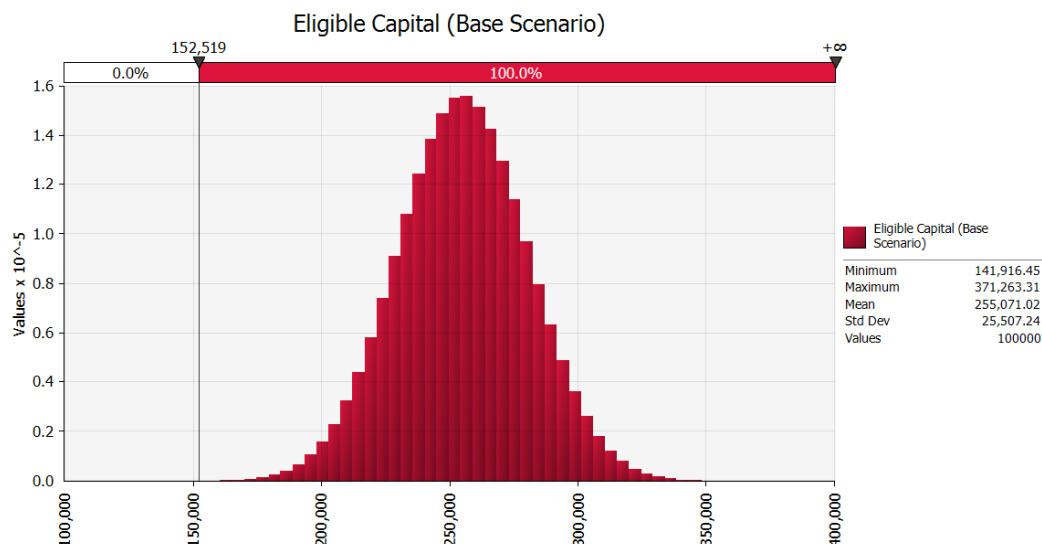


Figure 3: Confidence interval that eligible capital is above the minimum capital requirement of EUR152,519

The scatter plot **Figure 4** summarises the behaviour of the Credit and the Market Risk, the Eligible Capital and the Operational Risk in relation with the Capital Adequacy Ratio under the Base Scenario. The inverse relationship between the Credit risk, Market risk and the Operational Risk on one side and the CAR ratio on the other can be easily spotted from the abovementioned scatter plot. Further to the above, we can observe the direct relationship between the Capital Adequacy ratio and the Eligible Capital, since as we can see from the graph the Capital Adequacy ratio increases as the Company's Eligible Capital increases.

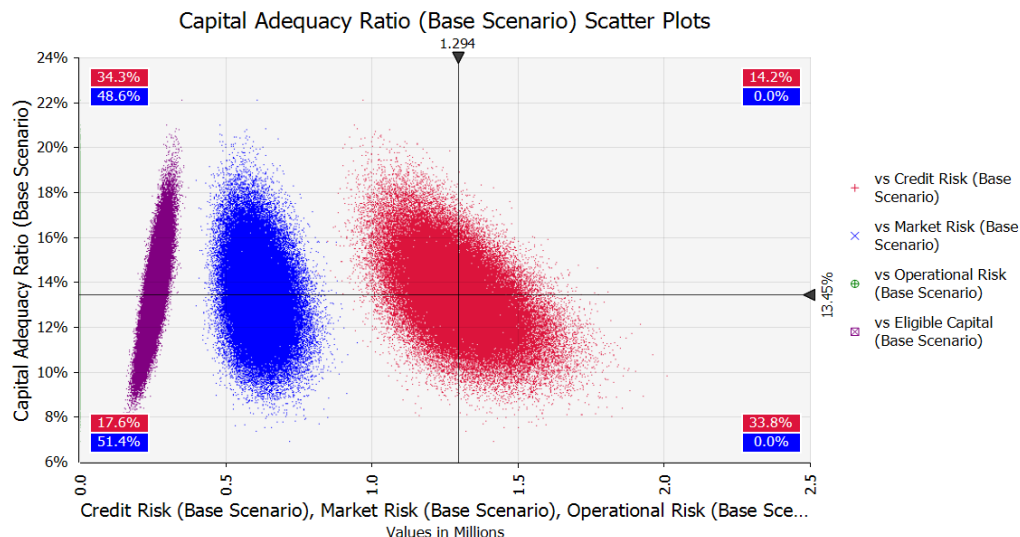


Figure 4: Base Scenario - Scatter Plot- Car Adequacy Ratio Vs Credit Risk (red), Market Risk (blue), Operational Risk (green) and Eligible Capital (purple)

Scenario IV: Business stress test scenario

Scenario Analysis – Business stress test scenario based on the Company’s projections

The results indicate that in the Business stress test scenario, the lower and upper limit of the **95.00%** confidence interval of the capital adequacy ratio is **9.33%** and **14.17%**. Furthermore, the capital adequacy is above the minimum requirement of **8.00%** with **99.7%** confidence, under the stated assumptions (see graph below). This implies that the Company has the adequate capital to absorb even the Business stress test scenario considered. On the other hand, the eligible capital **95.00%** confidence interval is between **EUR172,282** and **EUR240,116**, which is well above the minimum capital requirement of **EUR142,346** with **99.9%** confidence.

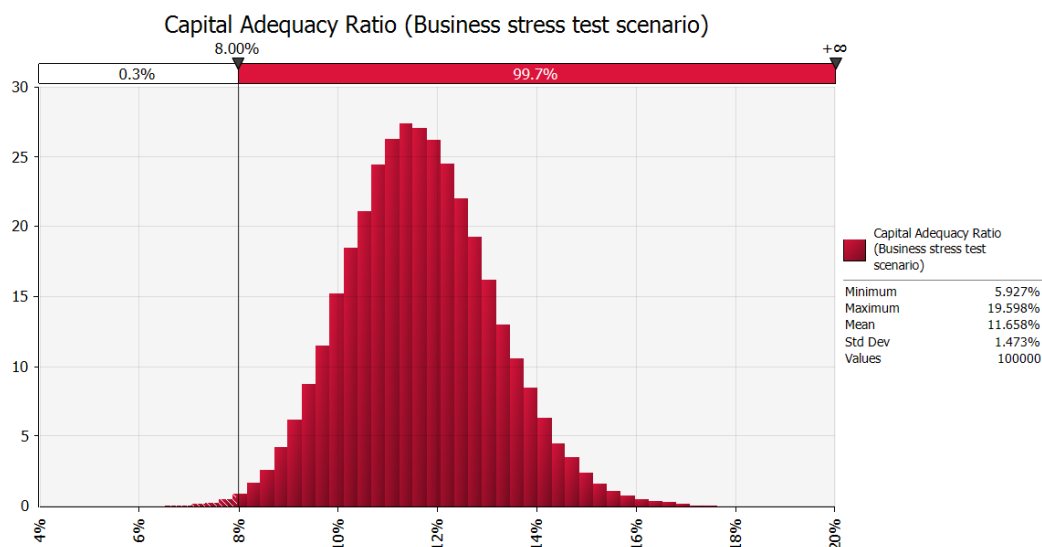


Figure 5: Business stress test scenario probability distribution graph with confidence interval to be above 8.00%

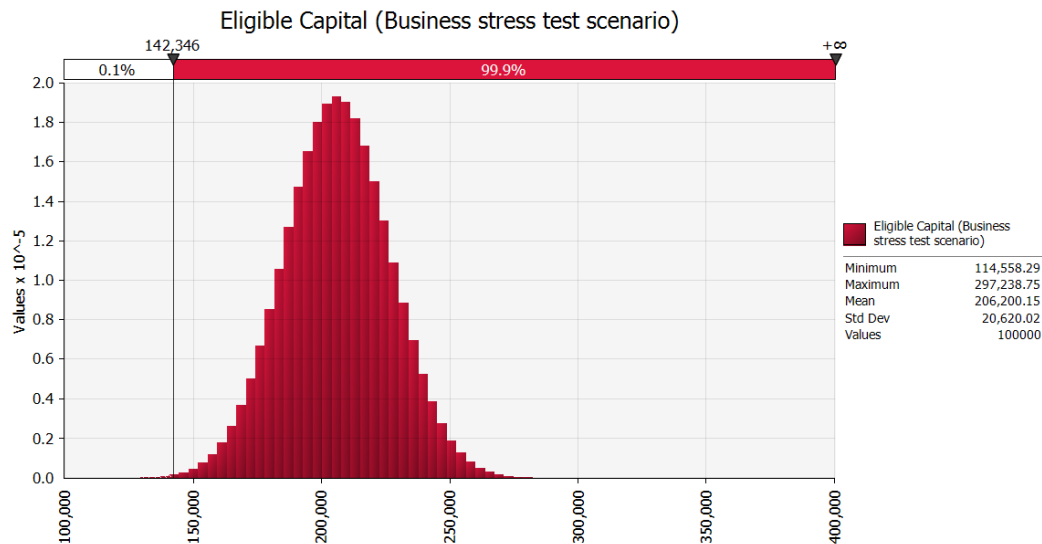


Figure 6: Business stress test scenario probability distribution graph with confidence interval to be above the minimum capital requirement of EUR142,346

The scatter plot in **Figure 7** summarises the behaviour of the Credit and the Market Risk, the Eligible Capital and the Operational Risk in relation with the Capital Adequacy Ratio under the Business stress test Scenario. The inverse relationship between the Credit risk, Market risk and the Operational Risk on one hand and the CAR ratio on the other can be easily spotted from the abovementioned scatter plot. Further to the above, we can observe the direct relationship between the Capital Adequacy ratio and the Eligible Capital, since as we can see from the graph the Capital Adequacy ratio increases as the Company's Eligible Capital increases.

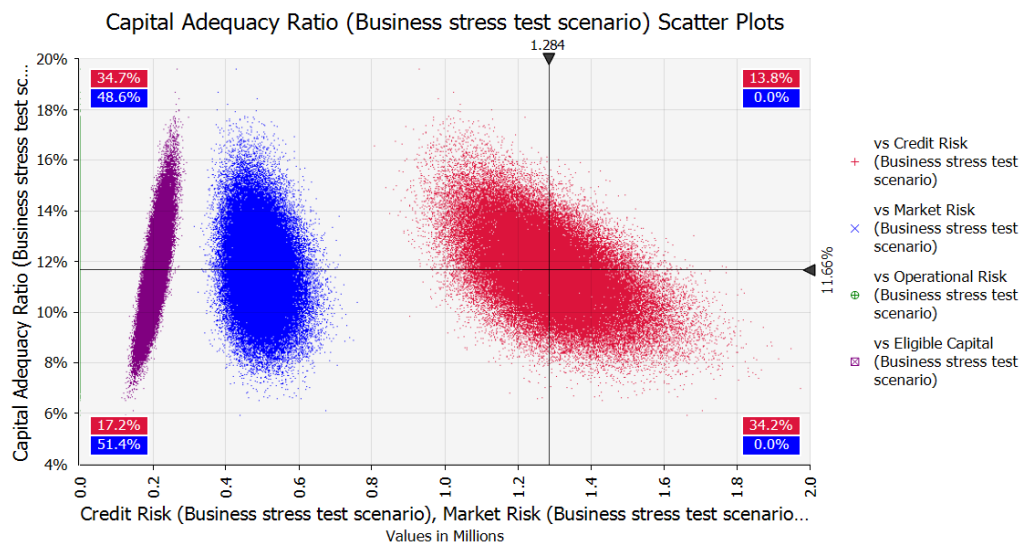


Figure 7: Business stress test Scenario - Scatter Plot- Capital Adequacy Ratio Vs Credit Risk (red), Market Risk (blue), Operational Risk (green) and Eligible Capital (purple)

Scenario V: Regulatory/Compliance stress test scenario

Scenario Analysis – Regulatory/Compliance Scenario based on the Company's projections

The Regulatory/Compliance scenario results indicate that the lower and upper limit of the **95.00%** confidence interval of the capital adequacy ratio **8.41%** and **12.82%**. Furthermore, the capital adequacy is above the minimum requirement of **8.00%** with **97.7%** confidence, under the stated assumptions. Similarly, the eligible capital **95.00%** confidence interval is between **EUR149,267** and **EUR208,038**; the eligible capital is above the minimum capital requirement of **EUR136,702** with **99.1%** confidence.

The below graph is obtained from simulating the abovementioned scenario.

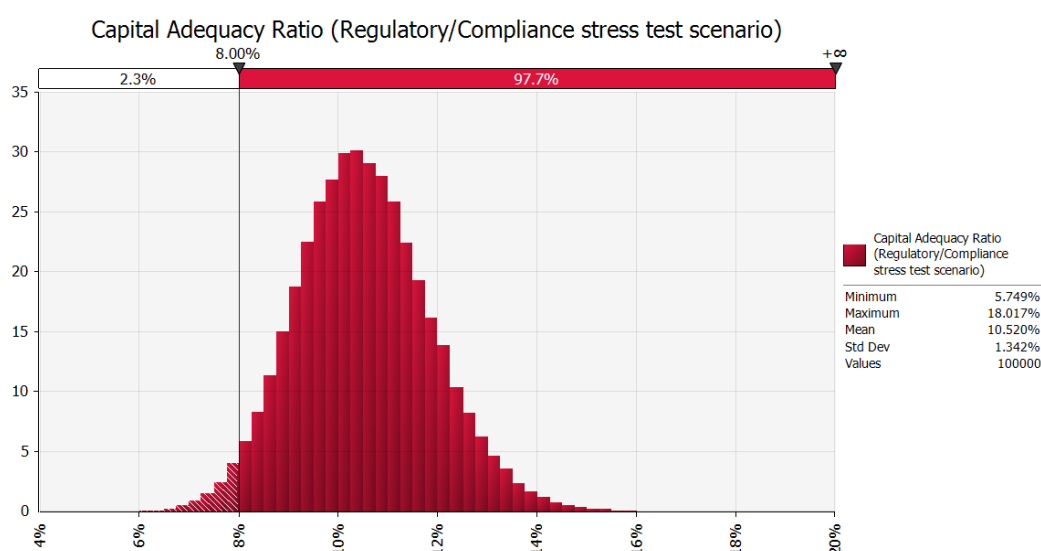


Figure 8: Regulatory/Compliance Scenario probability distribution graph with confidence interval to be above 8.00%

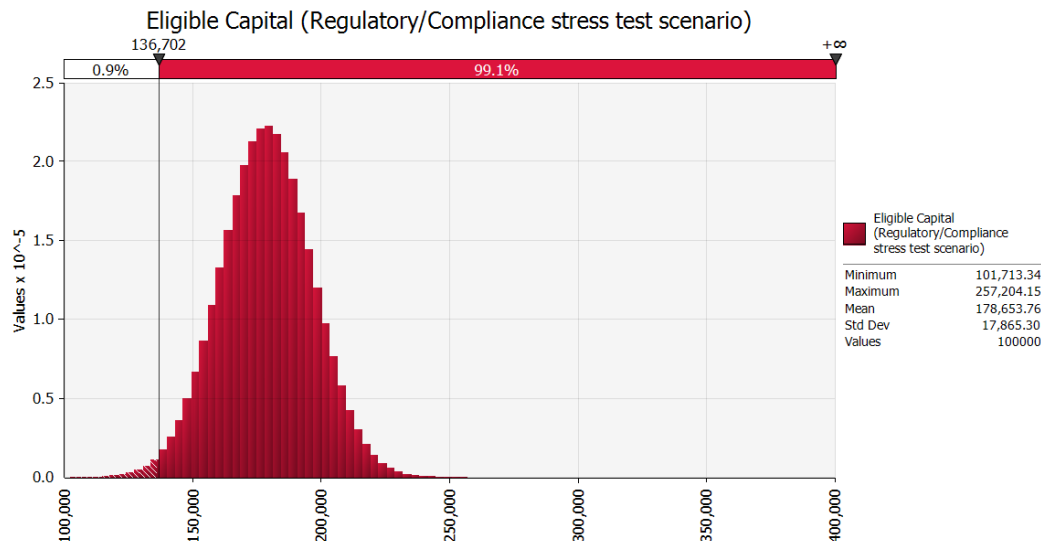


Figure 9: Regulatory/Compliance Scenario probability distribution graph with confidence interval to be above the minimum capital requirement of EUR136,702

The scatter plot in **Figure 10** summarises the behaviour of the Credit and the Market Risk, the Eligible Capital and the Operational Risk in relation with the Capital Adequacy Ratio under the Regulatory/Compliance Scenario. The inverse relationship between the Credit risk, Market risk and the Operational Risk and the CAR ratio can be easily spotted from the abovementioned scatter plot. Further to the above, we can observe the direct relationship between the Capital Adequacy ratio and the Eligible Capital, since as we can see from the graph the Capital Adequacy ratio increases as the Company's Eligible Capital increases.

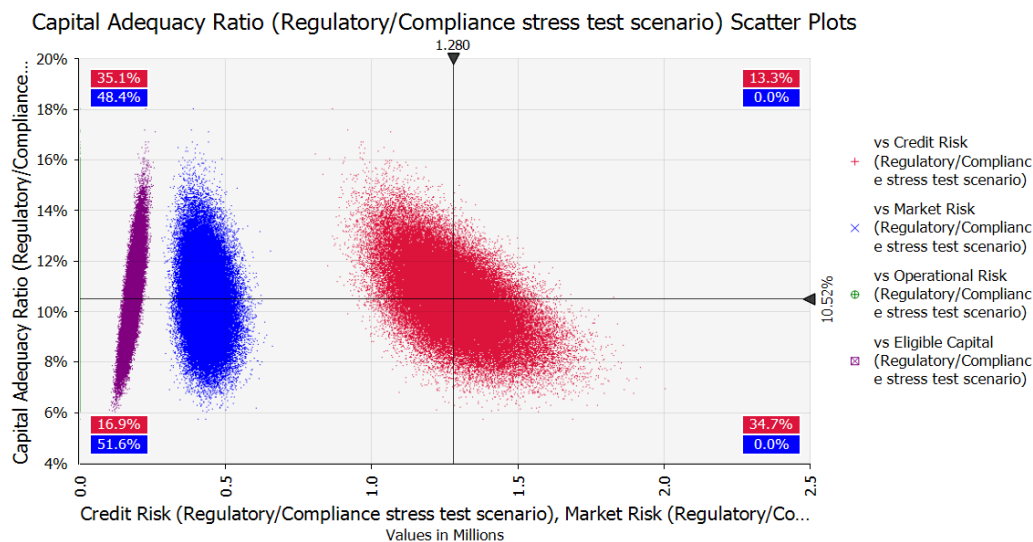


Figure 10: Regulatory/Compliance Scenario - Scatter Plot- Capital Adequacy Ratio Vs Credit Risk (red), Market Risk (blue), Operational Risk (green) and Eligible Capital (purple)

Scenario VI: IT platform default

Scenario Analysis – IT platform default based on the Company’s projections

The results indicate that in the IT platform default scenario, the lower and upper limit of the **95.00%** confidence interval of the capital adequacy ratio is **7.91%** and **12.09%**. Furthermore, the capital adequacy is above the minimum requirement of **8.00%** with **94.2%** confidence, under the stated assumptions (see graph below). This implies that the Company has the adequate capital to absorb even the IT platform default Scenario. On the other hand, the eligible capital **95.00%** confidence interval is between **EUR137,760** and **EUR192,000**, which is well above the minimum requirement of **EUR133,881** with **97.0%** confidence.

The below graph is obtained from simulating the abovementioned scenario.

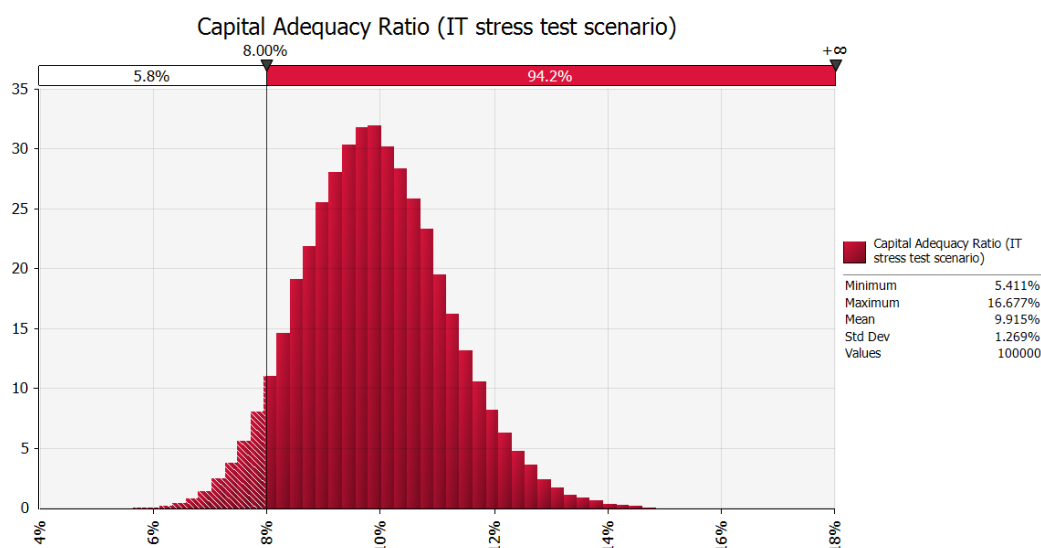


Figure 11: IT platform default scenario probability distribution graph with confidence interval to be above 8.00%

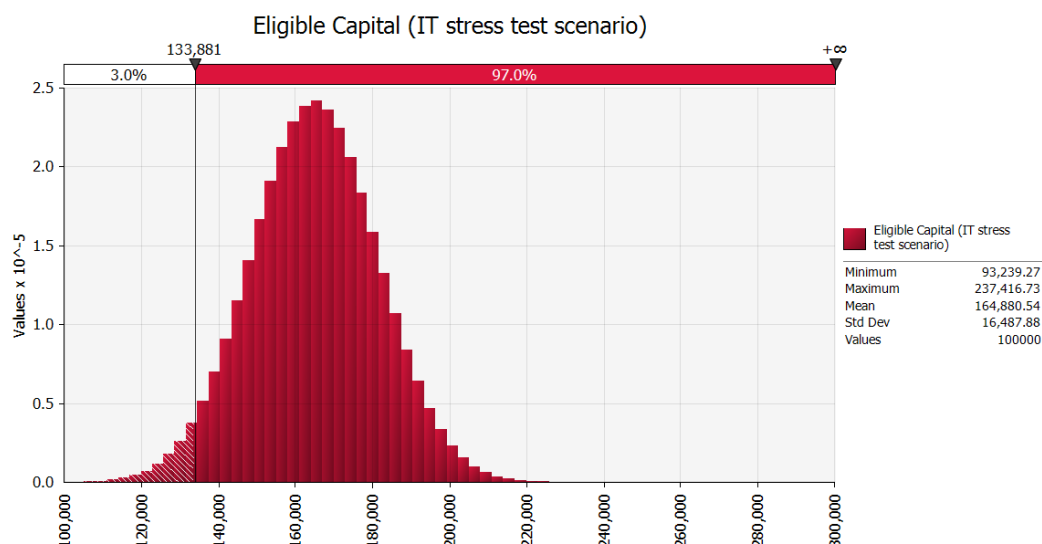


Figure 12: IT platform default scenario probability distribution graph with confidence interval to be above the minimum capital requirement of EUR133,881

The scatter plot in **Figure 13** summarises the behaviour of the Credit and the Market Risk, the Eligible Capital and the Operational Risk in relation with the Capital Adequacy Ratio under the IT platform default scenario. The inverse relationship between the Credit risk, Market risk and the Operational Risk and the CAR ratio can be easily spotted from the abovementioned scatter plot. Further to the above, we can observe the direct relationship between the Capital Adequacy ratio and the Eligible Capital, since as we can see from the graph the Capital Adequacy ratio increases as the Company's Eligible Capital increases.

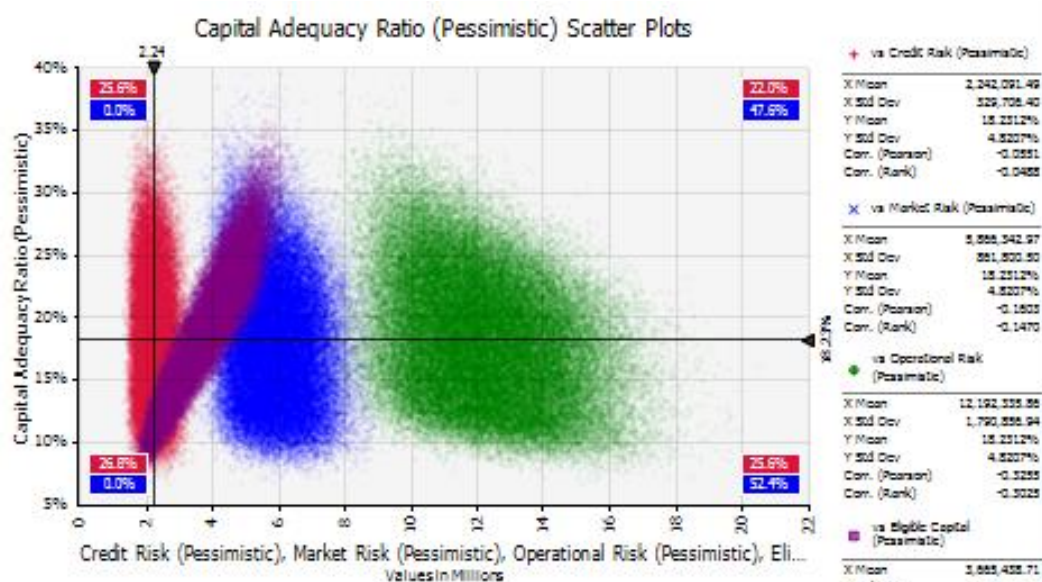


Figure 13: IT platform default scenario - Scatter Plot- Capital Adequacy Ratio Vs Credit Risk (red), Market Risk (blue), Operational Risk (green) and Eligible Capital (purple)

In general, the results indicate that the Company can cover its regulatory obligations, under normal operational circumstances. Further to the above, the simulation results from the stress scenarios considered, indicate that the Company may cover its regulatory requirements, in the

Business stress test Scenario, the Regulatory/Compliance Scenario and the IT platform default Scenario.

7.6.3.4. Scenario IV, Scenario V and Scenario VI: Impact on Capital and Profitability indicators

Scenario IV: Business stress test scenario

Indicator	Base Scenario (Next Financial Year)	Scenario IV (before corrective actions)	Scenario IV (after corrective actions)	Impact on Scenario IV (before corrective actions)	Impact on Scenario IV (before corrective actions)
	EUR	EUR	EUR	Δ%	Δ%
Profit/Loss	(427,173)	(495,668)	(476,044)	16.03%	11.44%
Minimum capital requirement	152,519	138,358	142,346	(9.28%)	-6.67%
CAR	13.38%	10.79%	11.59%	(2.59%)	(1.79%)
Own funds	255,071	186,576	206,200	(26.85%)	(19.16%)

Table 13: Scenario IV: Impact assessment

Scenario V: Regulatory/Compliance stress test scenario

Indicator	Base Scenario (Next Financial Year)	Scenario V (before corrective actions)	Scenario V (after corrective actions)	Impact on Scenario V (before corrective actions)	Impact on Scenario V (before corrective actions)
	EUR	EUR	EUR	Δ%	Δ%
Profit/Loss	(427,173)	(523,214)	(503,590)	22.48%	17.89%
Minimum capital requirement	152,519	132,715	136,702	(12.98%)	(10.37%)
CAR	13.38%	9.59%	10.46%	(3.79%)	(2.92%)
Own funds	255,071	159,030	178,654	(37.65%)	(29.96%)

Table 14: Scenario V: Impact assessment

Scenario VI: IT platform default scenario

Indicator	Base Scenario (Next Financial Year)	Scenario VI (before corrective actions)	Scenario VI (after corrective actions)	Impact on Scenario VI (before corrective actions)	Impact on Scenario VI (before corrective actions)
	EUR	EUR	EUR	Δ%	Δ%
Profit/Loss	(427,173)	(536,987)	(517,363)	25.71%	21.11%
Minimum capital requirement	152,519	131,575	133,881	(13.73%)	(12.22%)
CAR	13.38%	8.83%	9.85%	(4.55%)	(3.53%)
Own funds	255,071	145,257	164,881	(43.05%)	(35.36%)

Table 15: Scenario VI: Impact assessment

7.7. Sensitivity Analysis

7.7.1. Sensitivity Analysis based on the Company's projections for the next year

Sensitivity analysis studies the effect of uncertainty in the variables of the simulation on the end result. In other words, parameters are altered one at a time and the effect of each alteration on the capital adequacy ratio is plotted on a graph. This method allows the Company to better assess its exposures, risk and overall activities. By stressing the variables that affect the capital adequacy ratio, the Company can examine the sensitivity of the ratio to each variable. The variables considered for 2020 were the Credit Risk, Market Risk and Eligible Capital¹.

A visualisation of the outcomes on the evaluation of the effects of changes in Eligible Capital on the Capital Adequacy Ratio can be seen in Figure 32 in the Company's separate Appendix document. The relationship between Eligible Funds and the Capital Adequacy Ratio is linear, with the Eligible Funds having to be more than **40.52%** below expectations in order for the Capital Adequacy Ratio to go lower than the regulatory requirement of **8.00%**, ceteris paribus.

Figure 33, Figure 34 and Figure 35 in the Company's separate Appendix document provide a visualisation of the sensitivity of the Capital Adequacy Ratio to changes in Credit, Market and Operational Risk.

The relationship between each risk and the Capital Adequacy Ratio takes a linear pattern with negative gradient due to their inverse relationship. For Credit Risk to result in a decrease in of the Capital adequacy ratio to **8.00%** or below the exposure must increase by at least **61.35%**

¹ The Company's operational risk due to additional Fixed Overheads capital was considered to be equal to **EUR0.00**, since the sum of the Company's credit risk and market risk capital requirement are predicted to be higher than its Fixed Overheads capital requirement based on the Company's expectations for the next year.

of the expectation. Similarly, the Market Risk exposure must increase by at least **126.62%** of the expectation, for the Capital Adequacy Ratio to fall to **8.00%**.

	Gradient	Intercept	% increase/decrease for CAR to fall below 8.00%
Credit Risk	-0.0903	0.1354	61.35%
Market Risk	-0.0432	0.1347	126.62%
Eligible Capital	0.1345	0.1345	-40.52%

Table 16: Capital adequacy ratio sensitivities to variables

Note that $y = ax + b$ where

y : capital adequacy ratio,

x : percentage change of the respective variable,

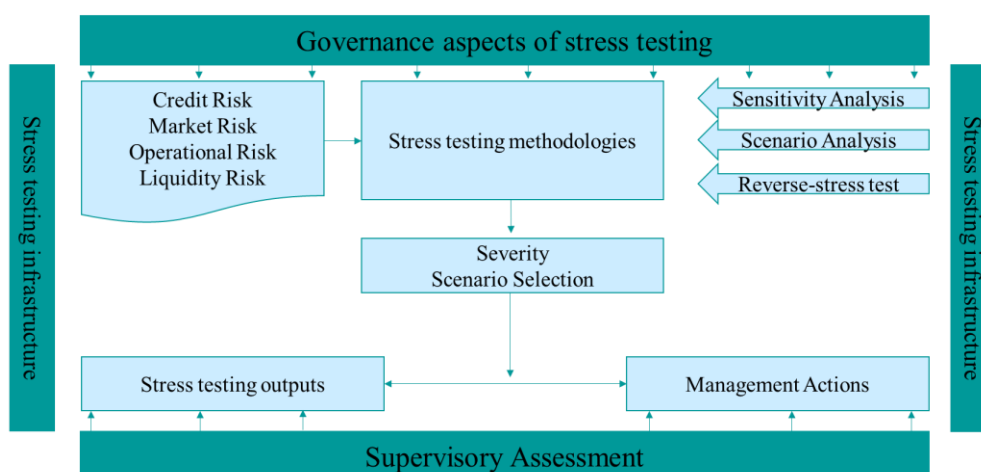
a : sensitivity of the ratio to the variable,

b : the capital adequacy ratio if the percentage change was zero

Overall, the results of our sensitivity analysis suggest that it would not be very likely that the Company will face any uncertainty over the regulatory Capital Adequacy requirements, based on the Company's projections ([Section 6.2 Projected Financial Position](#)).

7.8. Reverse Stress Test

According to [CEBS Guidelines on Stress Testing \(GL32\)](#), identifying how the capital planning stress relates to the reverse stress test, may help Senior Management justify why the severe stress scenario is appropriately severe. Reverse stress tests evolve around causes, consequences and impact, all of which are relevant and any of which can be taken as a starting point.



Reverse stress testing is done by starting with a business failure outcome, and then analyzing different scenarios under which failure may occur.

The use of reverse stress testing is primarily seen as a risk management tool. The key benefits include:

- Helping firms to understand key risks and scenarios that may put business strategies and continuance as a 'going concern' at risk; and
- Providing management and regulators with qualitative information on the potential vulnerabilities faced by the business so that they can identify appropriate actions that should be taken to manage such risks.

The Company decides on the kind and timing (triggering events) of management or other actions necessary both a) for rectifying business failures or of other problems; and b) for aligning its risk appetite with the actual risks revealed by the reverse stress testing. Reverse stress testing is not expected to result in additional capital planning and buffers. It is used in reviewing the firm's business model, strategy and capital requirements. It also provides useful insights that the firms can use to improve their contingency plans.

7.8.1. Methodology based on the Company's projections for the next year

In the scenarios presented in [Section 7.6 Stress Testing](#), the Company's risks have been rated, its risk profile was presented, and its BoD will be informed and acknowledge the necessity of taking all the appropriate actions for complying with the Company's minimum requirements for its capital adequacy ratio and its own funds, which are **8.00%** and **EUR125,000**. However, a disastrous event could also occur since the Company might be exposed to some alternative risks, which might not be detected and assessed. Such risks might arise from the Company's business model weaknesses. Additional weaknesses from the Company's business model might not be detected, which might result to be catastrophic for the Company. As a mitigating procedure for these risks, the Company should improve its business model and establish a Disaster recovery plan. In the Company's ICAAP procedure the Company's undetected risks have been also taken into consideration and assessed as residual risks.

7.8.2. Results based on the Company's projections:

The Company's material risks were assessed in [Section 7.5 \(Use of Risk Register\)](#), [Section 7.6.3.3 \(Scenario III, Scenario IV, Scenario V and Scenario VI: Results based on the Company's projections\)](#). Further to the abovementioned assessments the Company took into consideration that a disastrous event could also occur and impact the Pillar II Capital requirements the Company will need to allocate for mitigating its material risks. In other words, parameters are altered one at a time and the effect of each alteration on the capital adequacy ratio is plotted on a graph. This method allows the Company to better assess its exposures, risk and overall activities. By stressing the variables that affect the capital adequacy ratio, the Company can examine the sensitivity of the adjusted capital adequacy ratio to each variable. The variables considered were the Company's material risks' requirements. The relationship between each risk and the adjusted Capital Adequacy Ratio takes a linear pattern with negative gradient due to their inverse relationship.

Material Risks			Gradient	Intercept	% change for the adjusted CAR ratio to fall below 8.00%
Credit Requirement	Risk	Capital	-0.04262	0.11956	92.82%
Market Requirement	Risk	Capital	-0.02017	0.11956	196.16%
Technology Requirement	risk	Capital	-0.00047	0.11956	8433.33%
Business/Strategic Requirement	risk	Capital	-0.00047	0.11956	8433.33%
Compliance/Regulatory Capital Requirement	risk		-0.00094	0.11956	4216.67%
Residual Requirement	Risk	Capital	-0.00016	0.11956	25300.00%
Reputational Requirement	risk	Capital	-0.00016	0.11956	25300.00%

Overall, the results of our reverse stress test analysis suggest that the Company may face uncertainty over the regulatory Capital Adequacy requirements, based on the Company's projections.

The Company is expected to face uncertainty over its regulatory requirements if any of its material risks' capital requirements increase by **EUR96,095**, which will cause the capital adequacy ratio to fall below the minimum requirement of (8.00%) and subsequently may result in a regulatory fine and/or renouncement of licence. This can happen if for example, its technology risk capital requirement increases to **EUR97,234**, in relation to IT inadequate systems and processes. Furthermore, the Company could fail to comply with its regulatory requirements if its residual risk capital requirement – resulting from undetected risks/weaknesses arising from its business model- increases by **EUR96,095**. Another example where the Company could fail to comply with its regulatory requirements if its Credit Risk's capital requirement increases by **EUR96,095**, which could happen if its main counterparty defaults.

8. Challenge and adoption of the ICAAP

The Company has reviewed each step of this ICAAP, including the control processes applied to the models or calculation, and the sign off procedures by management and the BoD. There are currently no anticipated future changes to the ICAAP. In the event that any anticipated changes arise, they will be highlighted in an updated ICAAP and identified as work in progress.

8.1. Use of the ICAAP within the Company

The Company aims that the ICAAP becomes an important risk tool and part of the firm's overall risk and control framework. The Risk Management Function identified the existing risks in the business and advised the appropriate measures, including systems and controls to minimise risk. However, this is an on-going process and the Risk Management Function shall continue to monitor, advise and inform the ICAAP process within the firm.

Going forward, the ICAAP will be formally reviewed and signed-off by the BoD once a year. The firm's material risks that were outlined within the ICAAP document will be examined throughout the year by the Senior Management to ensure that the amount of capital needed in case these risks crystallise is available.

The BoD understands that changes in the business might trigger the ICAAP to be revised and updated. In addition, the company is aware of risks that can be derived from the expansion of operations into new locations e.g. higher risk AML jurisdictions and occurrence of internal loss events.

8.2. Upcoming challenges the Company will face

Regulatory challenges

Following the practical guidance issued by CySEC through its [Circular C355](#) on the 6th of March 2020 the Company proceeded with the required assessment and concluded that it will be classified as a **Class 2** investment firm in accordance with new prudential framework for investment firms and its permanent minimum capital requirement will increase from **EUR125,000** to **EUR150,000**, as per Article 9 of the IFD.

In addition to the above, the Company will be subject to a new capital requirement introduced by the new prudential regime, the K – factor requirement. In particular, the new K – factor requirement aims to capture the risk that the Company can pose to its clients, to market access or to the Company itself and is equivalent at least to the sum of:

- a. Risk-to-client (“**RtC**”).
- b. Risk-to-market (“**RtM**”).

c. Risk-to-firm (“**RtF**”).

The RtC, RtM and RtF will be calculated based on the provisions introduced by the IFR.

Moreover, the Company will be also subject to the fixed overheads requirement, which remains as the relevant requirement arising from CRR/CRD IV capital framework and shall amount to at least one quarter of the fixed overheads of the preceding year.

Based on the above, the Company shall at all times ensure that its Own Funds at least amount to the higher of its permanent capital requirement, fixed overheads requirement and K-factor requirement.

Additionally, the Company will also be subject to new liquidity requirements, as well as new disclosures and reporting requirements as defined in the new prudential framework.

Brexit effect

The United Kingdom left the European Union on 31st January 2020 with a Withdrawal Agreement. It entered a transition period, which operated until 31st December 2020. On 24 December 2020, the EU and the UK agreed on the terms of the UK-EU Trade and Cooperation Agreement.

8.3. Future re- assessment of analysis

The ICAAP will be subject to a quarterly cycle of re-assessment by the Senior Management and then challenge and adoption by the BoD. Any material variance from the ICAAP projections will be discussed by the BoD and will be the subject of management actions. Any significant changes in risk profile or financial performance which result from expansion, or from any other factor, will prompt a thorough review of the ICAAP.

The development of the stress scenarios will drive further consideration of capital management and its optimal use within the business. It is planned that the stress scenarios will be reported frequently and strategy changes assessed in light of their potential impact on capital requirements.

9. Next Steps

The Company has reviewed each step of this ICAAP, including the control processes applied to the models or calculations, and the sign off procedures by management and the BoD. There are currently no anticipated future changes to the ICAAP. In the event that any unanticipated changes arise, they would be highlighted in an updated ICAAP and identified as work-in progress.

Further to the above the Company believes the results of the ICAAP are satisfactory.

The stress testing, and subsequent analyses, indicate that the Company is likely to find difficulties meeting its capital and regulatory requirements in the near future. However, the assumptions and distributions fitted to the variables are based on projections and it does not mean that the variables will have similar patterns in the future.

The Company will establish a firm-wide risk policy that outlines the procedures to mitigate its material risks identified and to strengthen its internal control systems. The said policy should be regularly updated and strengthened accordingly, which will inevitably enable the Company to minimise its risk exposures to acceptable levels. Additionally, the Company established a business continuity plan to help ensure that the business process can continue during a time of emergency or disaster.

The stakeholders acknowledge the necessity to be in a position to cover over and above the regulatory capital requirements and the management is satisfied with the current levels of capital held by the Company. The Company has taken all the measures to ensure that its strategic plans are in line with the implementation of the ICAAP. The Company is also working towards enhancing its control's environment and is further developing its proactive risk culture at a firm-wide level when it comes to the regulatory capital requirements.

Based on the ICAAP's calculation the Company will be largely exposed to credit and market risk. Additionally, a large exposure due to Fixed Overheads Risk will arise from the Company's fixed cost projections. The Company is not expected to have a large Eligible capital and the subsequently the Company is predicted to fail to be in compliance both with its minimum capital adequacy requirement (**8.00%**) and its minimum Capital Base requirements (**EUR125,000**). The Company's target capital adequacy ratio is to remain around **26.00%** or above while the own funds target above **EUR500,000**.

Furthermore, the Company will update its Risk Register on a frequent basis and take appropriate action when a risk is deemed significant.

10. Appendix I – Risk Categories

Risk Category	Definition
Issuer Risk	Issuer risk refers to the possibility that the issuer of a security will default.
Residual Value Risk	Residual risk refers to the type of risk that arises after other known risks have been factored in, countered and eliminated. It is simply seen as the risk that remains after safeguards have been implemented.
Concentration Risk - Country	Concentration risk is the risk that occurs due to lack of diversification, or as the definition states, the concentration of assets on one sector or geographical area.
Concentration Risk - Industry	Concentration risk is the risk that occurs due to lack of diversification, or as the definition states, the concentration of assets on one sector or geographical area.
Concentration Risk - Large Exposures	Concentration risk is the risk that occurs due to lack of diversification, or as the definition states, the concentration of assets on one sector or geographical area.
Counterparty Risk	Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
Documentation Risk	This includes the probability of loss that a legal agreement may turn out to be incomplete or insufficient or otherwise unenforceable.
Country / Transfer Risk	Country risk is the probability of loss due to currency conversion (exchange) restrictions imposed by a foreign government that make it impossible to move money out of the country. It is a type of political risk and it should consider allocating capital as a mitigation of this risk.
Collateral Risk	The risk of loss arising from errors in the nature, quantity, pricing, or characteristics of collateral securing a transaction with credit risk.
Securitisation Risk	This could include an assessment of the effect on a company's financial position of a securitization arrangement failing or of the values and risks transferred not emerging as expected.
Settlement Risk	This risk occurs if, as part of the trade, a company delivers an asset or cash value to counterparty and does not receive the corresponding cash value or asset as expected.

Cyclical	<p>The risk of business cycles or other economic cycles adversely affecting the returns of an investment, an asset class or an individual company's profits. Cyclical risks exist because the broad economy has been shown to move in cycles periods of peak performance followed by a downturn, then a trough of low activity. Between the peak and trough of a business or other economic cycle, investments may fall in value to reflect the uncertainty surrounding future returns as compared with the recent past.</p>
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